China Star Cultural Media Group Limited

(formerly known as China Media and Films Holdings Limited)

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

(Stock Code: 8172)

ANNUAL REPORT 2014

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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.

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This report, for which the directors (the "Directors") of China Star Cultural Media Group Limited (formerly known as China Media and Films 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

Mr. Leung Wai Man
Ms. Li Yee Mei
Ms. Wu Li

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yip Tai Him
Mr. Law Yiu Sang, Jacky
Mr. Fung Wai Ching
Mr. Ng Wai Hung
Mr. Lam Cheung Shing Richard

COMPANY SECRETARY

Mr. Leung Wai Man

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

REMUNERATION COMMITTEE

Mr. Yip Tai Him *(Committee Chairman)*
Mr. Law Yiu Sang, Jacky
Mr. Fung Wai Ching

NOMINATION COMMITTEE

Mr. Yip Tai Him *(Committee Chairman)*
Mr. Law Yiu Sang, Jacky
Mr. Fung Wai Ching

AUDIT COMMITTEE

Mr. Yip Tai Him *(Committee Chairman)*
Mr. Law Yiu Sang, Jacky
Mr. Fung Wai Ching

PRINCIPAL BANKER

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SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISORS

As to Hong Kong Law
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CORPORATE WEBSITE

http://www.chinastarcmg.com.hk

GEM STOCK CODE

8172

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF COMPANY NAME

On 9 April 2014, the Company proposed to change the English name of the Company from "China Media and Films Holdings Limited" to "China Star Cultural Media Group Limited" and the Chinese name of the Company "中國星文化產業集團有限公司" will be adopted to replace "中國傳媒影視控股有限公司" for identification purpose only. Please refer to the Company's announcement dated 9 April 2014 and circular dated 8 May 2014 for more details. On 29 July 2014, the Certificate of Registration of Alteration of Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong confirming the registration of the new name "China Star Cultural Media Group Limited 中國星文化產業集團有限公司*" of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

BUSINESS REVIEW

Artist Management

During the year under review, the revenue contributed by such segment was approximately HK$5,939,000 (2013: HK$15,667,000), representing a decrease of approximately 62.1% due to the tough business competition as compared with the year ended 31 December 2014.

The gross profit margin decreased to approximately 25.5% (2013: 30.3%). 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 to claim against Tang's Workshop Limited ("Tang's Workshop") for the sum of HK$127,500, being the fees charged for the services rendered and material supplied to Tang's Workshop. At the date of this report, the litigation has yet to be settled.

Share of Results of Joint Ventures

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition of profits or losses and movements in other comprehensive income. China Star Film Group Limited ("China Star Film Group"), a joint venture, is principally engaged in film production and distribution. During the year under review, China Star Film Group did not have any additional film rights and the share of its losses approximately HK$638,000 was recorded (2013: 322,000).

China Star Film Group has two films in the preproduction phase. Due to the scheduling of the film casts and revision to the scripts, shooting of these two films has been delayed, and its completion date and the release date of the said films have not been determined.

On 31 July 2014, the issued share capital of China Star Film Group has been reduced through a cancellation of the paid-up capital of the China Star Film Group to the extent of HK$922,500 on each of the issued share such that the value of each issued share of China Star Film Group has been reduced from HK$1,000,000 to HK$77,500 ("Share Capital Reduction"). The credit arising from the Share Capital Reduction amounting to HK$27,675,000 was distributed to the Company.

* *For identification only*

MANAGEMENT DISCUSSION AND ANALYSIS

In early August 2012, Eternity Investment Limited ("Eternity") (stock code: 764), a company listed on the Main Board of the Stock Exchange, became a substantial shareholder of the Company by acquiring an approximately 29.00% shareholding interest in the Company. Given that Eternity has engaged in film distribution business in the People's Republic of China ("PRC") since 2001, the acquisition of 29.00% equity interest in the Company by Eternity presents a good opportunity for the Group to form a strategic alliance with Eternity by leveraging its expertise, network and connections in the film distribution industry in the PRC. After the completion of placing on 15 April 2014 and 17 June 2014, the shareholding interest of Eternity in the Company decreased from 29.00% to 16.19%. After the conversion of convertible loan notes on 16 October 2014, the shareholding interest of Eternity in the Company further decreased from 16.19% to 15.94%. On 19 December 2014, Eternity disposed of 75,800,000 shares of the Company, the shareholding interest of Eternity in the Company further decreased from 15.94% to 7.70%.

During the year under review, the Group has disposed of the entire issued share capital of nine subsidiaries to an independent third party at a cash consideration of HK$24.4. On 17 April 2014, the Group has completed the acquisition of China Star Movie Limited. On 23 May 2014, the Group has acquired the entire issued shares in China Star International Movie Limited. With Mr. Heung Wah Keung ("Mr. Heung") resignation as an executive Director of the Company with effect from 7 October 2014 and cessation of his involvement in the film production business of the Company, the Directors of the Company consider that the interests of the Company would be better served by re-allocating and focusing its management and other resources to its other business segments. On the same day, the Group has disposed of the entire issued share capital of China Star Movie Limited at a cash consideration of HK$8,673,258.

Going through the above restructuration and reorganisation of the Group can enable the Company to further develop its business by focusing its management and company's resources on different business segments.

FINANCIAL REVIEW

The revenue of the Group was approximately HK$5,949,000 for the year ended 31 December 2014 (2013: HK$15,698,000), and it was generated from the provision of artist management and film distribution, representing a decrease of 62.1% as compared with the year ended 31 December 2013.

Administrative expenses were mainly the staff costs, operating leases and other general administrative expenses of the Group incurred during the year under review. Administrative expenses decreased by 39.0% to approximately HK$11,682,000 from approximately HK$19,139,000 in prior year. It was mainly attributed from decrease in expenses on operating leases amounted to approximately HK$1,122,000 (2013: HK$4,549,000) and salaries and allowances amounted to approximately HK$3,765,000 (2013: HK$7,247,000).

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 ("Culture Landmark"), 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. The Agreement was expired on 31 March 2014.

No finance costs were incurred during the year under review (2013: HK$563,000).

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, loss for the year attributable to owners of the Company was approximately HK$2,601,000 (2013: HK$12,828,000), which was mainly attributed from the administrative expenses amounted to approximately HK$11,682,000 (2013: HK$19,139,000) and the share of losses of joint ventures amounted to HK$638,000 (2013: HK$322,000). However, a gain arising on change in fair value of financial assets classified as held for trading investments of HK$2,253,000 and an one-off gain on disposal of subsidiaries amounted to approximately HK$5,261,000 should have mitigated the loss for the year attributable to owners of the Company.

Liquidity and Financial Resources

At 31 December 2014, the Group had total assets of approximately HK$179,021,000 (2013: HK$82,902,000), including cash and cash equivalents of approximately HK$158,800,000 (2013: HK$48,780,000). During the year under review, the Group financed its operation with internally generated cash flows, two conditional placings and proceeds from reduction of investment in joint ventures.

Capital Structure

During the year under review, the Company issued 100,000,000 new shares on 15 April 2014 and 300,000,000 new shares on 17 June 2014. The details are as follow.

