CMF

中國傳媒影視控股有限公司*

China Media and Films Holdings Limited

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

(Stock Code: 8172)

ANNUAL REPORT 2012

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "Directors") of China Media and Films Holdings Limited (formerly known as KH Investment Holdings Limited) (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this report misleading.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Kwok Wai Kin, Kenneth *(Resigned on 5 March 2012)*
Ng Kwai Kai, Kenneth *(Resigned on 5 March 2012)*
Leung So Po, Kelvin *(Resigned on 5 March 2012)*
Cheng Yang *(Chairman and Chief Executive Officer)*
Kan Yisong *(Resigned on 25 May 2012)*
Hui Ching *(Vice President) (Resigned on 25 May 2012)*
Jiang Di *(Vice President) (Appointed on 5 March 2012)*
Leung Wai Man *(Appointed on 25 May 2012)*

NON-EXECUTIVE DIRECTOR

Fan Tung, Donald *(Resigned on 5 March 2012)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yip Tai Him
Law Yiu Sang, Jacky
Chio Chong Meng *(Resigned on 25 May 2012)*
Fung Wai Ching *(Appointed on 25 May 2012)*

COMPANY SECRETARY

Chan Wai CPA (HONG KONG), FCCA
(Resigned on 25 May 2012)
Leung Wai Man *(Appointed on 25 May 2012)*

AUDITOR

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

REMUNERATION COMMITTEE

Yip Tai Him *(Committee Chairman)*
Law Yiu Sang, Jacky
Chio Chong Meng *(Resigned on 25 May 2012)*
Fung Wai Ching *(Appointed on 25 May 2012)*

NOMINATION COMMITTEE

Yip Tai Him *(Committee Chairman)*
Law Yiu Sang, Jacky
Chio Chong Meng *(Resigned on 25 May 2012)*
Fung Wai Ching *(Appointed on 25 May 2012)*

AUDIT COMMITTEE

Yip Tai Him *(Committee Chairman)*
Law Yiu Sang, Jacky
Chio Chong Meng *(Resigned on 25 May 2012)*
Fung Wai Ching *(Appointed on 25 May 2012)*

PRINCIPAL BANKER

Hang Seng Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
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Hong Kong

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 2506-09, 25/F
China Resources Building
No. 26 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Fred Kan & Co.

As to Bermuda Law
Conyers Dill and Pearman

CORPORATE WEBSITE

http://www.cmfhl.com

GEM STOCK CODE

8172

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF COMPANY NAME

In order to reflect the principal activities of the Group, the Company has changed its name from "KH Investment Holdings Limited" to "China Media and Films Holdings Limited" and adopted the Chinese name "中國傳媒影視控股有限公司" as the secondary name of the Company in replacement of "嘉滙投資控股有限公司", which has been used by the Company for identification purpose only. Such resolutions were passed at the annual general meeting of the Company held on 16 May 2012 and became effective on 18 May 2012.

BUSINESS REVIEW

Artist Management

During the year under review, the revenue contributed by such segment was approximately HK$26.5 million (2011: HK$44.2 million), representing a decrease of approximately 40.0% as compared with the year ended 31 December 2011. The gross profit margin increased to approximately 23.0% (2011: 21.2%). The stable gross profit margin in such segment was in line with the management's expectation.

Pending Litigation

On 30 May 2011, China Star Management Limited, an indirect wholly-owned subsidiary of the Company, issued a Writ of Summons against Tang's Workshop Limited ("Tang's Workshop") and claimed to recover the services rendered or work done and material supplied to Tang's Workshop for the sum of HK$127,500. At the date of this report, the result of the litigation has not yet been finalised.

Film Production and Distribution

During the year under review, the Group did not have any addition of film rights and a revenue of approximately HK$4,000 was recorded in such segment (2011: Nil and HK$0.1 million respectively). The joint venture company, China Star Film Group Limited which is engaged in the production and distribution of films, has two films in their pre-production phases. Due to the scheduling of the film casts and revision to the scripts, shooting of these two films has been delayed, and the production completion date and the release date of the films have not been determined. In early August 2012, Eternity Investment Limited ("Eternity") (stock code: 764), a company listed on the Main Board of the Stock Exchange, has become a substantial shareholder of the Company by acquiring an approximately 29% interest in the Company. Given that Eternity has engaged in film distribution business in the PRC since 2001, the acquisition of 29% equity interest in the Company by Eternity presents a good opportunity for the Group to form a strategic alliance with Eternity by leveraging the expertise, network and connections in the film distribution industry in the PRC of Eternity. At 31 December 2012, the entire cash and cash equivalents of China Star Film Group Limited of approximately HK$54.8 million was earmarked for film production business and of which HK$27.4 million was consolidated into cash and cash equivalents of the Company.

Provision of Infrared Thermal Imaging and Thermography Solutions and Consultancy Services

On 29 June 2012, Premium Dignity Investments Limited (the "Vendor"), an indirect wholly owned subsidiary of the Company, and an independent third party (the "Purchaser") entered into an agreement (the "Disposal Agreement") pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the entire issued share capital of Infrared Engineering & Consultants Limited (the "Disposed Company") for a consideration of HK$1 (the "Disposal"). The Disposal was completed immediately after entering into the Disposal Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

As mentioned in the annual report of the Company for the year ended 31 December 2011, the business operations in the PRC market of the infrared consultancy services segment was scale-down due to uncertain business environment in the PRC market. Excluding the one-off expenses of impairment loss recognised in respect of goodwill of approximately HK$10.9 million, a net loss of approximately HK$0.5 million was recorded in such segment.

In addition, in accordance with the audited financial statements of the Disposed Company for the period ended 29 June 2012, the Disposed Company recorded a net loss and net liabilities position of approximately HK$0.1 million and HK$0.3 million respectively.

In view that the business operation of the Disposed Company has been at a continued loss and its financial position deteriorated to a net liability position, the Directors consider that by way of the Disposal, (i) the financial position of the Group can be improved in the long run; and (ii) the Group can direct its resources to another business segment or other potential investments.

After the Disposal, the Disposal Company ceased to be the subsidiary of the Group and its results and assets and liabilities will no longer be consolidated to those of the Group. The operation of the provision of infrared thermal imaging and thermography solutions and consultancy services was classified as discontinued operation for financial statement purpose. During the year under review, there was no revenue contributed by such segment (2011: HK$0.4 million). A loss on disposal of the Disposed Company, arised at the completion date of the Disposal, of approximately HK$3.0 million was recognised in the profit and loss of the Group as a result of the Disposal.

FINANCIAL REVIEW

For continuing operations, the revenue of the Group was approximately HK$26.5 million for the year ended 31 December 2012 (2011: HK$44.3 million), and it was generated from the provision of artist management and film distribution, representing a decrease of 40.2% as compared with the year ended 31 December 2011.

Administrative expenses were mainly the legal and professional fees, staff costs, operating leases and other general administrative expenses of the Group incurred during the year under review. Administrative expenses increased by 57.0% to approximately HK$17.9 million from approximately HK$11.4 million in prior year. Such increase was mainly contributed by the payment of operating leases during the year. The operating leases, as the rental expenses paid to shareholder, is a facility sharing agreement ("Agreement") dated 30 April 2012 entered into between Golden Island Catering Group Company Limited ("Golden Island"), a wholly-owned subsidiary of Culture Landmark Investment Limited, and our subsidiary. Pursuant to the Agreement, the aggregate annual fees payable for each of the two years ending 31 March 2014 will be subject to the cap amount of HK$4,800,000, being the maximum annual amount payable. Golden Island is a connected person of the Company and the Agreement constitutes a continuing connected transaction of the Company. For details of the continuing connected transaction, please refer to the announcement dated 30 April 2012.

During the year, finance costs were approximately HK$0.7 million which was mainly derived from the effective interest expenses on the convertible loan notes (2011: HK$0.6 million).

During the year under review, loss for the year attributable to owners of the Company was approximately HK$15.1 million (2011: loss for the year attributable to owners of the Company was approximately HK$20.3 million), which was mainly attributed from the expenses on operating leases amounted to approximately HK$3.4 million (2011: HK$0.35 million) and the loss on disposal amounted to approximately HK$3.0 million.

APPOINTMENTS AND RESIGNATIONS OF DIRECTORS

On 5 March 2012, Mr. Cheng Yang, the Chairman and executive Director of the Company, was appointed as chief executive officer of the Company. Mr. Kan Yisong, Ms. Hui Ching and Ms. Jiang Di were appointed as executive Directors of the Company, and Ms. Hui Ching and Ms. Jiang Di were also appointed as vice presidents of the Company. On the same day, Mr. Kwok Wai Kin, Kenneth, Mr. Kenneth Ng Kwai Kai and Mr. Kelvin Leung So Po resigned as executive Directors and Mr. Fan Tung, Donald resigned as non-executive Director of the Company.

On 25 May 2012, Mr. Leung Wai Man was appointed as an executive Director, authorised representative, compliance officer, Company secretary and chief financial officer and Mr. Fung Wai Ching was appointed as an independent non-executive Director of the Company. On the same day, Mr. Kan Yisong and Ms. Hui Ching resigned as executive Director and Ms. Chio Chong Meng resigned as independent non-executive Director of the Company. For details of the above appointments and resignations, please refer to the announcements dated 5 March 2012 and 25 May 2012 respectively.

FUTURE PLANS

We are still planning the future developmental strategies for the Group and studying the prevalent market trends. However, regardless of the aforementioned, strengthening and developing the business of the Group are of almost importance so as to prepare ourselves for the upcoming challenges and opportunities.

Meanwhile, we will continue to identify other appropriate investment opportunities to penetrate into other business sectors.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2012, the Group had total assets of approximately HK$95.6 million (2011: HK$112.8 million), including cash and cash equivalents of approximately HK$80.9 million (2011: HK$97.6 million).

During the year under review, the Group financed its operation with internally generated cash flows.

CAPITAL STRUCTURE

During the year under review, there was no change in the capital structure of the Company.

GEARING RATIO

The gearing ratio, expressed as percentage of total liabilities over total assets, was approximately 13.5 (2011: 13.3).

CHARGE ON THE GROUP'S ASSETS

At 31 December 2012, the Group did not have any charge on its assets.

FOREIGN EXCHANGE RISK

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management closely monitors the exposures and will consider hedging the exposures should the need arise.

COMMITMENTS

At 31 December 2012, the Group had no commitments (2011: Nil).

CONTINGENT LIABILITIES

At 31 December 2012, the Group had no contingent liabilities (2011: Nil).

EMPLOYEES

At 31 December 2012, the Group had 16 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment during the year ended 31 December 2012.

CONTINUING CONNECTED TRANSACTION

Golden Island, a wholly-owned subsidiary of Culture Landmark Investment Limited ("Culture Landmark"), as tenant entered into the tenancy agreement dated 30 March 2011 with China Resources Property Management Limited in respect of the lease of the premises ("Premises") which located at Rooms 2506-09, 25th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong for a term of three years from 1 April 2011 to 31 March 2014.

On 30 April 2012, KH Investment Holdings Limited (formerly known as China Media and Films Holdings Limited), a wholly-owned subsidiary of the Company, entered into the Agreement with Golden Island in respect of sharing of the Premises and facilities thereof. Golden Island has also agreed to provide office supporting services, including the provision of receptionist and such other services as may be requested by the Group.

Golden Island is a wholly-owned subsidiary of Culture Landmark and Culture Landmark is the controlling shareholder of the Company indirectly holding approximately 74.95% of the issued share capital of the Company as at 30 April 2012. Accordingly, Golden Island is a connected person of the Company and the Agreement constitutes a continuing connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

As the annual cap fees under the Agreement for each of the two years ending 31 March 2014 is HK$4,800,000, where all applicable percentage ratios are less than 5% on an annual basis, the Agreement is subject to the reporting and announcement requirements under Rules 20.45 to 20.47, the annual review requirements set out in Rules 20.37 to 20.40 and other requirements set out in Rules 20.35(1) and 20.35(2) of the GEM Listing Rules, but is exempt from the circular and independent shareholders' approval requirements under Rules 20.49 to 20.54 of the GEM Listing Rules.