On 3 April 2014, the Company entered into a conditional placing agreement with Kingston Securities Limited, pursuant to which the Company has conditionally agreed to place, through Kingston Securities Limited, on a best effort basis, up to 100,000,000 new shares to six independent investors at a price of HK$0.23 per new share. The new shares were allotted and issued under the general mandate granted to the Directors by shareholders at the annual general meeting of the Company held on 16 May 2013. Please refer to the Company's announcement dated 3 April 2014 for more details. The placing of 100,000,000 new shares was completed on 15 April 2014. The net proceeds of approximately HK$22,100,000 was applied (i) HK$4,340,000 was utilised for the acquisition of China Star Movie Limited as announced by the Company on 14 April 2014; (ii) approximately HK$3,500,000 was used as general corporate purposes; and (iii) the remaining proceeds are currently placed as interest bearing deposits with licensed bank in Hong Kong as at 31 December 2014.

On 24 April 2014, the Company entered into a conditional placing agreement with Kingston Securities Limited, pursuant to which the Company has conditionally agreed to place, through Kingston Securities Limited, on a best effort basis, up to 300,000,000 new shares to six independent investors at a price of HK$0.28 per new share. The new shares were allotted and issued under the specific mandate granted to Directors by shareholders at the special general meeting held on 10 June 2014. Please refer to the Company's announcement dated 24 April 2014 and Company's circular dated 20 May 2014 for more details. The placing of 300,000,000 new shares was completed on 17 June 2014. The net proceeds of approximately HK$81,000,000 intend for used in the film production and/or general working capital purpose. As at 31 December 2014, the net proceeds are placed as interest bearing deposits with licensed bank in Hong Kong.

Pursuant to the instrument constituting the convertible loan notes (the "Convertible Loan Notes") issued by the Company on 25 September 2008, the conversion price of the Convertible Loan Notes shall be adjusted from HK$0.487 per share to HK$0.436 per share after the completion of the issue of 100,000,000 and 300,000,000 new shares of the Company. The auditors of the Company have reviewed the adjustment with respect to the conversion price of the Convertible Loan Notes and agreed that the adjustment is in accordance with the instrument constituting the Convertible Loan Notes. On 16 October 2014, the principal amount of HK$6,200,000 of Convertible Loan Notes was converted into 14,220,183 ordinary shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

The gearing ratio, expressed as percentage of total liabilities over total assets, was approximately 2.4% (2013: 10.5%). The improvement in gearing ratio was mainly derived from the decrease of current liabilities in accruals and other payables from approximately HK$5,292,000 to HK$1,357,000 as compared with that in prior year. At the same time, the increase of held for trading investments of HK$17,115,000 and cash and cash equivalents from HK$48,780,000 to HK$158,800,000 also provide the positive improvement on the company's gearing ratio.

Charge on the Group's Assets

At 31 December 2014, 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 2014, the Group had no commitments (2013: nil).

Contingent Liabilities

At 31 December 2014, the Group had no contingent liabilities (2013: nil).

Employees

At 31 December 2014, the Group had 8 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performances, 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 2014.

Material Acquisition and Disposal of Subsidiaries and Affiliated Companies

On 14 April 2014, Dance Star Group Limited ("Dance Star"), a wholly owned subsidiary of the Company, and China Star Entertainment Holding Limited ("CSEHL"), a indirect wholly owned subsidiary of China Star Entertainment Limited ("China Star", stock code 326), entered into a sale and purchase agreement, pursuant to which Dance Star has conditionally agreed to acquire and CSEHL has conditionally agreed to sell the total issued and paid up capital of and the shareholder's loan due by China Star Movie Limited for an aggregate consideration of HK$4,340,000 in cash. The acquisition was constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. The acquisition was completed on 17 April 2014. Please refer to the Company's announcement dated 14 April 2014 for more details.

On 7 October 2014, Dance Star and CSEHL entered into a sale and purchase agreement, pursuant to which CSEHL has conditionally agreed to acquire and Dance Star has conditionally agreed to sell the total issued and paid up capital of and the shareholder's loan due by China Star Movie Limited for an aggregate consideration of HK$8,673,258 in cash. The disposal was constitute a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. The disposal was completed on 9 October 2014. Please refer to the Company's announcement dated 7 October 2014 for more details.

During the year under review, the Group also disposed of the entire issued share capital of nine subsidiaries to an independent third party at a cash consideration of HK$24.4.

Save as disclosed therein, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies during the year ended 31 December 2014.

FUTURE PLANS

On 24 November 2014, (i) the Company, and (ii) Jiaxuan Group Company Limited（稼軒集團有限公司）("Jiaxuan"), Vision Path Limited, First Charm Investments Limited and Reorient Global Limited (collectively, the "Subscribers") entered into the subscription agreement ("Subscription Agreement") pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 2,759,609,727 subscription shares, comprising 1,379,804,865 new ordinary shares and 1,379,804,862 new preferred shares at an issue price of HK$0.20 per subscription share (the "Subscription"). On 16 February 2015, the Company and the Subscribers entered into a supplemental agreement to the Subscription Agreement to vary certain terms of the Subscription relating to the Subscribers' director nomination rights. Further details are set out in the Company's announcement dated 18 December 2014 and 16 February 2015.

Jiaxuan is an investment holding company ultimately owned as to 55% by Mr. Wong Kwong Yu and as to 45% by Ms. Ma Qing. Mr. Wong Kwong Yu is the founder of GOME Electrical Appliances Holding Limited which is a leading chain-store retailer of home appliances and consumer electronic products in the PRC. Ms. Ma Qing is the spouse of Mr. Xu Zhongmin ("Mr. Xu"). Mr. Xu is a director of Jiaxuan and was the founder of Jingwen Records Co., Ltd.（京文唱片）("Jingwen"). Jingwen was a music producer and distributor in the PRC fostering a number of famous artists including Han Hong（韓紅）, Cui Jian（崔健）and Wang Feng（汪峰）. It published and distributed albums of Mao Yamin（毛阿敏）, Li Yundi（李雲迪）, Lang Lang（朗朗）and other famous artists in the PRC. While Jingwen was developing the local original music, it introduced music albums and video contents from international producers and distributors including Warner Bros. Records, EMI, Universal Music, Universal Picture, Discovery Channel and National Geographic Channel. It extended its business to publication of books and investment in multi-media educational materials. Mr. Xu is actively involved in the investment in TV programmes and artist management business and has been involved in producing concerts in the PRC and performance shows in Las Vegas, the United States of America. In view of Mr. Xu's experience in the entertainment industry in the PRC, it is envisaged that he will take part in the management of the Group's future business development in the PRC. The Subscribers group (comprising Jiaxuan and other financial investors), in particular Jiaxuan, believes that the investment in the Group will allow them to form a strategic relationship in the entertainment business through a listed platform with potentials of ongoing fund raising in future.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group intends to strengthen the existing film production business to more actively produce films and TV programmes. To achieve this purpose, the Group would consider opportunities for (i) acquiring film rights of popular Korean programmes and reproducing such programmes for audience in the PRC; and (ii) co-operating with well-known international producers to make movies. In parallel with developing the Group's existing business, The Group would organise exhibitions, performance shows and concerts in major cities in the PRC and establish an online platform, including acquiring and producing media contents such as videos, and live performances and concerts to be provided on such platform. It is also the intention that the Group would cooperate with an independent technology company, such as by way of establishing joint ventures and/or making equity investment in the technology company, to provide on-line news search and video-on-demand services to Internet users. Definitive terms of the cooperation have not been reached yet and such cooperation may or may not proceed. The Group will also invest in Korea-related media contents, film scripts and production.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2014 and up to the date of this report, the Group had the following material events:

On 24 November 2014, the Company, and Subscribers entered into the Subscription Agreement (as amended by the supplemental agreement dated 16 February 2015) pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 2,759,609,727 subscription shares, comprising 1,379,804,865 new ordinary shares and 1,379,804,862 new preferred shares at an issue price of HK$0.20 per subscription share. The aggregate subscription price amounts to approximately HK$551,922,000.

In addition, on 24 November 2014 the Company has an authorised share capital of HK$30,000,000 divided into 3,000,000,000 ordinary shares of HK$0.01 each. In view of the Subscription, the Board proposes to increase the authorised share capital of the Company from HK$30,000,000 to HK$100,000,000 by (i) the creation of an additional 5,000,000,000 ordinary shares and (ii) the creation of 2,000,000,000 new preferred shares, such that the authorised share capital of the Company will be HK$100,000,000 divided into 8,000,000,000 ordinary shares and 2,000,000,000 preferred shares.

The Subscription and the increase in authorised share capital were approved by the shareholders at the special general meeting held on 16 March 2015. The Subscription was completed on 19 March 2015. Details please refer to the Company's announcement dated 18 December 2014, 16 February 2015, 27 February 2015, 16 March 2015 and 19 March 2015 and Company's circular dated 18 February 2015.

After the completion of Subscription, the shareholding interest of Eternity in the Company further decreased from 7.70% to 3.08% and is not a substantial shareholder of the Company.

EXECUTIVE DIRECTORS

Mr. Leung Wai Man, aged 45, was appointed as an executive director, company secretary and chief financial officer of the Company on 25 May 2012. He has over 15 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. Mr. Leung is currently an executive director of Well Way Group Limited (stock code: 8063) from 17 October 2014.

Ms. Li Yee Mei, aged 51, is the Talent and PR Controller and a director of China Star Management Limited, being a wholly owned subsidiary of the Company and Ms. Li is also a director of Anglo Market International Limited, being a wholly owned subsidiary of the Company. Ms. Li has over 30 years of experience in the entertainment business and culture industry.

Ms. Wu Li, aged 36, graduated from the University of Electronic Science and Technology of China ((中國)電子科技大學)) with a Bachelor degree in English for Science and Technology and has completed the Post Graduate Courses in Integrated Marketing Communications (IMC) in the Institute for China Business of The University of Hong Kong School of Professional and Continuing Education. Ms. Wu has over 14 years of experience in cultural and media sector and has extensive marketing experience. She was a senior officer in Jingwen Records Co., Ltd. responsible for the production, promotion and copyrights management of audio and video products from 2000 to 2006. She joined Beijing Hwellso Pharmaceutical Co., Ltd.(北京華素製藥股份有限公司)in 2006 and was the Brand Director and an assistant to the chairman of the company when she left the company in 2013.

NON-EXECUTIVE DIRECTORS

Mr. Zou Xiao Chun, aged 45, graduated from the Department of Law of Nanchang University (formerly known as Jiangxi University)(南昌大學(原江西大學)法律專業專科) in June 1990 and was granted the Chinese Lawyers Qualification Certificate(中國律師資格證書)in July 1991. Mr. Zou was also granted the Chinese Tax Advisers Qualification Certificate(中國稅務師資格證書) in September 1995 and the Pass Certificate for the National Notary Public Qualification Examination (國家公證員資格考試合格證書) in December 1995. Furthermore, Mr. Zou was qualified as an industrial economist(工業經濟師)in October 1996. Mr. Zou has been a practising lawyer for 20 years and has practised in legal areas relating to capital markets in the PRC for 10 years. In June 2006, Mr. Zou founded Beijing John & Law Firm(北京市中逸律師事務所) and he still serves as a founding partner of this firm. Between 2001 and 2011, Mr. Zou has been acting as the retainer legal adviser for Beijing Eagle Investment Co. Ltd(北京鵬潤投資有限公司)and Beijing Gome Electrical Appliance Co., Ltd(北京國美電器有限公司), both of which are owned or controlled by Mr. Wong Kwong Yu. Between December 2008 and March 2011, Mr. Zou was a director and vice chairman of Beijing Centergate Technologies (Holding) Co., Limited(北京中關村科技發展(控股)股份有限公司)(a company listed on the Shenzhen Stock Exchange) and since May 2012, has been re-appointed as a director of such company. Since 2011, Mr. Zou has been appointed as a member of the Executive Committee of GOME Holding Group Company Limited(國美控股集團有限公司), a company owned or controlled by Mr. Wong Kwong Yu. Between June 2011 and June 2014, Mr. Zou was a director and vice chairman of Sanlian Commercial Co., Limited(三聯商社股份有限公司)(a company listed on the Shanghai Stock Exchange). Since December 2010, Mr. Zou has been an executive director of GOME Electrical Appliances Holdings Ltd. (together with its subsidiaries, the “GOME Group”), a company listed on the main board of the Stock Exchange and controlled by Mr. Wong Kwong Yu. From December 2010 to December 2013, Mr. Zou also served as the Vice President and then the Senior Vice President of the GOME Group.

PROFILES OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yip Tai Him, aged 44, has about 22 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 was an independent non-executive director of Wing Tai Investment Holdings Limited (formed known as Wing Lee Holdings Limited) (stock code: 876) during the period from 28 February 2001 to 20 June 2014, iOne Holdings Limited (stock code: 982) during the period from 8 April 2009 to 21 July 2014 and Larry Jewelry International Company Limited (stock code 8351), an non-executive director from 1 April 2014 to 16 May 2014, during the period from 16 May 2014 to 15 October 2014. Mr. Yip is currently an independent non-executive director of China Communication Telecom Services Company Limited (stock code: 8206), GCL-Poly Energy Holdings Limited (stock code: 3800), Vinco Financial Group Limited (stock code: 8340) and Redco Properties Group Limited (stock code: 1622), 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 50, 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 20 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 45, is presently an owner of a printing company in Hong Kong. He has over 17 years' experience in managing paper, packaging and printing industries in both China and Hong Kong markets. Mr. Fung is currently an independent non executive director of Well Way Group Limited (stock code: 8063) from 23 June 2014 and Mastermind Capital Limited (stock code: 905) from 10 October 2014. Mr. Fung was appointed as an independent non-executive director of the Company on 25 May 2012.