Golden Island has agreed to provide office space and facilities in proportion. The Premises will be used as offices by the Group. The Directors (including the independent non-executive Directors) are of the opinion that the Agreement was entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms after arm's length negotiations between the parties with reference to the prevailing market rates for comparable office buildings in Wan Chai; and (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. None of the Directors has a material interest in the Agreement.

For details of the continuing connected transaction, please refer to the announcement dated 30 April 2012.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as the disposal of Infrared Engineering & Consultants Limited, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies for the year ended 31 December 2012.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have any concrete plan for material investments or capital assets for the coming year.

PROFILES OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Cheng Yang, aged 49, was appointed as the Chairman and an executive Director of the Company on 28 September 2011 and the chief executive officer of the Company on 5 March 2012. He has over 10 years of experience in entertainment and media business. He is the founder and a director of Cheng Films and Video Production Limited (a company incorporated in Hong Kong) which produces and distributes films and television drama series in Greater China. Mr. Cheng is the Chairman, an executive Director, the chief executive officer and a substantial shareholder of Culture Landmark. As at the date of this report, Culture Landmark is a controlling shareholder of the Company through its wholly owned subsidiary, New Asia Media Development Limited ("New Asia Media"), which holds (i) 232,366,016 Shares, representing approximately 45.95% of its issued share capital; and (ii) zero-coupon convertible loan notes due 24 September 2013 with total outstanding principal amount of HK$6,200,000 issued by the Company carrying the right to convert into a total of 12,731,006 shares of the Company at the prevailing conversion price of HK$0.487 per share (subject to adjustment). He is also a director of New Asia Media.

As at the date of the report, to the best knowledge and belief of the Company, Mr. Cheng is personally interested in 89,300,000 shares of Culture Landmark, an associated corporation of the Company and is deemed to be interested in 49,000 shares of Culture Landmark held by his wife.

Ms. Jiang Di, aged 46, was appointed as an executive Director and a Vice President of the Company on 5 March 2012. She was the financial controller of 深圳市文地多媒體技術有限公司 (Shenzhen Wendi Multimedia Technology Company Limited), a wholly-owned subsidiary of Culture Landmark, and was responsible for the finance function in Greater China. Ms. Jiang joined Culture Landmark in November 2011 and has extensive experience in finance, audit and taxation functions. Prior to joining Culture Landmark, Ms. Jiang was the financial controller of Hainan Bojin Cultural Investment Company Limited.

Mr. Leung Wai Man, aged 43, was appointed as an executive director, company secretary and chief financial officer on 25 May 2012. He has over 14 years of experience in company secretarial, accounting and financial management. He is a member of the Association of Chartered Certified Accountants in the United Kingdom and Hong Kong Institute of Certified Public Accountants.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yip Tai Him, aged 42, has about 20 years of experience in auditing, accounting and corporate finance. He is a member of the Institute of Chartered Accountants in England and Wales, Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Yip is currently an independent non-executive director of Wing Lee Holdings Limited (stock code: 876), China Communication Telecom Services Company Limited (stock code: 8206), iOne Holdings Limited (stock code: 982), GCL-Poly Energy Holdings Limited (stock code: 3800) and Vinco Financial Group Limited (stock code: 8340), all of which are listed on the Stock Exchange. Mr. Yip was appointed as an independent non-executive director of the Company on 13 December 2008.

Mr. Law Yiu Sang, Jacky, aged 47, holds a bachelor of laws degree from Manchester Metropolitan University. Mr. Law has previously worked in a number of different law firms and has over 18 years' experience in assisting in management and legal documentation. Mr. Law was appointed as an independent non-executive director of the Company on 13 December 2008.

Mr. Fung Wai Ching, aged 43, is presently an owner of a printing company in Hong Kong. He has over 16 years' experience in managing paper, packaging and printing industries in both China and Hong Kong markets. Mr. Fung was appointed as an independent non-executive director of the Company on 25 May 2012.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board of directors (the "Board") and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigourous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public. Throughout the financial year ended 31 December 2012, the Group has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules save for certain deviations, details of which will be explained in the relevant paragraphs in this report. The Board has, since the amendments to the GEM Listing Rules regarding corporate governance practices were first proposed by the Stock Exchange, continued to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance. Meetings were held throughout the year and where appropriate, circulars and other guidance notes were issued to directors and senior management of the Group to ensure awareness to issues regarding corporate governance practices.

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transaction, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities. The statement of the auditors of the Company in relation to their reporting responsibilities for the consolidated financial statements is set out in the Independent Auditor's Report on pages 27 to 28 of this annual report.

Composition

As at 31 December 2012, the Board comprises six Directors: including three executive Directors, namely, Mr. Cheng Yang, Mr. Leung Wai Man, Ms. Jiang Di and three independent non-executive Directors, namely, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky, and Mr. Fung Wai Ching.

One of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The number of independent non-executive Directors is more than one-third of the Board. Biographical details of the Chairman and other directors are set out in the section of Profiles of Directors on page 8.

The presence of three independent non-executive Directors is considered by the Board to be a reasonable balance between executive and non-executive Directors. The Board is of the opinion that such balance can provide adequate checks and balances for safeguarding the interests of shareholders and of the Group. The non-executive Directors provide to the Group with a wide range of expertise and experience so that independent judgement can effectively be exercised as well as ensuring that the interests of all shareholders are taken into account. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on audit committee, remuneration committee and nomination committee, scrutinizing the Group's performance and reporting. Through their active participation, they provide their valuable skills, expertise and experience to the Board and the committees on which they serve so that the management process can be critically reviewed and controlled.

The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the directors give sufficient time and attention to the Company's affairs. The Board believes that the ratio of executive to non-executive Directors is reasonable and adequate to provide checks and balances that safeguard the interest of the shareholders and the Company as a whole.

The Board as a whole is responsible for the appointment of new director and nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's bye-laws, the Board may from time to time appoint a director either to fill a vacancy or as an addition to the Board. Any new director appointed to fill a casual vacancy shall hold office until the first general meeting after his appointment and shall then be eligible for re-election at the next following annual general meeting. Any new director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 86(2) of the Bye-laws, Mr. Leung Wai Man and Mr. Fung Wai Ching, being a newly appointed executive director and a newly appointed independent non-executive director of the Company, respectively, shall hold office until the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 87(1) of the Bye-laws, Mr. Yip Tai Him and Mr. Law Yiu Sang, Jacky will retire at the annual general meeting and, being eligible, will offer themselves for re-election.

INDEPENDENCE

The Company has three independent non-executive directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. The Group has received from each independent non-executive director an annual confirmation of his independence. The Company considers these directors to be independent under the guidelines set out in Rule 5.09 of the GEM Listing Rules.

All independent non-executive directors are identified as such in all corporate communications containing the names of the directors. In addition, there is no material relationship among members of the Board.

DEVIATION FROM THE CG CODE

Throughout the year ended 31 December 2012, the Company complied with the CG Code in Appendix 15 to the GEM Listing Rules, with the exception of CG Code Provisions A.2.1 (separation of roles of chairman and chief executives), A.4.1 (specific terms of non-executive Directors) and A.6.7 (Directors attending general meetings).

a. Chairman and Chief Executive Officer

Under the CG Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive officer of the Company have been performed by Mr. Cheng Yang, who is also an executive Director. The Board still considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

The Board will review the effectiveness of this arrangement from time to time and consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.

b. Terms of non-executive Directors

Under the CG Code provision A.4.1, all non-executive Directors should be appointed for a specific term, subject to re-election. The term of office for non-executive Directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the Directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this Code provision.

c. Non-executive Directors attending general meeting

Under the Code provision A.6.7 of CG Code, non-executive Directors should attend general meetings. Mr. Law Yiu Sang Jacky and Ms. Chio Chong Meng, being the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 16 May 2012 due to other business commitments.

BOARD MEETINGS AND SHAREHOLDERS' MEETINGS

The Board regularly meets in person or through other electronic means of communication at least four times every year to determine overall strategic direction and objectives and approve quarterly, interim and annual results, and other significant matters. At least 14 days' notice of regular Board meeting are given to all directors, who are all given an opportunity to attend and include matters in the agenda for discussion. Apart from regular meetings, senior management from time to time provides directors information on activities and development of the businesses of the Group. The company secretary assists the chairman in preparing the agenda for the meeting and ensures that all applicable rules and regulations in connection with the meetings are observed and complied with. The finalized agenda and accompanying board papers are then sent to all directors at least 3 days prior to the meeting. The company secretary also takes detailed minutes of the meetings and keeps records of matters discussed and decision resolved at the meetings.

During the year under review, 9 board meetings were held. Details of the attendance of the directors at the meetings of the Board and its respective committees are as follows:

Name of Director	Board Meeting Attended/Eligible to attend	Audit Committee Attended/Eligible to attend	Remuneration Committee Attended/Eligible to attend	Nomination Committee Attended/Eligible to attend	Annual General Meeting
Mr. Cheng Yang	9/9	N/A	N/A	N/A	1/1
Mr. Kwok Wai Kin, Kenneth *(Resigned on 5 March 2012)*	1/9	N/A	N/A	N/A	0/1
Mr. Ng Kwai Kai, Kenneth *(Resigned on 5 March 2012)*	1/9	N/A	0/1	N/A	0/1
Mr. Leung So Po, Kelvin *(Resigned on 5 March 2012)*	1/9	N/A	N/A	N/A	0/1
Mr. Kan Yisong *(Appointed on 5 March 2012 and resigned on 25 May 2012)*	5/9	N/A	N/A	N/A	1/1
Ms. Hui Ching *(Appointed on 5 March 2012 and resigned on 25 May 2012)*	5/9	N/A	N/A	N/A	1/1
Ms. Jiang Di *(Appointed on 5 March 2012)*	7/9	N/A	N/A	N/A	1/1
Mr. Leung Wai Man *(Appointed on 25 May 2012)*	2/9	N/A	N/A	N/A	0/1
Mr. Fan Tung, Donald *(Resigned on 5 March 2012)*	1/9	0/4	N/A	N/A	0/1
Mr. Yip Tai Him	8/9	4/4	1/1	1/1	1/1
Mr. Law Yiu Sang, Jacky	9/9	4/4	1/1	1/1	0/1
Ms. Chio Chong Meng *(Resigned on 25 May 2012)*	7/9	2/4	1/1	1/1	0/1
Mr. Fung Wai Ching *(Appointed on 25 May 2012)*	2/9	2/4	0/1	0/1	0/1

During regular meetings of the Board, the directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual, interim and quarterly results, set annual budgets, as well as discuss and decide on other significant matters. The execution of daily operational matters is delegated to management of the Group.

The company secretary records the proceedings of each board meeting in detail by keeping minutes, including the record of all decisions by the board together with concerns raised and dissenting views expressed (if any). Drafts of board minutes are circulated to all directors for comment and approval as soon as practicable after the meeting. All minutes are open for inspection at any reasonable time on request by any director.

All directors have access to relevant and timely information at all times as the chairman ensures that the management will supply the Board and its committees with all relevant information in a timely manner. They may make further enquiries if in their opinion it is necessary or appropriate to request for further information.

They also have unrestricted access to the advice and services of the company secretary, who is held responsible for providing directors with board papers and related materials and ensuring that all proper Board procedures are followed and that all applicable laws and regulations are complied with. If considered necessary and appropriate by the directors, they may retain the service of independent professional advisers at the Group's expense.

In case where a conflict of interest may arise involving a substantial shareholder or a director, such matter will be discussed in a physical meeting and will not be dealt with by way of written resolutions. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict issues.

The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with the shareholders and for shareholders' participation. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf if they are unable to attend the meetings.

During the year ended 31 December 2012, apart from the annual general meeting held on 16 May 2012, the Company did not hold any other general meetings.

TRAINING AND SUPPORT FOR DIRECTORS

All directors, including non-executive directors and independent non-executive directors, must keep breast of their collective responsibilities as directors and of the business of the Group. As such, the Group provides a comprehensive and formal induction to each newly appointed director upon his/her appointment. Briefings and orientations are provided and organised to ensure that the new directors are familiar with the role of the Board, their legal and other duties as a director as well as the business and governance practices of the Group. Such programmes are tailored to each individual director taking into account their background and expertise. The company secretary and compliance officer will continuously update all directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance of the same by all directors.

All directors also participate in continuous professional development programmes provided or procured by the Group, such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective directors are kept and updated by the company secretary and compliance officer of the Company.

Each director will, upon his/her first appointment and thereafter on a yearly basis, disclose to the Group the number and nature of offices held by such director in public companies and organizations and other significant commitments.

REMUNERATION COMMITTEE

A remuneration committee was formed with specific written terms of reference. As at 31 December 2012, the remuneration committee consists of all three Independent non-executive Directors, namely, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching. Mr. Yip Tai Him is the chairman of the committee. Ms. Chio Chong Meng has resigned as the member of remuneration committee of the Company on 25 May 2012.

The remuneration committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive Directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. This committee consults with the chairman on its proposals and recommendations and has access to professional advice if deemed necessary. The remuneration committee is also provided with other resources enabling it to discharge its duties.

The specific terms of reference of the remuneration committee are posted on the Company's website. The remuneration committee meets at least once a year.

During the year under review, the remuneration committee held 1 meeting to determine the remuneration package for the executive Directors and independent non-executive Directors.

NOMINATION COMMITTEE

A nomination committee was formed with specific written terms of reference on 26 March 2012. As at 31 December 2012, the nomination committee consists of all three Independent non-executive Directors, namely, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching. Mr. Yip Tai Him is the chairman of the nomination committee. Ms. Chio Chong Meng has resigned as the member of nomination committee of the Company on 25 May 2012.

The duties of the nomination committee include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

The specific terms of reference of the nomination committee are posted on the Company's website. The nomination committee meets at least once a year.

During the year under review, the nomination committee held 1 meeting to review and recommend the appointment and re-appointment of directors.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. Rule 5.28 of the GEM Listing Rules requires that the audit committee must comprise a minimum of three members with a majority of independent non-executive Directors and at least one member must have appropriate professional qualifications or accounting or related financial management expertise. The main duties of the audit committee include the followings:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the compliance officer or external auditor before submission to the board.

(b) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

Other duties of the audit committee are set out in its specific terms of reference which are posted on the Company's website. The audit committee is provided with sufficient resources enabling it to discharge its duties.

As at 31 December 2012, the audit committee has three members, namely Mr. Yip Tai Him (chairman of the audit committee), Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, all being independent non-executive Directors. Mr. Fung Wai Ching was appointed on 25 May 2012 due to the resignation of Ms. Chio Chong Meng on the same day. No member of the audit committee is a former partner of the existing auditing firm of the Company within one year on the date of his ceasing to be a partner or had any financial interest in the auditing firm. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. During the year, the audit committee held four meetings to review the Group's annual report, interim report and quarterly reports.

The audit committee has also reviewed the financial reporting and compliance procedures, report on the company's internal control and risk management review and processes as well as the re-appointment of the external auditor. There is no material uncertainty relating to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern. There is no disagreement between the Board and the audit committee regarding the selection, appointment, resignation or dismissal of external auditor.

The Company's annual report for the year ended 31 December 2012 has been reviewed by the audit committee. The accounts for the year were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be nominated for appointment as the auditor of the Company at the forthcoming annual general meeting.

The company secretary keeps full minutes of all audit committee meetings. In line with practices consistent with Board meetings and other committee meetings, draft and final versions of audit committee meeting minutes are circulated to all members of the audit committee for comments, approval and record as soon as practicable after each meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the remuneration in respect of audit services provided by the auditors, HLB Hodgson Impey Cheng Limited, amounted to HK$750,000 (2011: HK$550,000). For non-audit services, the fees paid amounted to HK$105,800 (2011: HK$850,948)

CORPORATE GOVERNANCE REPORT

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2012, the Company has adopted a Code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company's Directors confirmed they have complied with the required standards of dealings and the Code of conduct regarding securities transactions by Directors adopted by the Company.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The auditor is responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

CORPORATE GOVERNANCE FUNCTION

No corporate governance committee has been established and the Board will therefore be responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements etc.

During the financial year ended 31 December 2012, the Board has reviewed the Company's policies and practices on corporate governance and established the nomination committee in March 2012.

INTERNAL CONTROL

The Board, with the audit committee overseeing, is responsible for maintaining sound and effective internal control systems for the Company to safeguard its assets and shareholders' interests, as well as for reviewing the effectiveness of such systems. The Board from time to time conducts a review of the Group's internal control systems. The Board has reviewed the effectiveness of the Group's internal control system, covering financial, operational and compliance controls and risk management functions during the year under review.

In such review, the Board has considered factors such as changes since the last review, scope and quality of management's monitoring of risks; incidence of significant control failings and weaknesses identified; and effectiveness relating to financial reporting and compliance with the applicable laws and regulations including the GEM Listing Rules.

DELEGATION BY THE BOARD

The Board is responsible for decisions in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management of the Group.

All committees, namely the audit committee, the remuneration committee and the nomination committee, have specific terms of reference clearly defining the authorities and responsibilities of the respective committees. All committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board review, on a yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Company as a whole.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance cover has been taken out for Directors' and Officers' Liability to provide adequate cover, as determined by the Board, in respect of the Board members and senior management members of the Company.

SHAREHOLDERS RELATIONS

The Company is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders. The commitment to fair disclosure and comprehensive and transparent reporting of the Company's activities can be reflected in many aspects.

In endeavouring to maintain an on-going dialogue with shareholders, the annual general meeting provides a useful forum for shareholders to exchange views with the Board.

The chairman was also actively involved in organizing, and personally held the annual general meeting in 2012 in order to ensure that shareholders' views were communicated to the Board. A separate resolution was proposed by the chairman in respect of each separate issue at the annual general meeting.

The proceedings of the annual general meeting are reviewed from time to time to ensure the Company conforms to the best practices regarding corporate governance. The annual general meeting circular, which is circulated to all shareholders at least 21 days prior to the holding of the annual general meeting, sets out the details in relation to each resolution proposed, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the chairman indicates to the meeting the level of proxies lodged on each resolution and the balance for and against such resolution. At the Company's 2012 annual general meeting, all the resolutions were put to the vote by poll and Computershare Hong Kong Investor Services Limited, the Company's Hong Kong Branch Share Registrar, was engaged as scrutineer to ensure the votes were properly counted. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meeting are contained in the Company's Bye-laws.

The Company also communicates to its shareholders through its annual, interim and quarterly reports. The directors, company secretary or other appropriate members of senior management also respond promptly to inquiries from shareholders and investors.

INVESTOR RELATIONS

The Company is committed to a policy of open and timely disclosure of corporate information to shareholders and investors. The Company updates shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports and notices, announcements and circulars. The Company's website (www.cmfhl.com) provides a communication platform to the public and the shareholders.

To strengthen its relationship with investors, the Company regularly meets with analysts and holds interviews with reporters and columnists of the press and other economic journals.

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

CONCLUSION

The Company believes that good corporate governance is significant in maintaining investor confidence and attracting investment. The management will devote considerable effort to strengthen and improve the standards of the corporate governance of the Group.

REPORT OF THE DIRECTORS

The directors present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the activities of its subsidiaries and jointly controlled entities are set out in notes 39 and 32 to the consolidated financial statements respectively.

An analysis of the Group's turnover for the year by geographic segment is set out in note 7 to the consolidated financial statement.

RESULTS AND APPROPRIATIONS

The results of the Group for year ended 31 December 2012 are set out in the consolidated income statement on page 29 of this annual report.

The directors do not recommend the payment of any final dividend in respect of the year.

FINANCIAL SUMMARY

The summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 90 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 28 and 29 to the consolidated financial statements respectively.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out on page 33 of this annual report and in note 31 to the consolidated financial statements respectively.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

CONVERTIBLE LOAN NOTES

Details of the movements in convertible loan notes during the year are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2012 amounting to HK$58,552,000 (2011: HK$71,341,000).

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2011: Nil).

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the consolidated financial statements.

PUBLIC FLOAT

At the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Cheng Yang	
Mr. Kan Yisong	(appointed on 5 March 2012 and resigned on 25 May 2012)
Ms. Hui Ching	(appointed on 5 March 2012 and resigned on 25 May 2012)
Ms. Jiang Di	(appointed on 5 March 2012)
Mr. Kwok Wai Kin, Kenneth	(resigned on 5 March 2012)
Mr. Leung So Po, Kelvin	(resigned on 5 March 2012)
Mr. Ng Kwai Kai, Kenneth	(resigned on 5 March 2012)
Mr. Leung Wai Man	(appointed on 25 May 2012)

Non-Executive Director

Mr. Fan Tung, Donald	(resigned on 5 March 2012)

Independent Non-Executive Directors

Mr. Yip Tai Him	
Mr. Law Yiu Sang, Jacky	
Ms. Chio Chong Meng	(resigned on 25 May 2012)
Mr. Fung Wai Ching	(appointed on 25 May 2012)

In accordance with article 87(1) and 87(2) of the Company's bye-laws, Mr. Leung Wai Man and Mr. Fung Wai Ching would retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

On 5 March 2012, each of Ms. Hui Ching and Ms. Jiang Di entered into a service contract with the Company in respect of their positions as Vice Presidents of the Company. Such service contracts have no fixed terms but are determinable by either party by giving three months' written notice to the other party.

Save as disclosed above, none of the director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules, were as follows:

Name of associated corporation	Name of Director	Class of share held	Capacity	Number of shares held (Approximate percentage of the issued shares as at 31 December 2012)
Culture Landmark	Cheng Yang	Ordinary	Personal interest	1,786,000,000 (14.91%)
	Cheng Yang	Ordinary	Family interest	980,000 (0.01%)

Save as disclosed above, as at 31 December 2012, none of the director, or chief executive of the Company or their associates 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 SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEMES

The Company adopted a share option scheme (the “Scheme”) on 6 March 2002.

The scheme expired on 5 March 2012 and the Company is considering the adoption of a new share option scheme when appropriate. There is no outstanding share options as at 31 December 2012 and no share options had been granted during the year ended 31 December 2012. Particulars of the Company’s share option schemes are set out in note 29 to the consolidated financial statements.

EMPLOYEE AWARD PLAN

Particulars of the Company’s employee award plan are set out in note 30 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan disclosed in note 29 and note 30 to the consolidated financial statements respectively, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

DIRECTORS’ INTEREST IN CONTRACTS

Save as disclosed in note 34 to the financial statements on related party transactions, no contracts of significance in relation to the Group’s business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

As at 31 December 2012, none of the Directors, the substantial shareholders nor their respective associate had an interest in any business which competes or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK$0.01 each of the Company

Name of substantial shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Culture Landmark	Interest of controlled corporation *(Note 1)*	232,366,016	12,731,006	245,097,022	48.47%
New Asia Media Development Limited ("New Asia Media")	Beneficial owner *(Note 1)*	232,366,016	12,731,006	245,097,022	48.47%
Eternity Investment Limited	Interest of controlled corporation *(Note 2)*	146,640,000	—	146,640,000	29.00%
Riche (BVI) Limited	Interest of controlled corporation *(Note 2)*	146,640,000	—	146,640,000	29.00%
Riche Advertising Limited	Beneficial owner *(Note 3)*	146,640,000	—	146,640,000	29.00%
Mr. Lo Yuk Sui ("Mr. Lo")	Interest of controlled corporation *(Note 4)*	35,247,161	—	35,247,161	6.97%
Secure Way Technology Limited ("Secure Way")	Interest of controlled corporation *(Note 4)*	35,247,161	—	35,247,161	6.97%
Net Community Limited ("Net Community")	Interest of controlled corporation *(Note 5)*	35,247,161	—	35,247,161	6.97%
Century Digital Holdings Limited ("Century Digital")	Interest of controlled corporation *(Note 6)*	35,247,161	—	35,247,161	6.97%
Grand Modern Investments Limited ("Grand Modern")	Interest of controlled corporation *(Note 7)*	35,247,161	—	35,247,161	6.97%
Century City International Holdings Limited ("Century City International")	Interest of controlled corporation *(Note 8)*	35,247,161	—	35,247,161	6.97%

Name of substantial shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Century City BVI Holdings Limited ("Century City BVI")	Interest of controlled corporation *(Note 9)*	35,247,161	—	35,247,161	6.97%
Century City Holdings Limited ("Century City Holdings")	Interest of controlled corporation *(Note 10)*	35,247,161	—	35,247,161	6.97%
Aikford Financial Services Limited ("Aikford")	Beneficial owner *(Note 11)*	35,247,161	—	35,247,161	6.97%

Notes:

(1) New Asia Media, a company which is wholly and beneficially owned by Culture Landmark, a company listed on the Main Board of the Stock Exchange, is the beneficial owner of 232,366,016 shares of the Company and zero-coupon convertible loan notes due 24 September 2013 in the principal amount of HK$6,200,000 issued by the Company carrying the right to convert into a total of 12,731,006 shares of the Company at the prevailing conversion price of HK$0.487 per share (subject to adjustment). The chairman and chief executive officer of the Company, Mr. Cheng Yang, is also the chairman, chief executive officer and executive Director of the Culture Landmark.