Mr. Ng Wai Hung, aged 51, is a practising solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has been admitted as a Hong Kong solicitor since 1992. Mr. Ng has been an independent non-executive director of Fortune Sun (China) Holdings Limited since June 2006, Tech Pro Technology Development Limited since April 2011, GOME Electrical Appliances Holding Limited since June 2011, Trigiant Group Limited since August 2011, Sustainable Forest Holdings Limited since February 2013 and On Time Logistics Holdings Limited since June 2014, all being companies listed on the Stock Exchange. Mr. Ng was also an independent non-executive director of HyComm Wireless Limited (currently known as Qingdao Holdings International Limited) from January 2008 to September 2014. Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited) from September 2008 to February 2010, KTP Holdings Limited (currently known as Ares Asia Limited) from November 1999 to February 2011, Tomorrow International Holdings Limited (currently known as Talent Property Group Limited) from March 2000 to January 2012 and Perception Digital Holdings Limited from January 2013 to August 2014, all being companies listed on the Stock Exchange.

Mr. Lam Cheung Shing Richard, aged 56, is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam was admitted to the Master Degree of Business Administration in the Chinese University of Hong Kong in 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm and was promoted to be a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Mr. Lam is the deputy chairman and chief executive officer of Everchina Int'l. Holdings Company Limited ("Everchina"), a company listed on the Stock Exchange, since June 2009. Prior to joining Everchina, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Mr. Lam was also an independent non-executive director of Eagle Legend Asia Limited from May 2013 to December 2014, an executive director of Kai Yuan Holdings Limited from December 2001 to July 2008 and redesignated as a non-executive director from July 2008 to November 2008, and an executive director of China Pipe Group Limited from June 2007 to February 2009, all being companies listed on the Stock Exchange.

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 emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous 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 2014, 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 Auditors' Report on pages 29 to 30 of this annual report.

Composition

As at 31 December 2014, the Board comprises five Directors: including two executive Directors, namely, Mr. Leung Wai Man and Ms. Li Yee Mei, 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 Directors are set out in the section of Profiles of Directors on pages 9 to 10.

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 reelection.

Pursuant to Article 86(2) of the Bye-laws, Ms. Li Yee Mei, being a newly appointed executive director of the Company, 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. Leung Wai Man and Mr. Fung Wai Ching 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 Directors 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 2014, 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. During the period between 1 January 2014 and 28 March 2014, Mr. Cheng Yang has taken up the roles of the chairman and has been assuming the roles of chief executive officer of the Company. Following the resignation of Mr. Cheng Yang as executive Director on 28 March 2014, Mr. Heung has taken up the roles of the chairman and has been assuming the roles of chief executive officer of the Company. The Board 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.

Following the resignation of Mr. Heung as executive Director on 7 October 2014, the Company still looks for appropriate person to fill the vacancy as chairman and chief executive officer.

(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 CG Code provision A.6.7, non-executive Directors should attend general meetings. Mr. Law Yiu Sang Jacky, being the independent non-executive Director, was unable to attend the annual general meeting and special general meeting of the Company held on 10 June 2014 due to other business commitment.

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, twelve 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 Meetings Attended/ Eligible to attend	Audit Committee Meetings Attended/ Eligible to attend	Remuneration Committee Meeting Attended/ Eligible to attend	Nomination Committee Meeting Attended/ Eligible to attend	General Meetings
Mr. Cheng Yang	1/12	N/A	N/A	N/A	0/2
Ms. Jiang Di	1/12	N/A	N/A	N/A	0/2
Mr. Leung Wai Man	12/12	N/A	N/A	N/A	2/2
Mr. Heung Wah Keung	8/12	N/A	N/A	N/A	2/2
Ms. Li Yee Mei	2/12	N/A	N/A	N/A	0/2
Mr. Yip Tai Him	7/12	4/4	3/3	3/3	2/2
Mr. Law Yiu Sang, Jacky	6/12	4/4	3/3	3/3	0/2
Mr. Fung Wai Ching	6/12	4/4	3/3	3/3	2/2

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 2014, apart from the annual general meeting held on 10 June 2014 and the special general meeting held on 10 June 2014, the Company did not hold any other general meetings.

TRAINING AND SUPPORT FOR DIRECTORS

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.

Pursuant to Code provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills in relation to their contribution to the Board. All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training or read relevant materials in order to develop and refresh their knowledge and skills. The Company has received from each Director a confirmation of their participation in continuous professional development.

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 2014, 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.

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 three meetings 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 2014, 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.

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 three meetings 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 2014, 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. 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 2014 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 auditors 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.

AUDITORS' REMUNERATION

For the year ended 31 December 2014, the remuneration in respect of audit services provided by the auditors, HLB Hodgson Impey Cheng Limited, amounted to HK$570,000 (2013: HK$570,000). For non-audit services, the fees paid amounted to HK$55,000 (2013: HK$55,000).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2014, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings 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 AUDITORS

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 auditors are 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 2014, the Board has reviewed the Company's policies and practices on corporate governance.

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.

COMPANY SECRETARY

The company secretary is an employee of the Company and is appointed by the Board. The company secretary assists the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The company secretary is also responsible for advising the Board on governance matters. All Directors of the Company may call upon him for advice and assistance at any time in respect to their duties and the effective operation of the Board and board committee. Mr. Leung Wai Man has been the company secretary of the Company since May 2012. The biographical details of Mr. Leung is set out in the section of Profiles of Directors on page 9 of this report. Mr. Leung has undertaken not less than 15 hours of relevant professional training to update his skills and knowledge in 2014.

CORPORATE GOVERNANCE REPORT

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 2014 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 2014 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.

SHAREHOLDERS' RIGHTS

According to the Bye-Laws, any one or more shareholder holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meeting of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be lodged with the Company's principal place of business of Hong Kong.

As regards proposing a person for election as a director, please refer to the procedures as set out in the Bye-Laws on the GEM website and the Company's website at www. chinastarcmg.com.hk.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at Unit 3407, 34/F, Shun Tak Centre West Tower, 168-200 Connaught Road, Central, Hong Kong.

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. chinastarcmg.com.hk) 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 2014, 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 DIRECTORS

The Directors present the report of the directors and the audited consolidated financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Details of the activities of its subsidiaries and interests in joint ventures are set out in notes 36 and 19 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 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 31 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 98 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 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 26 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and the Company during the year are set out on page 35 of this annual report and in note 28 to the consolidated financial statements respectively.

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

During the year ended 31 December 2014, 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 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution to shareholders as at 31 December 2014 amounting to HK$7,221,000 (2012: HK$9,440,000).

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2013: nil).

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 35 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 (resigned on 28 March 2014)
Ms. Jiang Di (resigned on 28 March 2014)
Mr. Heung Wah Keung (appointed on 28 March 2014 and resigned on 7 October 2014)
Mr. Leung Wai Man
Ms. Li Yee Mei (appointed on 7 October 2014)
Ms. Wu Li (appointed on 19 March 2015)

Non-Executive Directors

Mr. Zou Xiao Chun (appointed on 19 March 2015)

Independent Non-Executive Directors

Mr. Yip Tai Him
Mr. Law Yiu Sang, Jacky
Mr. Fung Wai Ching
Mr. Ng Wai Hung (appointed on 19 March 2015)
Mr. Lam Cheung Shing Richard (appointed on 19 March 2015)

Pursuant to Article 86(2) of the Bye-laws, Ms. Li Yee Mei, being a newly appointed executive director of the Company, 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. Leung Wai Man and Mr. Fung Wai Ching will retire at the annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

At 31 December 2014, 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 Securities and Futures Ordinance ("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 SCHEME

On 10 June 2014, the Company adopted a new share option scheme ("New Share Option Scheme") and terminated the share option scheme adopted by the Company on 6 March 2002. The purpose of the New Share Option Scheme is to enable the Company to grant options to the eligible participants ("Participants") in order to recognise and motivate the contribution of the Participants to the Group.

The scope of the Participants was determined to provide flexibility for the Company to encourage and reward a broad range of the Participants to contribute to the development of the Group. The Board is of the view that the Participants (including employees, directors, supplier, consultants, distributors, agents, customers, partners, joint venture partners, promoter, service providers and advisers to the Group) are persons who may contribute to the growth and development of the Group through their services or investments. The Directors are of the view that the New Share Option Scheme will serve to motivate the Participants to continue to optimise their performance and efficiency for better serving the Group in the future, as well as to attract and retain or otherwise maintain ongoing business or investment relationship with the Participants depending on many factors such as their interest in the shares, their business/working relationship with the Group, and their contribution that has or may have been made to the Group etc.

The details of the New Share Option Scheme were set out in the circular of the Company dated 8 May 2014. During the year under review, no share options had been granted, exercised, cancelled or lapsed under the New Share Option Scheme.

EMPLOYEE AWARD PLAN

Particulars of the Company's employee award plan are set out in note 27 to the consolidated financial statements.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes and employee award plan, at no time during the year ended 31 December 2014 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 30 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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

At 31 December 2014, none of the Directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2014, 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	*Notes*	Interest in shares	Interest in underlying shares	Total interest in shares	Approximate percentage of the Company's issued share capital
Jiaxuan	Beneficial owner	*(i)*	965,863,405	965,863,404	1,931,726,809	210.00%
Eagle King Investment Holding Limited	Interest of controlled corporation	*(i)*	965,863,405	965,863,404	1,931,726,809	210.00%
Mr. Wong Kwong Yu	Interest of controlled corporation	*(i)*	965,863,405	965,863,404	1,931,726,809	210.00%
Great Majestic Global Holdings Limited	Interest of controlled corporation	*(i)*	965,863,405	965,863,404	1,931,726,809	210.00%
Ms. Ma Qing	Interest of controlled corporation	*(i)*	965,863,405	965,863,404	1,931,726,809	210.00%
Vision Path Limited	Beneficial owner	*(ii)*	206,970,730	206,970,729	413,941,459	45.00%
Ms. Yu Nan	Interest of controlled corporation	*(ii)*	206,970,730	206,970,729	413,941,459	45.00%
Frist Charm Investments Limited	Beneficial owner	*(iii)*	151,778,535	151,778,535	303,557,070	33.00%
Reorient Global Limited	Beneficial owner	*(iii)*	55,192,195	55,192,194	110,384,389	12.00%
Reorient Group Limited	Interest of controlled corporation	*(iii)*	55,192,195	55,192,194	110,384,389	12.00%
Gainhigh Holdings Limited	Interest of controlled corporation	*(iii)*	55,192,195	55,192,194	110,384,389	12.00%
Insula Holdings Limited	Interest of controlled corporation	*(iii)*	55,192,195	55,192,194	110,384,389	12.00%
Mr. Ko Chun Shun Johnson	Interest of controlled corporation	*(iii)*	206,970,730	206,970,729	413,941,459	45.00%
Riche Advertising Limited	Beneficial owner	*(iv)*	70,840,000	—	70,840,000	7.70%
Riche (BVI) Limited	Interest of controlled corporation	*(iv)*	70,840,000	—	70,840,000	7.70%
Eternity	Interest of controlled corporation	*(iv)*	70,840,000	—	70,840,000	7.70%

Notes:

(i) Pursuant to the Subscription Agreement between the Company, Jiaxuan, Vision Path Limited ("Vision Path"), First Charm Investments Limited ("First Charm") and Reorient Global Limited ("Reorient Global") dated 24 November 2014, which has been completed on 19 March 2015), Jiaxuan has subscribed for 965,863,405 ordinary shares and 965,863,404 convertible preferred shares of the Company. Jiaxuan is owned as to 55% by Eagle King Investment Holding Limited ("Eagle King") and as to 45% by Great Majestic Global Holdings Limited ("Great Majestic"). Mr. Wong Kwong Yu owns 100% of Eagle King and Ms. Ma Qing owns 100% of Great Majestic.

(ii) Pursuant to the Subscription Agreement as mentioned in note (i), Vision Path has subscribed for 206,970,730 ordinary shares and 206,970,729 convertible preferred shares of the Company. Ms. Yu Nan owns 100% of Vision Path.

(iii) Pursuant to the Subscription Agreement as mentioned in note (i), First Charm has subscribed for 151,778,535 ordinary shares and 151,778,535 convertible preferred shares of the Company. Mr. Ko Chun Shun, Johnson owns 100% of First Charm. Pursuant to the Subscription Agreement, Reorient Global has also subscribed for 55,192,195 ordinary shares and 55,192,194 convertible preferred shares of the Company. Reorient Global is a wholly owned subsidiary of Reorient Group Limited. Reorient Group Limited is owned as to 51.35% by Gainhigh Holdings Limited ("Gainhigh"). Gainhigh is a company owned as to 75.77% by Insula Holdings Limited, a company wholly owned by Mr. Ko Chun Shun, Johnson.

(iv) Riche Advertising Limited is a wholly owned subsidiary of Riche (BVI) Limited which is wholly owned by Eternity.

Save as disclosed above, at 31 December 2014, 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.

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	21.20%
— five largest customers combined	59.89%

Purchases

— the largest supplier	33.88%
— five largest suppliers combined	96.96%

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 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 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. The agreement was expired on 31 March 2014.

Connected Transaction

On 14 April 2014, Dance Star and CSEHL entered into the sale and purchase agreement, pursuant to which Dance Star has conditionally agreed to acquire and CSEHL has conditionally agreed to sell the total issued and paid up capital of and the shareholder's loan due by China Star Movie Limited for an aggregate consideration of HK$4,340,000 in cash. Mr. Heung is the chairman and the executive director of both the Company and China Star. He is interested in 4,661,203,680 shares of China Star, representing approximately 41.5% of entire issued share capital of China Star on 14 April 2014. As Mr. Heung is the substantial shareholder of China Star, CSEHL is the connected person of the Company and therefore the transaction constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

As the applicable percentage ratio under the GEM Listing Rules for the transaction is more than 0.1% but less than 5%, the transaction is subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

The Directors consider that the transaction will enable the Group to further develop its film production business. The acquisition was completed on 17 April 2014. Please refer to the Company's announcement dated 14 April 2014 for more details.

On 23 May 2014, the Group acquired the entire issued shares in China Star International Movie Limited at a cash consideration of HK$7.8 from China Star Entertainment (BVI) Limited, a wholly owned subsidiary of China Star. As Mr. Heung is the substantial shareholder of China Star, the China Star Entertainment (BVI) Limited is also the connected person of the Company and therefore the transaction constitutes a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. As the applicable percentage ratio under the GEM Listing Rules for the transaction is less than 0.1%, the transaction is subject to the reporting and exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules. The Directors also consider that the acquisition will enable the Company to further develop its film production business.