(2) Riche (BVI) Limited is wholly and beneficially owned by Eternity Investment Limited.

(3) Riche Advertising Limited is the beneficial owner of 146,640,000 shares of the Company and is wholly and beneficially owned by Riche (BVI) Limited.

(4) Secure Way is wholly and beneficially owned by Mr. Lo.

(5) Net Community is wholly and beneficially owned by Secure Way.

(6) Century Digital is wholly and beneficially owned by Net Community.

(7) Grand Modern is wholly and beneficially owned by Century Digital.

(8) Grand Modern owns 50.38% interest in Century City International, a company listed on the Main Board of the Stock Exchange.

(9) Century City BVI is wholly and beneficially owned by Century City International.

(10) Century City Holdings is wholly and beneficially owned by Century City BVI.

(11) Aikford is the beneficial owner of 35,247,161 shares of the Company and is wholly and beneficially owned by Century City Holdings.

Save as disclosed above, as at 31 December 2012, the Company has not been notified by any persons (other than the directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 16 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

— the largest customer	8.45%
— five largest customers combined	36.44%

Purchases

— the largest supplier	45.44%
— five largest suppliers combined	91.07%

At no time during the year did the directors, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major customers or suppliers noted above.

CONNECTED TRANSACTIONS

Continuing Connected Transaction

Golden Island, a wholly-owned subsidiary of Culture Landmark, as tenant entered into the tenancy agreement dated 30 March 2011 with China Resources Property Management Limited in respect of the lease of the premises ("Premises") which located at rooms 2506-09, 25th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong for a term of three years from 1 April 2011 to 31 March 2014.

On 30 April 2012, KH Investment Holdings Limited (formerly known as China Media and Films Holdings Limited), a wholly-owned subsidiary of the Company, entered into the facility sharing agreement ("Agreement") with Golden Island in respect of sharing of the Premises and facilities thereof. Golden Island has also agreed to provide office supporting services, including provision of receptionist and such other services as may be requested by the Group.

Golden Island is a wholly-owned subsidiary of Culture Landmark and Culture Landmark is the controlling shareholder of the Company indirectly interested in approximately 74.95% of the issued share capital of the Company as at 30 April 2012. Accordingly, Golden Island is a connected person of the Company and the Agreement constitutes a continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As the annual cap fees under the Agreement for each of the two years ending 31 March 2014 is HK$4,800,000, whose all applicable percentage ratios are less than 5% on an annual basis, the Agreement is subject to the reporting and announcement requirements under Rules 20.45 to 20.47, the annual review requirements set out in Rules 20.37 to 20.40 and the requirements set out in Rules 20.35(1) and 20.35(2) of the GEM Listing Rules, but is exempt from the circular and independent shareholders' approval requirements under Rules 20.49 to 20.54 of the GEM Listing Rules.

Golden Island has agreed to provide use of office space and facilities at portion to the Group. The Premises will be used as offices by the Group. The Directors (including the independent non-executive directors) are of the opinion that the Agreement was entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms after arm's length negotiations between the parties with reference to the prevailing market rates for comparable office buildings in Wan Chai; and (iii) on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole. None of the Directors has a material interest in the Agreement.

For the details of the continuing connected transaction, please refer to the announcement dated 30 April 2012.

Save as disclosed above, during the year ended 31 December 2012, there were no connected transactions or continuing connected transactions under the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements thereunder. The related party transactions set out in note 34(a)(ii) & (iv) to the consolidated financial statements of the Company constituted connected transactions but are exempted from the reporting, announcement and independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, quarterly reports and interim report and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting and internal control procedures of the Group.

As at 31 December 2012, the audit committee has three members, namely Mr. Yip Tai Him (chairman of the audit committee), Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching, all being independent non-executive Directors. Mr. Fung Wai Ching was appointed on 25 May 2012 due to the resignation of Ms. Chio Chong Meng at the same day. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the management team of the Company. During the year, the audit committee held four meetings to review the Group's annual report, interim report and quarterly reports. The audit committee has reviewed the annual results of the Company for the year ended 31 December 2012 before proposing to the Board for approval.

REMUNERATION COMMITTEE

A remuneration committee was formed with specific written terms of reference. The remuneration committee is responsible for reviewing and developing the remuneration polices of the directors and senior management. As at 31 December 2012, the remuneration committee consists of all three Independent non-executive Directors, namely, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching. Ms. Chio Chong Meng has resigned as the member of remuneration committee of the Company on 25 May 2012.

During the year under review, the remuneration committee held 1 meeting to determine the remuneration package for the executive Directors and independent non-executive Directors.

NOMINATION COMMITTEE

A nomination committee was formed with specific written terms of reference. The nomination committee is responsible for reviewing, identifying and assessing the composition of the Board and making recommendation to the Board on the appointment or re-appointment of director and succession planning for director. As at 31 December 2012, the nomination committee consists of all three Independent non-executive Directors, namely, Mr. Yip Tai Him, Mr. Law Yiu Sang, Jacky and Mr. Fung Wai Ching. Ms. Chio Chong Meng has resigned as the member of nomination committee of the Company on 25 May 2012.

During the year under review, the nomination committee held 1 meeting to review and recommend the appointment and re-appointment of directors.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive directors to be independent.

AUDITOR

The account for the year ended 31 December 2012 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting. The accounts for the years ended 31 December 2010 and 2011 were audited by HLB Hodgson Impey Cheng. In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

On behalf of the Board

Cheng Yang
Chairman and Chief Executive Officer

Hong Kong, 18 March 2013

INDEPENDENT AUDITOR'S REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA MEDIA AND FILMS HOLDINGS LIMITED
(FORMERLY KNOWN AS KH INVESTMENT HOLDINGS LIMITED)
(originally incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the consolidated financial statements of China Media and Films Holdings Limited (formerly known as KH Investment Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 89, which comprise the consolidated and Company statements of financial position at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Chartered Accountants
Certified Public Accountants

Yu Chi Fat
Practising Certificate Number: P05467

Hong Kong, 18 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Continuing operations			
Turnover	6	26,547	44,330
Cost of sales		(20,430)	(34,927)
Gross profit		6,117	9,403
Other revenue and other income	8	442	135
Administrative expenses		(17,881)	(11,384)
Other operating expenses	9	—	(6,387)
Finance costs	10	(686)	(603)
Loss before tax	11	(12,008)	(8,836)
Income tax expense	12	—	—
Loss for the year from continuing operations		(12,008)	(8,836)
Discontinued operation	13		
Loss for the year from discontinued operation		(3,092)	(11,415)
Loss attributable to owners of the Company		(15,100)	(20,251)
Loss per share	15		
From continuing and discontinued operations			
Basic and diluted		HK(2.99) cents	HK(4.00) cents
From continuing operations			
Basic and diluted		HK(2.38) cents	HK(1.75) cents
From discontinued operation			
Basic and diluted		HK(0.61) cents	HK(2.25) cents

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 *HK$'000*	2011 *HK$'000*
Loss for the year	**(15,100)**	(20,251)
Total comprehensive loss for the year	**(15,100)**	(20,251)
Total comprehensive loss attributable to owners of the Company	**(15,100)**	(20,251)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	17	2,244	364
Film rights and films in progress	18	1,601	1,601
Goodwill	19	—	3,280
Total non-current assets		3,845	5,245
Current assets			
Trade receivables	21	53	1,300
Deposits, prepayments and other receivables	22	10,772	8,706
Cash and cash equivalents	23	80,968	97,558
Total current assets		91,793	107,564
Current liabilities			
Trade payables	24	71	11
Accruals and other payables	25	2,826	3,740
Receipts in advance	26	4,348	6,251
Convertible loan notes	27	5,637	—
Total current liabilities		12,882	10,002
Net current assets		78,911	97,562
Total assets less current liabilities		82,756	102,807
Non-current liability			
Convertible loan notes	27	—	4,951
Total non-current liability		—	4,951
Net assets		82,756	97,856
Equity			
Share capital	28	5,056	5,056
Reserves		77,700	92,800
Total equity		82,756	97,856

The consolidated financial statements were approved and authorised for issue by the board of directors on 18 March 2013 and signed on its behalf by:

Cheng Yang
Chairman and Chief Executive Officer

Leung Wai Man
Director

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	17	2,226	206
Investments in subsidiaries	20	10	—
Total non-current assets		2,236	206
Current assets			
Deposits, prepayments and other receivables	22	1,140	215
Amounts due from subsidiaries	20	111,614	66,709
Cash and cash equivalents	23	5,880	65,052
Total current assets		118,634	131,976
Current liabilities			
Accruals and other payables	25	1,861	1,070
Convertible loan notes	27	5,637	—
Total current liabilities		7,498	1,070
Net current assets		111,136	130,906
Total assets less current liabilities		113,372	131,112
Non-current liability			
Convertible loan notes	27	—	4,951
Total non-current liability		—	4,951
Net assets		113,372	126,161
Equity			
Share capital	28	5,056	5,056
Reserves	31	108,316	121,105
Total equity		113,372	126,161

The financial statements were approved and authorised for issue by the board of directors on 18 March 2013 and signed on its behalf by:

Cheng Yang
Chairman and Chief Executive Officer

Leung Wai Man
Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital	Share premium	Contributed surplus	Convertible loan notes reserve	Share-based payments reserve	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	5,056	47,383	28,294	2,381	1,367	31,217	115,698
Net loss for the year	—	—	—	—	—	(20,251)	(20,251)
Other comprehensive loss for the year	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	—	(20,251)	(20,251)
Recognition of equity-settled share-based payments	—	—	—	—	2,409	—	2,409
Lapsed of share options	—	—	—	—	(3,776)	3,776	—
At 31 December 2011 and 1 January 2012	5,056	47,383	28,294	2,381	—	14,742	97,856
Net loss for the year	—	—	—	—	—	(15,100)	(15,100)
Other comprehensive loss for the year	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	—	(15,100)	(15,100)
At 31 December 2012	**5,056**	**47,383**	**28,294**	**2,381**	**—**	**(358)**	**82,756**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Operating activities			
Loss before tax from continuing operations		(12,008)	(8,836)
Loss before tax from discontinued operation		(3,092)	(11,415)
		(15,100)	(20,251)
Adjustments for:			
Bank interest income		(80)	(107)
Finance costs		686	604
Depreciation of property, plant and equipment		391	81
Impairment loss recognised in respect of films in progress		—	1,390
Impairment loss recognised in respect of goodwill		—	10,920
Impairment loss recognised in respect of deposits to artist		—	4,997
Reversal of impairment loss recognised in respect of film rights		—	(13)
Equity-settled share option expenses		—	2,409
Loss on disposal of subsidiary		2,960	—
Operating cash flow before movements in working capital		(11,143)	30
Decrease in trade receivables		979	139
(Increase)/decrease in deposits, prepayments and other receivables		(2,142)	40,573
Increase/(decrease) in trade payables		60	(314)
Decrease in accruals and other payables		(127)	(5,473)
Decrease in receipts in advance		(1,900)	(2,119)
Cash (used in)/generated from operations		(14,273)	32,836
Bank interest received		80	107
Hong Kong Profits Tax recovered		—	(78)
Net cash (used in)/ generated from operating activities		(14,193)	32,865
Investing activities			
Additional costs incurred in films in progress		—	(1,803)
Purchases of items of property, plant and equipment		(2,375)	(241)
Net cash flow arising from disposal of subsidiary		(22)	—
Net cash used in investing activities		(2,397)	(2,044)
Financing activity			
Interest paid		—	(1)
Net cash used in financing activity		—	(1)
Net (decrease)/ increase in cash and cash equivalents		(16,590)	30,820
Cash and cash equivalents at beginning of year		97,558	66,738
Cash and cash equivalents at end of year	23	80,968	97,558

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company was incorporated as an exempted Company with limited liability in the Cayman Islands on 11 June 2001 and continued in Bermuda on 16 March 2009. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 March 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Rooms 2506-09, 25/F, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong respectively.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries and jointly controlled entities are set out in notes 39 and 32 respectively.