On 7 October 2014, Dance Star and CSEHL entered into the sale and purchase agreement, pursuant to which the CSEHL has conditionally agreed to acquire and the Dance Star has conditionally agreed to sell the total issued and paid up capital of and the shareholder's loan due by China Star Movie Limited for an aggregate consideration of HK$8,673,258 in cash ("Transaction").

Mr. Heung is the chairman and an executive director of China Star and is the former chairman, the former executive Director and former authorised representative of the Company. He is interested in 4,661,203,680 shares of China Star, representing approximately 32.3% of the entire issued share capital of China Star as at the date of 7 October 2014. As Mr. Heung is the substantial shareholder of China Star, the CSEHL is a connected person of the Company and therefore the Transaction constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. As the applicable percentage ratio pursuant to Chapter 19 of the GEM Listing Rules in respect of the Transaction exceeds 5% but is less than 25% and the consideration is less than HK$10,000,000, the Transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirement under Chapter 19 and Chapter 20 of the GEM Listing Rules. Mr. Heung, the former chairman of the Company, is a renowned figure in the Hong Kong and Greater China film production and distribution industry and has more than 30 years of experience and in-depth knowledge and well established connection in such industries. With Mr. Heung's resignation as an executive Director of the Company with effect from 7 October 2014 and cessation of his involvement in the film production business of the Company, the Directors of the Company consider that the interests of the Company would be better served by re-allocating and focusing its management and other resources to its other business segments. Taking into account that (i) after the Transaction, the Company will no longer be required to have further capital injection to support the future operation of the China Star Movie Limited and therefore the Company can deploy more resources to its other business segments; and (ii) the consideration is based on the net liabilities of the China Star Movie Limited, which amounted to approximately HK$4,828,000 as at 7 October 2014, and the amount of the sale loan, which represents a good opportunity for the Company to realise its investments in the China Star Movie Limited, the Directors of the Company consider that the terms of the sale and purchase agreement are fair and reasonable and are on normal commercial terms and that the Transaction is in the interests of the Company and the shareholders of the Company as a whole. The disposal was completed on 9 October 2014. Please refer to the Company's announcement dated 7 October 2014 for more details.

Save as disclosed above, during the year ended 31 December 2014, 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 30(a)&(b) 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. 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 2014, 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.

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 2014 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 2014, 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.

During the year under review, the remuneration committee held three meetings 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 2014, 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.

During the year under review, the nomination committee held three meetings 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.

AUDITORS

The account for the year ended 31 December 2014 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.

On behalf of the Board

Leung Wai Man
Director

Hong Kong, 26 March 2015

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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

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

We have audited the consolidated financial statements of China Star Cultural Media Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 97, which comprise the consolidated and the Company statement of financial position at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the 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 ("HKICPA") 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation of the 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 AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the Company's and of the Group's state of affairs at 31 December 2014, and of its 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
Certified Public Accountants

Yu Chi Fat
Practising Certificate Number: P05467

Hong Kong, 26 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	6	5,949	15,698
Cost of sales		(4,429)	(10,948)
Gross profit		1,520	4,750
Other revenue and other income	8	685	2,445
Administrative expenses		(11,682)	(19,139)
Finance costs	9	—	(563)
Gain arising on change in fair value of financial assets classified as held for trading investments		2,253	—
Gain on disposal of subsidiaries		5,261	—
Share of results of joint ventures		(638)	(322)
Loss before tax	10	(2,601)	(12,829)
Income tax expense	11	—	—
Loss for the year		(2,601)	(12,829)
Loss for the year attributable to:			
Owners of the Company		(2,601)	(12,828)
Non-controlling interests		—	(1)
		(2,601)	(12,829)
Total comprehensive loss for the year attributable to:			
Owners of the Company		(2,601)	(12,828)
Non-controlling interests		—	(1)
		(2,601)	(12,829)
Loss per share	13		
Basic and diluted		HK(0.35) cent	HK(2.54) cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	8	1,721
Film rights	17	592	912
Interests in joint ventures	19	4	28,317
Total non-current assets		604	30,950
Current assets			
Held for trading investments	20	17,115	—
Trade receivables	21	—	50
Deposits, prepayments and other receivables	22	2,502	3,116
Amount due from a joint venture	19	—	6
Cash and cash equivalents	23	158,800	48,780
Total current assets		178,417	51,952
LIABILITIES			
Current liabilities			
Accruals and other payables	24	1,357	5,292
Receipts in advance		2,875	3,408
Amount due to a joint venture	19	3	—
Convertible loan notes	25	—	—
Total current liabilities		4,235	8,700
Net current assets		174,182	43,252
Total assets less current liabilities		174,786	74,202
Net assets		174,786	74,202

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
EQUITY			
Share capital	26	9,198	5,056
Reserves		165,588	69,137
Equity attributable to owners of the Company		174,786	74,193
Non-controlling interests		—	9
Total equity		174,786	74,202

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2015 and signed on its behalf by:

Leung Wai Man
Director

Li Yee Mei
Director

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	—	1,708
Investments in subsidiaries	18	—	10
Total non-current assets		—	1,718
Current assets			
Amounts due from subsidiaries	18	10,983	67,394
Deposits, prepayments and other receivables	22	377	1,140
Cash and cash equivalents	23	156,831	688
Total current assets		168,191	69,222
LIABILITIES			
Current liabilities			
Amount due to a joint venture	19	21	—
Accruals and other payables	24	1,051	4,796
Convertible loan notes	25	—	—
Total current liabilities		1,072	4,796
Net current assets		167,119	64,426
Total assets less current liabilities		167,119	66,144
Net assets		167,119	66,144
EQUITY			
Share capital	26	9,198	5,056
Reserves	28	157,921	61,088
Total equity		167,119	66,144

The financial statements were approved and authorised for issue by the board of directors on 26 March 2015 and signed on its behalf by:

Leung Wai Man
Director

Li Yee Mei
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Convertible loan notes reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2013	5,056	47,383	28,294	2,381	(358)	82,756	—	82,756
Loss for the year	—	—	—	—	(12,828)	(12,828)	(1)	(12,829)
Other comprehensive income for the year	—	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(12,828)	(12,828)	(1)	(12,829)
Non-controlling interests arising on issuing of ordinary share subsidiary	—	—	—	—	—	—	10	10
Transfer to accumulated losses upon extinguishment of old convertible loan notes	—	—	—	(2,381)	2,381	—	—	—
Recognition of the equity component of new convertible loan notes	—	—	—	4,265	—	4,265	—	4,265
At 31 December 2013 and 1 January 2014	5,056	47,383	28,294	4,265	(10,805)	74,193	9	74,202
Loss for the year	—	—	—	—	(2,601)	(2,601)	—	(2,601)
Other comprehensive income for year	—	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	—	(2,601)	(2,601)	—	(2,601)
Release of non-controlling interests upon disposal of subsidiaries	—	—	—	—	—	—	(9)	(9)
Placing of new shares	4,000	103,000	—	—	—	107,000	—	107,000
Share issuing expenses	—	(3,806)	—	—	—	(3,806)	—	(3,806)
Conversion of new convertible loan notes	142	4,123	—	(4,265)	—	—	—	—
At 31 December 2014	**9,198**	**150,700**	**28,294**	**—**	**(13,406)**	**174,786**	**—**	**174,786**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Operating activities			
Loss before tax		(2,601)	(12,829)
Adjustments for:			
Bank interest income		(433)	(184)
Share of results of joint ventures		638	322
Finance costs		—	563
Depreciation of property, plant and equipment		134	523
Written off of property, plant and equipment		1,579	—
Impairment loss recognised in respect of film rights		320	276
Impairment loss recognised in respect of deposits paid to artist		—	2,554
Gain arising on change in fair value of financial assets classified as held for trading investments		(2,253)	—
Gain on extinguishment of convertible loan notes		—	(1,935)
Gain on disposal of property, plant and equipment		—	(70)
Gain on disposal of subsidiaries		(5,261)	—
Operating cash flow before movements in working capital		(7,877)	(10,780)
Increase in financial assets classified as held for trading investments		(14,862)	—
Decrease in trade receivables		50	3
Decrease in deposits, prepayments and other receivables		653	4,303
Decrease in amount due from a joint venture		6	6
Decrease in trade payables		—	(71)
(Decrease)/increase in accruals and other payables		(1,241)	2,472
Decrease in receipts in advance		(2,339)	(940)
Increase in amount due to a joint venture		3	—
Cash used in operations		(25,607)	(5,007)
Bank interest received		433	184
Net cash used in operating activities		(25,174)	(4,823)
Investing activities			
Proceeds from disposal of property, plant and equipment		—	70
Proceeds from reduction of investment in joint ventures		27,675	—
Net cash flow arising from disposal of subsidiaries	29	8,629	—
Net cash flow arising from acquisition of subsidiary	29	(4,304)	—
Net cash generated from investing activities		32,000	70
Financing activities			
Proceeds from placing of new shares		107,000	—
Share issuing expenses		(3,806)	—
Net cash generated from financing activities		103,194	—
Net increase/(decrease) in cash and cash equivalents		110,020	(4,753)
Cash and cash equivalents at the beginning of the reporting period		48,780	53,533
Cash and cash equivalents at the end of the reporting period	23	158,800	48,780

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 Unit 3407, 34/F., Shun Tak Centre West Tower, 168-200 Connaught Road Central, 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 joint ventures are set out in notes 36 and 19 respectively.

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

The Group has applied the following amendments to HKFRSs and a new Interpretation for the first time in the current year:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss ("FVTPL"). These amendments do not have an impact on these financial statements as the Group does not qualify to be an investment entity.

Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*

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 do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets, among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

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

Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The amendments to HKAS 39 provide relief from discounting hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) — Int 21 *Levies*

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

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.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle[3]
HKFRS 9	Financial Instruments[5]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[3]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[3]
HKFRS 14	Regulatory Deferral Accounts[3] *(Note)*
HKFRS 15	Revenue from Contracts with Customers[4]
HKAS 1 (Amendments)	Disclosure Initiative[3]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[3]
HKAS 19 (Amendments)	Defined Benefits Plans: Employee Contributions[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements[3]

1 Effective for annual periods beginning on or after 1 July 2014, with earlier application permited
2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permited
4 Effective for annual periods beginning on or after 1 January 2017, with earlier application permited
5 Effective for annual periods beginning on or after 1 January 2018, with earlier application permited

Note: HKFRS 14 *Regulatory Deferral Accounts* is not applicable to the Group as the Group is not a first-time adopter of HKFRSs.

The directors of the Company is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

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

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, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

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 accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. 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.

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

HKFRS 9 *Financial Instruments* *(continued)*

The directors anticipate that the adoption of HKFRS 9 in the future may have a material impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 *Impairment of Assets* regarding impairment testing of a CGU to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirement should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

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

Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations* *(continued)*

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

HKFRS 14 *Regulatory Deferral Accounts*

HKFRS 14 specifies the accounting for regulatory deferred account balances that arise from rate-regulated activities. The Standard is applicable only to first-time adopters of HKFRSs who recognised regulatory deferral account balances under their previous GAAP. HKFRS 14 permits eligible first-time adopters of HKFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Disclosures are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

HKFRS 14 is effective for an entity's first annual HKFRS financial statements for annual periods beginning on or after 1 January 2016, with earlier application permitted. The directors of the Company do not anticipate that the application of HKFRS 14 will have a material impact on the Group's consolidated financial statements as the Group is not a first-time adopter of HKFRSs.

HKFRS 15 *Revenue from Contracts with Customers*

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

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

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

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

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

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

Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible assets is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual period beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amoirtisation for its property, plant and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

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

Amendments to HKAS 27 *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost

- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or

- Using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standard*.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2010-2012 Cycle

The *Annual Improvements to HKFRSs 2010-2012 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

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

Annual Improvements to HKFRSs 2010-2012 Cycle *(continued)*

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker ("CODM").

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The *Annual Improvements to HKFRSs 2011-2013 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

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

Annual Improvements to HKFRSs 2011-2013 Cycle *(continued)*

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The *Annual Improvements to HKFRSs 2012-2014 Cycle* include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting*.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the consolidated financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are set out below.

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and by the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of preparation

The preparation of the consolidated financial statements in conformity with HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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

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

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

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

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

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 and its subsidiaries. Control is achieved where the Company:

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

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

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

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

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

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

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

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

Basis of consolidation *(continued)*

Changes in the Group's ownership interest in existing subsidiaries

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

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

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 at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets 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 arrangement of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire 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.

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 bargain purchase gain.

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

Business combinations *(continued)*

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 another measurement basis required by another HKFRS.

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 contains 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, or 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.

Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement with rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

Interests in joint ventures *(continued)*

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) 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 of disposal) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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 services income is recognised when the services are provided.

Film production and distribution income 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.

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

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. 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 recognised at the rates of exchange prevailing at 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 at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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 period. Income and expense 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 and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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

Foreign currencies *(continued)*

On the disposal of 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 includes a foreign operation 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 joint ventures 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 and liabilities assumed through acquisition of a foreign operation 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.

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.

Retirement benefit costs

The Group participates in contribution retirement benefit schemes for those employees who are eligible to participate. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contribution for Mandatory Provident Fund Scheme is made based on a percentage of the participating employees' relevant monthly income from the Group and the contributions are charged to profit or loss as they become payable in accordance with the rules of the respective schemes.

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

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 equity (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 expenses 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 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 “loss before tax” as reported in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s 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 bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. 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 or deferred tax for the year is 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 is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss 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.

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

Property, plant and equipment *(continued)*

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

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 profit or loss 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).

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

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains 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 amortisation and impairment losses. Film rights, less estimated residual value and accumulated impairment losses, are amortised in proportion to the estimated projected revenues over their economic beneficial period. Additional amortiaation/impairment loss is made if future estimated projected revenues are adversely different from the previous estimation. Estimated projected revenues are reviewed at regular intervals.