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

In the current year, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2012. A summary of the new and revised HKFRSs adopted by the Group is set out as follows:

HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets

The principle effect of adopting these HKFRSs are as follows:

(a) HKAS 12 (Amendments) Deferred Tax — Recovery of Underlying Assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the Group expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. As the Group does not have investment property in prior and current period, the amendments have no financial impact on the Group.

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

(b) HKFRS 1 (Amendments) Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

HKFRS 1 (Amendments) introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRSs financial statements. The amendments also remove the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. As the Group is not a first time adopter of HKFRSs, the amendments have no financial impact on the Group.

(c) HKFRS 7 (Amendments) Disclosures — Transfer of Financial Assets

HKFRS 7 (Amendments) introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets, including information for understanding the possible effects of any risks that may remain with the entity that transfer the assets. As the Group does not have continuing involvement in the derecognised assets, the amendments have no financial impact on the Group.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (Revised)	Employee Benefits[2]
HKAS 27 (Revised)	Separate Financial Statements[2]
HKAS 28 (Revised)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle Issued in June 2012[2]
HKFRS 1 (Amendments)	Government Loans[2]
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date of HKFRS 9 and transition disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangement[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[3]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

(a) HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 clarify the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position at the beginning of the preceding period are not required to be presented.

(b) HKAS 19 Employee Benefits

The amendment to HKAS 19 includes the range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

(c) HKAS 32 (Amendments) and HKFRS 7 (Amendments) Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirement) for financial instruments under an enforceable master netting agreement or similar arrangement. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material financial impact on the Group.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

(d) HKFRSs (Amendments) Annual Improvements to HKFRSs 2009-2011 Cycle except for the amendments to HKAS 1

The Annual Improvement to HKFRSs 2009-2011 Cycle includes a number of amendments to various HKFRSs. The amendments are effective for annual period beginning on or after 1 January 2013. Amendments to HKFRSs include:

HKAS 16 (Amendments) Property, Plant and Equipment

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The Directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group's consolidated financial statement.

HKAS 32 (Amendments) Financial Instruments: Presentation

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 "Income Taxes". The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

(e) HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirement of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specially, 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 reporting periods. All other debt investment and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entity 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.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

(e) 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 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 change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual period beginning on or after 1 January 2015, with earlier application permitted. The application of HKFRS 9 might affect the classification, measurement and presentation of the Group's financial assets and financial liabilities.

(f) New and revised standards on consolidated, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (revised) and HKAS 28 (revised).

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. HK (SIC)-Int 12 "Consolidation — Special Purpose Entities" will be withdraw upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC)-Int 13 "Jointly Controlled Entities — Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint venture depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

(f) New and revised standards on consolidated, joint arrangements, associates and disclosures *(continued)*

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance in HKFRS 10 on the application of these five HKFRSs for the first time.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9, rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27. The amendments to HKFRS 12 also set out the disclosure requirements for investment entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (revised) and HKAS 28 (revised), together with the subsequent amendments to these standards issued in July and December 2012, from 1 January 2013.

The Directors anticipate that the application of HKFRS 11 will change the classification and subsequent accounting of the Group's jointly controlled entities, include in China Star Film Group Limited and its subsidiaries (the "China Star Film Group"), which are currently classified as jointly controlled entities under HKAS 31 and have been accounted for using the proportionate consolidate method. Under HKFRS 11, China Star Film Group will be classified as joint ventures and will be accounted for using equity method, resulting in the aggregation of the Group's proportionate share of China Star Film Group's respectively net assets and items of profit or loss and other comprehensive income into a single line item which will be presented in the consolidated statement of financial position and in the consolidated income statement as "investment in joint controlled entities" and "share result of joint controlled entities" respectively. The summarised financial information in respect of China Star Film Group is disclosed in note 32.

(g) HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad, it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs *(continued)*

(h) HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK(IFRIC)-Int 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation the costs from this waste removal activity (stripping) which provide improved access to ore is recognised as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with HKAS 2 “Inventories”. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

HK(IFRIC)-Int 20 is effective for annual period beginning on or after 1 January 2013. Specific transitional provision are provided to entities that apply HK(IFRIC)-Int 12 for the first time. The application of this new standard will have no effect to the Group’s financial statements as the Group does not engage in such activities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Ints”) issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, as modified for the revaluation of certain financial instruments which are stated at their fair values.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

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

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 and HKAS 19 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 at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that standard.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit 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 cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation, except when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39). The Group's share of each of assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Artist management service income including that from operating service provided under service concession arrangements is recognised when the services are provided.

Revenue from licensing of distribution rights over films is recognised when the Group's entitlement to such payments has been established when the notice of delivery is served to the customer.

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

Leases

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.

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, 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 entity's functional currency (foreign currencies) are recorded in the respective functional currency (i,e, the currency of the primary economic environment in which the entity operations) at the rates of exchange 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and retained profits/(accumulated losses) and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting year. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, including disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, 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.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

For grants of share options that are conditional upon specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share-based payments reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve.

For share options that are vested immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained profits/(accumulated losses).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred 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 income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in jointly controlled entities, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Deferred tax 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 realised, based on tax rates (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 for the year 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 and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation, except that when an item of property, plant and equipment is classified as held for sale, which is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the shorter of the lease terms or 20%
Furniture and equipment	20%-25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Intangible assets

Intangible assets acquired in a business combination

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

Any revaluation increase arising from revaluation of intangible assets is recognised in other comprehensive income and accumulated in revaluation reserve, except to the extent that it reverses a revalustion decrease of the same asset previously recognise in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an intangible asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale of a revalued asset, the attributable revaluation surplus is transferred to retained profits/(accumulated losses).

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

Film rights and films in progress

Film rights

Film rights are stated at cost less accumulated and impairment losses. Upon the release of the pre-recorded audio visual products and the materials, film rights are amortised at rates calculated to write off the costs in proportion to the expected revenue from exhibition and distribution of audio visual products. Such rates are on a systematic basis, with reference to the projected revenue and the underlying licence periods, and are subject to annual review by the management.

Films in progress

Films in progress are stated at cost less any provision for impairment losses. Costs include all direct costs associated with the production of films. Provision is made for costs which are in excess of the expected future revenue generated by these films. Costs of films are transferred to film rights upon completion.

At the end of each reporting period, both internal and external market information are considered to assess whether there is any indication that film rights and films in progress are impaired. If any such indication exists, the carrying amount of such assets is assessed and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 cash-generating unit to which the asset belongs. When a reasonable and consistent units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) 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.

Provision are measured at 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 (where 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset 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 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 asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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 receivables, deposits and other receivables, and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment loss of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy and financial reorganisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. 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 and 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 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 similar financial assets. 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 credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in according to the substance of the contractual arrangements entered into 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 an entity 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 financial liabilities

Other financial liabilities including trade payables, accruals and other payables are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in convertible loan notes reserve.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to share capital and share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to the retained profits/(accumulated losses). No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Convertible loan notes (continued)

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flow 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 risk and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdraft which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same Group (which mean that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Segment reporting

Operating segments are reported in a manner consistent with the Group's internal financial reporting to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations. For disclosure purpose, a reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics and nature of the regulatory environment, or single operating segments which are disclosable separately because they cannot be aggregated or they exceed quantitative thresholds.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The Group makes estimates and assumptions concerning the future. This resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful life of the asset annually in order to determine the amount of depreciation expenses to be recorded during the year. The useful life is based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. During the year, the Group determined that the useful life of the property, plant and equipment should be remained constant to that of prior years. Depreciation expense is approximately HK$391,000 (2011: HK$81,000) for the year ended 31 December 2012.

(b) Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan or receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments or services. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(c) Impairment of film rights and films in progress

Impairment assessments on film rights and films in progress are performed at the end of each reporting period with reference to both internal and external market information, for example, sales forecast based on expected popularity of the respective titles, the expected production, sales and distribution costs to be reviewed to conclude the sales, and the general economic condition of the relevant markets. At 31 December 2012, the carrying value of film rights and films in progress amounted to approximately HK$1,601,000 (2011: HK$1,601,000). Changes in assumptions used in this assessment, including the forecasted revenue, may result in additional provision being made in the consolidated financial statements.

6. TURNOVER

Turnover represents the net amount received and receivables from customers, after allowances and trade discounts where applicable and services rendered.

	2012 HK$'000	2011 HK$'000
Continuing operations		
Artist management	26,543	44,230
Film distribution	4	100
	26,547	44,330

7. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group's continuing operations and reportable segments under HKFRS 8 are as follows:

(i)	Artist management	Service income from provision of artist management
(ii)	Film production and distribution	Investment in, production of, sale and distribution of films

An operating segment regarding infrared consultancy services was discontinued in the current year. The segment information reported below does not include any amounts for this discontinued operation.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.

7. SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

	Artist management		Film production and distribution		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue						
Revenue from external customers	**26,543**	44,230	**4**	100	**26,547**	44,330
Results						
Segment (loss)/profit	**(3,953)**	1,264	**(22)**	(1,255)	**(3,975)**	9
Unallocated other revenue and other income					**129**	13
Unallocated expenses					**(7,476)**	(8,255)
Loss from operating activities					**(11,322)**	(8,233)
Finance costs					**(686)**	(603)
Loss before tax					**(12,008)**	(8,836)
Income tax expense					**—**	—
Loss for the year					**(12,008)**	(8,836)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in both years.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the (loss)/profit (suffered)/earned by each segment without allocation of central administration costs including directors' emoluments, other revenue and other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

7. SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities

	Artist management		Film production and distribution		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**54,129**	9,976	**34,458**	28,320	**88,587**	38,296
Unallocated assets					**7,051**	74,513
Total assets					**95,638**	112,809
Segment liabilities	**5,379**	8,153	**6**	6	**5,385**	8,159
Unallocated liabilities					**7,497**	6,794
Total liabilities					**12,882**	14,953

For the purpose of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segment other than unallocated head office and corporate assets as these assets are managed on a group basis; and
- All liabilities are allocated to reportable segments other than convertible notes, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

(c) Other segment information

	Artist management		Film production and distribution		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations						
Depreciation of property, plant and equipment	**358**	4	**—**	11	**358**	15
Addition to non-current assets*	**2,375**	24	**—**	2,020	**2,375**	2,044
Impairment loss recognised in respect of films in progress	**—**	—	**—**	1,390	**—**	1,390
Impairment loss recognised in respect of deposits to artist	**—**	4,997	**—**	—	**—**	4,977
Reversal of impairment loss recognised in respect of film rights	**—**	—	**—**	13	**—**	13

* Non-current assets excluded those relating to discontinued operation and financial instruments.

7. SEGMENT INFORMATION *(continued)*

(d) Geographical information

In determining the Group's geographical information, revenue information is based on the location of the customers, and non-current assets information are based on the geographical location of the assets.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets*	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
The People's Republic of China (the "PRC")	**21,618**	39,942	**—**	—
Hong Kong	**4,741**	3,416	**3,845**	2,044
Others	**188**	972	**—**	—
	26,547	44,330	**3,845**	2,044

* Non-current assets excluded those relating to discontinued operation and financial instruments.

(e) Information about major customer

No revenue from transaction with single external customer amount to 10% or more of the Group's revenue for the year ended 31 December 2012 (2011: 2 external customers contributed approximately HK$5,106,000 and HK$4,904,000 respectively to 10% or more of the Group's revenue under artist management segment).

8. OTHER REVENUE AND OTHER INCOME

	2012 HK$'000	2011 HK$'000
Continuing operations		
Bank interest income	80	107
Consultancy fee income	240	—
Reversal of impairment loss recognised in respect of film rights	—	13
Sundry income	122	15
	442	135

9. OTHER OPERATING EXPENSES

	2012 HK$'000	2011 HK$'000
Continuing operations		
Impairment loss recognised in respect of deposits to artist	—	4,997
Impairment loss recognised in respect of films in progress	—	1,390
	—	6,387

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Continuing operations		
Effective interest expenses on convertible loan notes	686	603

11. LOSS BEFORE TAX

	2012 HK$'000	2011 HK$'000
Continuing operations		
Auditor's remuneration	750	550
Consultancy fee	300	274
Depreciation of property, plant and equipment	358	15
Minimum lease payments under operating leases on land and buildings	3,443	114
Staff costs (excluding directors' remuneration)		
Salaries and allowance	6,384	2,811
Equity-settled share option expenses	—	2,214
Pension scheme contributions	114	55

12. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statement as the Group and the Company has no assessable profit derived from Hong Kong for the year.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

At 31 December 2012, the Group had estimated unused tax losses of approximately HK$89,223,000 (2011: approximately HK$73,981,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Loss before tax from continuing operations	(12,008)	(8,836)
Notional tax on loss before tax calculated at the tax rates applicable to jurisdictions concerned	(1,981)	(1,458)
Tax effect of expenses not deductible for tax purpose	3,099	2,138
Tax effect of income not taxable for tax purpose	(3,633)	(44)
Tax effect of tax losses not recognised	2,515	427
Tax effect of utilisation of tax losses previously not recognised	—	(1,063)
Income tax expense for the year	—	—

13. DISCONTINUED OPERATION

On 29 June 2012, the Group disposed of its wholly-owned subsidiary of Infrared Engineering and Consultants Limited ("Infrared"). Upon completion of the disposal, Infrared ceased to be a subsidiary of the Company and the business of infrared consultancy services operation which is solely carried out by Infrared, has become a discontinued operation of the Group.

The loss for the year from the discontinued operation is analysed as follows:

	2012	2011
	HK$'000	*HK$'000*
Loss of infrared consultancy services operation for the year	(132)	(11,415)
Loss on disposal of infrared consultancy services operation	(2,960)	—
Loss for the year from discontinued operation	(3,092)	(11,415)

13. DISCONTINUED OPERATION *(continued)*

The results of the Infrared operations for the period from 1 January 2012 to 29 June 2012, which have been included in the consolidated income statement, were as follows:

	2012 *HK$'000*	2011 *HK$'000*
Turnover	—	410
Cost of sales	—	(199)
Gross profit	—	211
Other revenue and other income	120	84
Administrative expenses	(252)	(789)
Other operating expenses	—	(10,920)
Finance costs	—	(1)
Loss before tax	(132)	(11,415)
Income tax expense	—	—
Loss for the year	(132)	(11,415)

Loss for the year from discontinued operation included the following:

	2012 *HK$'000*	2011 *HK$'000*
Depreciation of property, plant and equipment	33	66
Auditor's remuneration	—	—
Minimum lease payments under operating leases	144	232
Staff costs (excluding directors' remuneration)		
Salaries and allowance	—	410
Loss on disposal of Infrared	2,960	—

Cash flows from discontinued operation were as follows:

	2012 *HK$'000*	2011 *HK$'000*
Net cash outflows from operating activities	(46)	(186)
Net cash outflows from financing activities	—	(1)
Net cash outflows	(46)	(187)

14. DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil).

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company and the weighted average number of ordinary shares.

From continuing and discontinued operations

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

	2012	2011
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	(15,100)	(20,251)

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	505,650	505,650

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in an anti-dilutive effect on loss per share.

From continuing operations

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

	2012	2011
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company	(15,100)	(20,251)
Less: loss for the year from the discontinued operation	(3,092)	(11,415)
Loss from continuing operations for the purpose of calculating basic and diluted loss per share	(12,008)	(8,836)

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

15. LOSS PER SHARE *(continued)*

From discontinued operation

Basic and diluted loss per share for the discontinued operation is HK$0.61 cents per share (2011: HK$2.25 cents per share), based on the loss for the year from the discontinued operation approximately HK$3,092,000 (2011: HK$11,415,000), and the denominators used are the same as those detailed above for both basic and diluted loss per share from continuing operations.

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The emoluments paid or payable of 13 (2011: 9) directors on a named basis are set out below:

For the year ended 31 December 2012:

	Fees	Salaries and allowances	Retirement benefit scheme contribution	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Ng Kwai Kai, Kenneth *(note 2)*	21	—	—	—	21
Mr. Leung So Po, Kelvin *(note 2)*	21	—	—	—	21
Mr. Cheng Yang *(note 3)*	120	—	—	—	120
Mr. Kwok Wai Kin, Kenneth *(note 4)*	21	300	—	—	321
Mr. Leung Wai Man *(note 5)*	72	—	—	—	72
Mr. Kan Yisong *(note 6)*	27	—	—	—	27
Ms. Hui Ching *(note 6)*	27	200	—	—	227
Ms. Jiang Di *(note 7)*	99	681	10	—	790
Non-executive director					
Mr. Fan Tung, Donald *(note 8)*	21	—	—	—	21
Independent non-executive directors					
Mr. Yip Tai Him	120	—	—	—	120
Mr. Law Yiu Sang, Jacky	120	—	—	—	120
Ms. Chio Chong Meng *(note 9)*	48	—	—	—	48
Mr. Fung Wai Ching *(note 10)*	72	—	—	—	72
Total	789	1,181	10	—	1,980

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)*

For the year ended 31 December 2011:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefit scheme contribution *HK$'000*	Share option benefit *HK$'000*	Total *HK$'000*
Executive directors					
Mr. Lai Hok Lim *(note 1)*	114	—	—	195	309
Mr. Ng Kwai Kai, Kenneth *(note 2)*	36	—	—	—	36
Mr. Leung So Po, Kelvin *(note 2)*	36	—	—	—	36
Mr. Cheng Yang *(note 3)*	31	—	—	—	31
Mr. Kwok Wai Kin, Kenneth *(note 4)*	29	274	—	—	303
Non-executive director					
Mr. Fan Tung, Donald *(note 8)*	36	—	—	—	36
Independent non-executive directors					
Mr. Yip Tai Him	120	—	—	—	120
Mr. Law Yiu Sang, Jacky	120	—	—	—	120
Ms. Chio Chong Meng *(note 9)*	120	—	—	—	120
Total	642	274	—	195	1,111

Notes:

1. Mr. Lai Hok Lim was resigned as executive director on 12 December 2011.
2. Mr. Ng Kwai Kai, Kenneth and Mr. Leung So Po, Kelvin were appointed as executive director on 14 September 2011 and resigned on 5 March 2012.
3. Mr. Cheng Yang was appointed as executive director on 28 September 2011.
4. Mr. Kwok Wai Kin, Kenneth was appointed as executive director on 3 October 2011 and resigned on 5 March 2012.
5. Mr. Leung Wai Man was appointed as executive director on 25 May 2012.
6. Mr. Kan Yisong and Ms. Hui Ching were appointed as executive director on 5 March 2012 and resigned on 25 May 2012.
7. Ms. Jiang Di was appointed as executive director on 5 March 2012.
8. Mr. Fan Tung, Donald was appointed as non-executive director on 14 September 2011 and resigned on 5 March 2012.
9. Ms. Chio Chong Meng was resigned as non-executive director on 25 May 2012.
10. Mr. Fung Wai Ching was appointed as non-executive director on 25 May 2012.

Mr. Cheng Yang is also the chief executive officer of the Company and his emoluments disclosed above include those for service rendered by him as the chief executive officer.

Of the five highest paid individuals, two (2011: two) were directors of the Company and remuneration has been disclosed above.

In the year ended 31 December 2012 and 2011, no director waived any emoluments.

16. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)*

The emoluments of the remaining three (2011: three) individuals of which two (2011: two) are senior management are as follows:

	2012 *HK$'000*	2011 *HK$'000*
Basic salaries, allowances and other benefits in kind	2,191	1,990
Share option benefit	—	365
Retirement benefits scheme contributions	33	37
	2,224	2,392

The number of these non-director, highest paid individuals whose remuneration were fell within the following bands:

	2012 *HK$'000*	2011 *HK$'000*
Nil to HK$1,000,000	2	2
HK$1,000,001 – HK$1,500,000	1	1

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: nil).

During the year ended 31 December 2011, share options were granted to directors, highest paid employee in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the consolidated financial statements. The fair value of such options, which has been charged to the consolidated income statement, was determined at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

Retirement benefit costs

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contribution to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to 1 June 2012). Contribution to the plan vest immediately.

At the end of the reporting period, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contribution payable in the futures years.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
Cost:				
At 1 January 2011	53	234	458	745
Additions	—	241	—	241
At 31 December 2011 and 1 January 2012	53	475	458	986
Additions	2,372	3	—	2,375
Derecognised on disposal of a subsidiary *(note 33)*	(53)	(221)	(43)	(317)
At 31 December 2012	2,372	257	415	3,044
Accumulated depreciation:				
At 1 January 2011	10	106	425	541
Charged for the year	11	58	12	81
At 31 December 2011 and 1 January 2012	21	164	437	622
Charged for the year	321	63	7	391
Derecognised on disposal of a subsidiary *(note 33)*	(26)	(158)	(29)	(213)
At 31 December 2012	316	69	415	800
Carrying amount:				
At 31 December 2012	**2,056**	**188**	**—**	**2,244**
At 31 December 2011	32	311	21	364

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

	Leasehold improvements *HK$'000*	Furniture and equipment *HK$'000*	Total *HK$'000*
The Company			
Cost:			
At 1 January 2011	—	—	—
Additions	—	217	217
At 31 December 2011 and 1 January 2012	—	217	217
Additions	2,372	—	2,372
At 31 December 2012	2,372	217	2,589
Accumulated depreciation:			
At 1 January 2011	—	—	—
Charged for the year	—	11	11
At 31 December 2011 and 1 January 2012	—	11	11
Charged for the year	316	36	352
At 31 December 2012	316	47	363
Carrying amount:			
At 31 December 2012	**2,056**	**170**	**2,226**
At 31 December 2011	—	206	206

18. FILM RIGHTS AND FILMS IN PROGRESS

	Film rights	Films in progress	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At 1 January 2011	7,958	—	7,958
Additions	—	1,803	1,803
At 31 December 2011, 1 January 2012 and 31 December 2012	7,958	1,803	9,761
Accumulated impairment:			
At 1 January 2011	6,783	—	6,783
Impairment loss recognised	—	1,390	1,390
Reversal of impairment loss recognised	(13)	—	(13)
At 31 December 2011, 1 January 2012 and 31 December 2012	6,770	1,390	8,160
Carrying amount:			
At 31 December 2012	**1,188**	**413**	**1,601**
At 31 December 2011	1,188	413	1,601

Film rights represent self-produced films.

In light of the circumstances of film industry, the Group regularly reviewed its library of film rights to assess the marketability of film rights and the corresponding recoverable amounts. At 31 December 2012 and 2011, the directors of the Company assessed the recoverable amount of the film rights with reference to the valuation performed by Grant Sherman Appraisal Limited, an independent qualified professional valuers, and determined that no impairment has been recognised on films rights (2011: reversal of impairment loss HK$13,000). The estimated recoverable amount at 31 December 2012 and 2011 was determined based on the present value of expected future revenue arising from the distribution and sub-licencing of the film rights and their residual values, which was derived from discounting the projected cash flows by a discount rate of approximately 14.97% (2011: 15.32%).

Films in progress represent films under production.

In light of the stage of film production, the Group regularly reviewed the progress of film production to assess the cost of film in progress. During the year ended 31 December 2011, the management of the Company decided to suspense the production of one film, and determined that these film in progress was impairment due to prevailing marketability circumstances. No costs for the development and preparation of films in progress impaired and recognised in the consolidated income statement for the year ended 31 December 2012 (2011: HK$1,390,000).

During the year ended 31 December 2012, there is no reversal of impairment loss recognised in respect of film rights (2011: HK$13,000) and no impairment loss in respect of films in progress (2011: HK$1,390,000).

19. GOODWILL

The amount of the goodwill capitalised by the Group as an asset and recognised in the consolidated statement of financial position, arising from the acquisition of a subsidiary is as follows:

	HK$'000
Cost:	
At 1 January 2011, 31 December 2011 and 1 January 2012	18,044
Derecognised on disposal of a subsidiary *(note 33)*	(18,044)
At 31 December 2012	—
Accumulated impairment:	
At 1 January 2011	3,844
Impairment losses recognised	10,920
At 31 December 2011 and 1 January 2012	14,764
Derecognised on disposal of a subsidiary *(note 33)*	(14,764)
At 31 December 2012	—
Carrying amount:	
At 31 December 2012	**—**
At 31 December 2011	3,280

Impairment test of goodwill

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units. The carrying amount of goodwill (before recognition of impairment loss) at the end of the reporting period was allocated to cash generating units is as follows:

	2012	2011
	HK$'000	*HK$'000*
Infrared consultancy services	—	18,044

For the year ended 31 December 2011, the directors of the Company re-assessed the recoverable amount of goodwill allocated to infrared consultancy services business with reference to the valuation performed by Assets Appraisal Limited, an independent firm of professional valuer, and an impairment loss of approximately HK$10,920,000 was recognised.

The recoverable amount of the goodwill allocated to infrared consultancy services business was assessed by reference to value-in-use model which based on a five-year cash flow projection approved by the directors of the Company. At 31 December 2011, a discount rate of 17.76% per annum was applied in the discounted cash flow method when assessing the recoverability of the cash generating unit.

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flow beyond that five-year period have been extrapolated using zero growth rate which is the projected long term average growth rate for the infrared consultancy service market.

Due to the uncertain business environment in the PRC market, an impairment loss of HK$10,920,000 in respect of the goodwill was recognised in prior year as a result of the scale-down of the business operation in the PRC market.

During the year ended 31 December 2012, the goodwill was derecognised on disposal of a subsidiary as details in note 33.

20. INTERESTS IN SUBSIDIARIES

The Company

	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	10	—
Amounts due from subsidiaries	111,614	66,709
	111,624	66,709

Details of the Company's subsidiaries at 31 December 2012 are set out in note 39 to the consolidated financial statements.

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand. The directors of the Company, the carrying amounts of the amounts due from subsidiaries were approximate to their fair values.

21. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables at the end of the reporting period is as follows:

	2012	2011
	HK$'000	*HK$'000*
0 — 90 days	53	1,256
91 — 180 days	—	21
181 — 365 days	—	—
Over 365 days	—	23
	53	1,300
Impairment loss recognised	—	—
	53	1,300

21. TRADE RECEIVABLES *(continued)*

Notes:

(i) The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers. The Group has no significant concentrations of credit risk, with exposure spreads over a large number of customers. The credit terms of trade receivables are generally on 10 to 180 days (2011: 30 to 180 days).

(ii) Included in the trade receivables balances are debtors with an aggregate carrying amount of approximately HK$33,000 (2011: HK$23,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The aged analysis of trade receivables which are past due but not impaired was as follow:

	2012	2011
	HK$'000	*HK$'000*
0 – 90 days	33	—
91 – 180 days	—	—
181 – 365 days	—	—
Over 365 days	—	23
	33	23

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposit, net of impairment	10,700	8,331	1,134	—
Prepayments	34	267	—	215
Other receivables	38	108	6	—
	10,772	8,706	1,140	215

At 31 December 2012, deposits amounted to approximately HK$9,540,000 (2011: HK$8,255,000) represented the deposits paid for artist management and film production.

The directors of the Company consider that the carrying amounts of deposits for artist management, film production and other receivables were approximate to their fair values.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

Movements in impairment loss in respect of deposits to artist are as follows:

	2012	2011
	HK$'000	HK$'000
At 1 January	5,440	443
Impairment loss in respect of deposits to artist	—	4,997
At 31 December	5,440	5,440

No provision for individually impaired (2011: HK$4,997,000) included in the above impairment loss in respect of deposits (2011: HK$4,997,000) with a gross carrying amount approximately HK$5,440,000 (2011: HK$5,440,000). The individually impaired deposits related to the portions of deposit paid that were not expected to be recovered.

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances:				
US Dollars	2	1	—	—
Hong Kong Dollars	80,966	97,557	5,880	65,052
	80,968	97,558	5,880	65,052

Cash at bank earns interest at floating rates based on daily bank deposit rates.

24. TRADE PAYABLES

An aged analysis of the Group's trade payables at the end of the reporting period is as follow:

	2012	2011
	HK$'000	HK$'000
0 — 90 days	71	11

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

25. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**1,919**	3,512	**1,002**	1,070
Other payables	**907**	228	**859**	—
	2,826	3,740	**1,861**	1,070

26. RECEIPTS IN ADVANCE

	2012	2011
	HK$'000	*HK$'000*
Trade deposits received	**4,348**	6,251

27. CONVERTIBLE LOAN NOTES

On 25 September 2008, the Company issued convertible loan note with a principal amount of HK$35 million to Goldig Investment Group Limited with a term of three years and zero coupon rate (the "Convertible Note"). The Convertible Note is convertible into shares of the Company at the initial conversion price of HK$0.125 at any time after the date of issue and before the maturity date. The effective interest rate of the liability component of the Convertible Note is 13.25%.

On 3 February 2009, the Company early redeemed principal amount of HK$28 million of the Convertible Note.

Pursuant to the Company's circular dated 12 August 2009, the Company and the bondholders of the Convertible Note entered into the deed of amendments to modify the terms and conditions of the remaining HK$7 million of the Convertible Note. The maturity date shall be the fifth anniversary of the date of issue instead of the third anniversary of the date of issue, and the mandatory conversion of any outstanding amount of the Convertible Note into new conversion shares at HK$0.239.

On 23 December 2010, the principal amount of HK$0.8 million of the Convertible Note was converted into ordinary shares of the Company.

Upon the acceptance of the cash offers on 2 March 2012, Convertible Note with principle amount of HK$6,200,000 was transferred to New Asia Media Development Limited, a major shareholder of the Company, and the terms of Convertible Note remain unchanged.

27. CONVERTIBLE LOAN NOTES *(continued)*

The movement of the liability component of the Convertible Note for the years is follows:

	2012	2011
	HK$'000	*HK$'000*
Liability component at 1 January	**4,951**	4,348
Effective interest expenses	**686**	603
Liability component at 31 December	**5,637**	4,951
Current liabilities	**5,637**	—
Non-current liabilities	**—**	4,951
	5,637	4,951

28. SHARE CAPITAL

	2012	2011
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.01 each	**30,000**	30,000
Issued and fully paid:		
505,649,726 ordinary shares of HK$0.01 each	**5,056**	5,056

29. SHARE OPTION SCHEME

The Company adopted a Share Option Scheme (the "Scheme") on 6 March 2002. Under the terms of the Scheme, the board of directors of the Company (the "Board") may, at their discretion, grant options to selected persons to subscribe for shares in the Company as incentives or rewards for their contribution to the Group. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 30% of the issued share capital of the Company.

The subscription price will be determined by the Board and will not less than the highest of (i) the nominal value of the shares on the date of the offer, (ii) the closing price of the shares on the date of grant of the options, and (iii) the average of the closing prices of the shares on the five business days immediately preceding the date of offer of the options. The total number of shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. The Scheme is valid and effective for a period of ten years from the listing of the Company's shares on the GEM on 26 March 2002. Any options granted under the Scheme may be exercised at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. Upon acceptance of the option, the grantee must pay HK$1.00 to the Company by way of consideration for the grant.

29. SHARE OPTION SCHEME *(continued)*

On 3 January 2011, the Company granted share options to certain of its directors, employees and consultants for an aggregate of 38,740,000 shares under the Scheme at an exercise price of HK0.335 per share.

On 13 July 2011, Splendid Grow Limited (the "Offeror"), a wholly-owned subsidiary of Century City International Holdings Limited ("Century City") intended to make general offers to acquire all the shares of the Company not already owned or agreed to be acquired by the Offeror, Century City and parties acting in concert with any of them at the offer. The Offeror has received valid acceptance of share offer at the closing date on 21 September 2011. The outstanding share option shall lapse automatically subject to the Scheme as general offer is made to all the holders and has been approved.

On 5 March 2012, the Scheme was expired and no new Scheme has been adopted until 31 December 2012. The Company is considering the adoption of a new Scheme when appropriate.

During the year, the Company's share options granted under the Scheme are as follows:

Date of grant	Person	Exercise price	Exercise period	Outstanding at 1 January 2011	Granted during the year	Lapsed during the year	Outstanding at 31 December 2011, 1 January 2012 and 31 December 2012
18 May 2010	Consultants	0.202	18 May 2010 to 17 May 2011	2,100,000	—	(2,100,000)	—
2 June 2010	Directors	0.325	2 June 2010 to 1 June 2011	3,350,000	—	(3,350,000)	—
	Consultants	0.325	2 June 2010 to 1 June 2011	8,800,000	—	(8,800,000)	—
3 December 2010	Consultants	0.347	3 December 2010 to 2 December 2011	2,040,000	—	(2,040,000)	—
3 January 2011	Directors	0.335	3 January 2011 to 2 January 2012	—	2,940,000	(2,940,000)	—
	Employees	0.335	3 January 2011 to 2 January 2012	—	2,940,000	(2,940,000)	—
	Consultants	0.335	3 January 2011 to 2 January 2012	—	32,860,000	(32,860,000)	—
	Total			16,290,000	38,740,000	(55,030,000)	—
	Exercisable at the end of the year						—
	Weighted average exercise price			HK$0.31	HK$0.34	HK$0.33	N/A

30. EMPLOYEE AWARD PLAN

The Company's employee award plan (the "Plan") was adopted by the Board on 24 July 2007 for the primary purpose of recruiting and motivating employees and directors to achieve superior performance. The Plan is valid and effective for 10 years commencing on 24 July 2007. Under the Plan, the remuneration committee of the Company may conditionally grant an award to any directors or employee of the Company and its subsidiaries. Upon vesting of the award, the grantee shall be entitled to a cash payment under the award if the award price exceeds the vesting price, subject to an overall limit as stated in the award letter.

The amount of award payment shall be determined in accordance with the following formula:

(Vesting Price – Award price) x Award Number

Vesting price means the average closing price of the Company's shares as stated in the daily quotation sheets issued by the stock exchange for five business days immediately preceding the vesting date.

No grantee was entitled to any payment under the award during the year ended 31 December 2012 (2011: Nil).

31. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity on page 33 to the consolidated financial statements.

The Company

	Share premium	Contributed surplus	Convertible loan notes reserve	Share-based payments reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note i)	*(Note ii)*	*(Note iii)*		
At 1 January 2011	47,383	28,294	2,381	1,367	47,510	126,935
Net loss for the year	—	—	—	—	(8,239)	(8,239)
Other comprehensive loss for the year	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(8,239)	(8,239)
Recognition of equity-settled share-based payments	—	—	—	2,409	—	2,409
Lapsed of share options	—	—	—	(3,776)	3,776	—
At 31 December 2011 and 1 January 2012	47,383	28,294	2,381	—	43,047	121,105
Net loss for the year	—	—	—	—	(12,789)	(12,789)
Other comprehensive loss for the year	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(12,789)	(12,789)
At 31 December 2012	**47,383**	**28,294**	**2,381**	**—**	**30,258**	**108,316**

31. RESERVES *(continued)*

The Company *(continued)*

Notes:

(i) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if it is, or would after the payment be unable to pay its liabilities as they become due or the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(ii) The convertible loan notes reserve represents the value of the unexercised equity component of convertible loan notes issued by the Company.

(iii) The share-based payments reserve of the Company and the Group arises on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in note 4.

32. JOINTLY CONTROLLED ENTITIES

At 31 December 2012 and 2011, the Group had interests in the following jointly controlled entities:

Name of entity	Form of entity	Place/ country of incorporation registration	Principal place of operation	Class of shares	Proportion of nominal value of issued capital held by the Group		Proportion voting power		Principal activies
					2012	2011	**2012**	2011	
China Star Film Group Limited	Incorporated	BVI	Hong Kong	Ordinary	**50%**	50%	**50%**	50%	Investment holding
China Star Film Production Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	**50%**	50%	**50%**	50%	Film production

The summarised financial information in respect of the Group's interests in jointly controlled entities which are accounted for using the proportionate consolidation with the line-by-line reporting is set out below:

	2012	2011
	HK$'000	*HK$'000*
Current assets	**28,238**	28,249
Non-current assets	**413**	413
Current liabilities	**(12)**	(6)
Income recognised in profit or loss	**—**	58
Expenses recognised in profit or loss	**(17)**	(1,403)

33. DISPOSAL OF A SUBSIDIARY

On 29 June 2012, the Group disposed Infrared, its wholly-owned subsidiary, at a consideration of HK$1. A loss on disposal of Infrared of approximately HK$2,960,000 arose from this disposal was recognised in the consolidated income statement. Summary of the effect of the disposal of the subsidiary is as follows:

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	104
Trade receivables	267
Deposits, prepayments and other receivables	76
Cash and cash equivalents	22
Accruals and other payables	(789)
Net liabilities of Infrared	(320)

Loss on disposal of a subsidiary:

	HK$'000
Consideration	—
Net liabilities disposed of	(320)
Goodwill	3,280
Loss on disposal of Infrared	2,960

The loss on disposal of Infrared is included in the loss for the year from discontinued operation in the consolidated financial statement (note 13).

	HK$'000
Net cash outflow in respect of the disposal of a subsidiary	
Cash consideration	—
Cash and cash equivalents disposed of	(22)
	(22)

The impact of Infrared on the Group's result and cash flows in the current and prior year is disclosed in note 13.

34. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group and the Company had the following material transactions with related parties during the year:

(a) Related entities

	Notes	2012 HK$'000	2011 HK$'000
Sub-contractor fee paid to related company	(i)	—	132
Service income received from related company	(ii)	—	245
Sundry income received from related company	(ii)	120	77
Rental expenses paid to the related company	(iii)	3,444	—
Interest expenses of Convertible Note payable to the related company	(iv)	686	—

Notes:

(i) Sub-contractor service was provided by the related company in which certain director of the Company's subsidiary has beneficial interests.

(ii) Service income and sundry income charged to the related company in which certain director of the Company's subsidiary has beneficial interests, and the related company in which is family member of a director of the Company's subsidiary have beneficial interest respectively.

(iii) Rental expenses paid to the related company, in which is subsidiary of an entity and the Group is an associate of that entity. The transaction is a continuing connected transaction as defined under Chapter 20 of the GEM Listing Rules, details of which please refer to the announcement dated 30 April 2012.

(iv) Interest expense of Convertible Note charged by the related company, in which the related company is a subsidiary of an entity and the Group is an associate of that entity.

(b) Compensation of key management personnel

	2012 HK$'000	2011 HK$'000
Basic salaries, allowances and other benefit in kind	4,459	2,985
Share option benefit	—	195
Retirement benefits scheme contribution	41	27
	4,500	3,207

The remuneration of directors and key management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends.

The remuneration paid and payable to the key management personnel of the Group who are also directors of the Company for the year is set out in note 16.

(c) On 30 March 2006, Mr. Yuen Po Cheung and Mr. Ko Wing Hong, directors of Infrared, provided joint and several guarantee of HK$200,000 to bank to secure banking facilities of HK$200,000 grant to Infrared, a subsidiary of the Company, for which HK$2,000 arrangement fee is made. Upon renewal of the banking facility on 6 June 2007, Mr. Ko Wing Hong provided additional personal guarantee of HK$60,000, and, At 31 December 2011 and the date of disposal of Infrared by the Group, there were in total amount of HK$260,000 guarantee to secure the banking facilities.

35. COMMITMENT

Operating lease commitment

The Group as lessee

The Group leases office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from 1 to 2 years (2011: 1 to 2 years).

At the end of the reporting period, the Group had future minimum lease payments under non-cancelable operating leases falling due is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	4,562	286
In the second to fifth years, inclusive	1,187	262
	5,749	548

36. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the end of reporting period (2011: Nil).

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group		The Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables (including cash and cash equivalent)	91,759	107,297	118,634	131,761
Financial liabilities				
Financial liabilities at amortised cost	8,534	8,702	7,498	6,021

37. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies

The Group's principal financial liabilities comprise trade payables, accruals other payables and convertible loan notes. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as deposits and other receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of the risks which are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily from its bank balances with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

At the end of the reporting period, the Group has no significant expense to interest rate risk. The exposures to the interest rate risk are monitored on an ongoing basis.

Foreign currency risk

The Group's functional and reporting currency is the HKD.

The major operating companies of the Group have certain transactions in RMB and the artist management services provided by these companies to these customers in the PRC represent a significant portion of their turnover. The operating currency of these PRC customers is mainly RMB. RMB is not freely convertible into foreign currencies.

The Group's other assets, liabilities and transactions are mainly denominated in HKD. It is assumed that the pegged rate between HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

The following table details the Group's exposure at the date of reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Liabilities		Assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**3,407**	5,948	**26**	1,102

37. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Foreign currency risk *(continued)*

Sensitivity analysis

The following table details the group entities' sensitivity to a 5% increase and decrease in functional currency of the relevant group entities against the relevant foreign currencies. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the report date for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss or an increase in profit where functional currency of the relevant group entities weaken 5% against the relevant foreign currency. For a 5% strengthen of functional currency of the relevant group entities against the relevant foreign currency, there would be an equal and opposite impact on the loss or profit, and the balance below would be negative.

	Loss before tax for the year	
	2012	2011
	HK$'000	*HK$'000*
RMB	**(242)**	(169)

The Group currently does not enter into any derivative contract to minimise the foreign currency risk exposure.

37. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of convertible loan notes.

	Weighted average effective interest rate HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total contractual undiscounted cash flow HK$'000	Total carrying amount HK$'000
The Group							
At 31 December 2012							
Non-derivative financial liabilities							
Trade payables	**—**	**71**	**—**	**—**	**—**	**71**	**71**
Accruals and other payables	**—**	**2,826**	**—**	**—**	**—**	**2,826**	**2,826**
Convertible loan notes	**13.86%**	**6,200**	**—**	**—**	**—**	**6,200**	**5,637**
		9,097	**—**	**—**	**—**	**9,097**	**8,534**
At 31 December 2011							
Non-derivative financial liabilities							
Trade payables	—	11	—	—	—	11	11
Accruals and other payables	—	3,740	—	—	—	3,740	3,740
Convertible loan notes	13.86%	—	6,211	—	—	6,211	4,951
		3,751	6,211	—	—	9,962	8,702
The Company							
At 31 December 2012							
Non-derivative financial liabilities							
Accruals and other payables	**—**	**1,861**	**—**	**—**	**—**	**1,861**	**1,861**
Convertible loan notes	**13.86%**	**6,200**	**—**	**—**	**—**	**6,200**	**5,637**
		8,061	**—**	**—**	**—**	**8,061**	**7,498**
At 31 December 2011							
Non-derivative financial liabilities							
Accruals	—	1,070	—	—	—	1,070	1,070
Convertible loan notes	13.86%	—	6,211	—	—	6,211	4,951
		1,070	6,211	—	—	7,281	6,021

37. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Credit risk

The Group's credit risk is primarily attributable to trade receivables, deposits and other receivables and cash and cash equivalents. At 31 December 2012, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables and deposits consists of a large number of customers, spread across diverse geographical areas. 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 Group deposited its cash and cash equivalents with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to cash and cash equivalents held to be delayed or limited. Management of the Company monitors the credit rating of these banks on an ongoing basis, and considers that the Group's exposure to credit risk at 31 December 2012 and 2011 were minimal.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and deposits are disclosed in note 21 and note 22 to the consolidated financial statements respectively.

Fair value estimation

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

(i) the fair value of financial assets and financial liabilities, with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices.

(ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model.

Except for the liability component of convertible loan notes which recorded amortised cost as below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements were approximate to their respective fair values:

	31 December 2012		31 December 2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Convertible loan notes	**5,637**	**5,716**	4,951	5,033

37. FINANCIAL INSTRUMENTS *(continued)*

Fair value estimation *(continued)*

Note:

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

Fair value measurements recognised in the consolidated statement of financial position

The fair value of financial assets and financial liabilities with standard terms and conditions and trade in active liquid are determined with reference to quoted market bid prices and ask prices respectively.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) inactive market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, wither directly (i.e. prices) or indirectly (i.e. derived from prices); and

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).

At 31 December 2012 and 2011, the Group's financial instruments presented on the consolidated statement of financial position are not measured at fair value. There were no transfers between Level 1 and Level 2 in both years.

38. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 2011.

The capital structure of the Group consists of net debt, which includes convertible loan notes, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

38. CAPITAL MANAGEMENT *(continued)*

The gearing ratio at the end of the reporting period was as follows:

	2012	2011
	HK$'000	*HK$'000*
Debt *(Note (i))*	5,637	4,951
Cash and cash equivalents	(80,968)	(97,558)
Net debt	(75,331)	(92,607)
Equity *(Note (ii))*	82,756	97,856
Gearing ratio	NA	NA

Notes:

(i) Debt comprises convertible loan notes as detailed in note 27 to consolidated financial statement.

(ii) Equity includes all capital and reserves attributable to owners of the Company.

39. PARTICULARS OF INTERESTS IN SUBSIDIARIES

Name	Place of incorporation	Issued and fully paid up capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Dance Star Group Limited	BVI	US$1	100%	—	Investment holding
Super Tronic International Model Holdings Limited	Hong Kong	HK$10,000	100%	—	Artists management
Wider Creation Limited	Hong Kong	HK$10,000	—	100%	Film production
Creative Formula Limited	Hong Kong	HK$10,000,000	—	100%	Film production
China Star Management Limited	Hong Kong	HK$290,000	—	100%	Artists management
Anglo Market International Limited	BVI	US$1	—	100%	Artists management

The above table lists the subsidiaries of the Group at 31 December 2012 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.

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group did not have major non-cash transactions.

41. EVENTS AFTER REPORTING PERIOD

No significant events took place subsequent to 31 December 2012.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 18 March 2013.

SUMMARY OF FINANCIAL INFORMATION

A Summary of the published results and the assets and liabilities of the Group for the last five financial years are set out below. This summary does not form part of the audited financial statements.

RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)		(Restated)
Turnover	**26,547**	44,330	21,371	7,198	74,122
Loss before tax	**(12,008)**	(8,836)	(136,970)	(27,724)	(75,306)
Income tax expense	**—**	—	—	553	—
Loss for the year from continuing operations	**(12,008)**	(8,836)	(136,970)	(27,171)	(75,306)
(Loss)/profit for the year from discontinued operations	**(3,092)**	(11,415)	84,517	53,270	—
(Loss)/profit for the year	**(15,100)**	(20,251)	(52,453)	26,099	(75,306)
(Loss)/profit attributable to owners of the Company	**(15,100)**	(20,251)	(52,453)	26,099	(75,306)

ASSETS AND LIABILITIES

	At 31 December				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Restated)
Total assets	**95,638**	112,809	138,064	594,228	27,212
Total liabilities	**(12,882)**	(14,953)	(22,366)	(418,848)	(71,862)
	82,756	97,856	115,698	175,380	(44,650)