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 profit or loss.

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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGU 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (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 when a group entity becomes a party to the contractual provisions of the instruments.

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 FVTPL) 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 FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and financial assets at FVTPL. 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 debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the 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 other than those financial assets classifies as at financial assets at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group;s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other revenue and other income" line item. Fair value is determined in the manner described in the note 33 to the consolidated financial statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, deposits and other receivables, amount due from a joint venture and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the 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.

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

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. 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 that are 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 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. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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 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.

Convertible notes

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital and share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Other financial liabilities

Other financial liabilities (including accruals and other payables and amount due to a joint venture) are subsequently measured at amortised cost, using the effective interest method.

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 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.

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

Financial instruments *(continued)*

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 collateralised 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 amounts 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 they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 cash equivalents 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 party transactions

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following condition applies:

(i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(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).

Close members of the family of a person are those family members who may be expected to influence, or to be influenced by, that person in their dealing with 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 the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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.

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$134,000 (2013: HK$523,000) for the year ended 31 December 2014.

Impairment of loans and receivables

The Group assesses the recoverable amount of loan and receivables at the end of each reporting period whether there is any objective evidence that a loan/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.

Impairment of film rights

Impairment assessments on film rights 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 2014, the carrying value of film rights amounted to HK$592,000 (2013: HK$912,000). Changes in assumptions used in this assessment, including the forecasted revenue, may result in additional provision being made in the consolidated financial statements.

Joint arrangements

The Group holds 50% of the voting rights of its joint arrangement. The Group has joint control over this arrangement as under the contractual agreement, unanimous consent is required from all parties to the agreements for all relevant activities. The Group's joint arrangement is structured as a limited company and provides the Group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. Therefore, this arrangement is classified as a joint venture.

6. TURNOVER

Turnover represents the net amount received and receivables from customers and services rendered.

	2014	2013
	HK$'000	*HK$'000*
Artist management	5,939	15,667
Film production and distribution	10	31
	5,949	15,698

7. SEGMENT INFORMATION

Information reported to the directors of the Company, being the CODM, for the purpose of resource allocation and assessment of segment performance focuses on the types of goods and services delivered or provided. In respect of the "artist management" and "film production and distribution" operations, the information reported to the CODM is further broken down into the different sales channels. No operating segments identified by the CODM have been aggregated in arriving at the reportable segment of the Group.

The Group's reportable and operating 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

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	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Revenue to external customers	**5,939**	15,667	**10**	31	**5,949**	15,698
Segment results						
Segment loss	**(1,392)**	(1,551)	**(484)**	(294)	**(1,876)**	(1,845)
Unallocated other revenue and other income					**308**	2,257
Unallocated expenses					**(7,909)**	(12,356)
Loss from operating activities					**(9,477)**	(11,944)
Gain arising on change in fair value of financial assets classified as held for trading investments					**2,253**	—
Gain on disposal of subsidiaries					**5,261**	—
Share of results of joint ventures					**(638)**	(322)
Finance costs					**—**	(563)
Loss before tax					**(2,601)**	(12,829)
Income tax expense					**—**	—
Loss for the year					**(2,601)**	(12,829)

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 represents the loss suffered by each of segment without allocation of central administration costs including directors' emoluments, share of results of joint ventures, partial other revenue and other income, finance costs, and income tax expense. This is the measure reported to the CODM 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	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**2,407**	48,618	**2,072**	2,402	**4,479**	51,020
Unallocated assets					**174,542**	31,882
Total assets					**179,021**	82,902
Segment liabilities	**3,181**	3,833	**—**	—	**3,181**	3,833
Unallocated liabilities					**1,054**	4,867
Total liabilities					**4,235**	8,700

For the purpose of resource allocation and assessment of segment performance between segments:

- all assets are allocated to reportable segment other than interests in joint ventures, held for trading investments and unallocated head office and corporate assets as these assets are managed on a group basis. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to reportable segments other than other unallocated head office and corporate liabilities as these liabilities are managed on a group basis. Liabilities for which segments are jointly liable are allocated in proportion to segment assets.

7. SEGMENT INFORMATION *(continued)*

(c) Other segment information

	Artist management		Film production and distribution		Unallocated		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Depreciation of property, plant and equipment	5	5	—	—	129	518	134	523
Written off of property, plant and equipment	—	—	—	—	1,579	—	1,579	—
Impairment loss recognised in respect of film rights	—	—	320	276	—	—	320	276
Impairment loss recognised in respect of deposits paid to artists	—	2,554	—	—	—	—	—	2,554
Gain on disposal of property, plant and equipment	—	70	—	—	—	—	—	70
Bank interest income	377	184	—	—	56	—	433	184
Finance costs	—	—	—	—	—	563	—	563
Share of results of joint ventures	—	—	—	—	638	322	638	322
Interests in joint ventures	—	—	—	—	4	28,317	4	28,317

(d) Geographical information

In determining the Group's geographical information, revenue information is based on the location of the customers, and asset information is based on the 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*	
	2014	2013	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000
The People's Republic of China	2,560	9,646	—	—
Hong Kong	3,359	5,652	600	2,633
Others	30	400	—	—
	5,949	15,698	600	2,633

* Non-current assets excluded those relating to interests in joint ventures.

7. SEGMENT INFORMATION *(continued)*

(e) Information about major customers

During the year ended 31 December 2014, included in revenue arising from artist management of approximately HK$5,939,000 (2013: 15,667,000) are revenue of approximately HK$1,261,000, HK$684,000 and HK$597,000 (2013: HK$1,866,000 and HK$3,362,000 arose from two largest customers) which arose from three largest customers of the Group respectively, contributed 10% or more of the Group's revenue for 2014.

8. OTHER REVENUE AND OTHER INCOME

	2014 *HK$'000*	2013 *HK$'000*
Bank interest income	433	184
Consultancy fee income	252	252
Gain on disposal of property, plant and equipment	—	70
Gain on extinguishment of convertible loan notes	—	1,935
Sundry income	—	4
	685	2,445

9. FINANCE COSTS

	2014 *HK$'000*	2013 *HK$'000*
Effective interest expenses on convertible loan notes	—	563

10. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2014 *HK$'000*	2013 *HK$'000*
Auditors' remuneration	570	570
Depreciation of property, plant and equipment	134	523
Written off of property, plant and equipment	1,579	—
Impairment loss recognised in respect of		
— film rights	320	276
— deposits paid to artists	—	2,554
Minimum lease payments under operating leases on land and buildings	1,122	4,549
Staff costs (excluding directors' remuneration)		
— salaries and allowances	3,765	7,247
— retirement benefits scheme contributions	88	166

11. INCOME TAX EXPENSE

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

No provision for Hong Kong Profits Tax has been made for both years as the Group has no assessable profits derived from Hong Kong.

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

At 31 December 2014, the Group had estimated unused tax losses of approximately HK$102,417,000 (2013: HK$100,314,000) 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 income tax expense for the year can be reconciled to the loss as per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014 *HK$'000*	2013 *HK$'000*
Loss before tax	(2,601)	(12,829)
Tax at Hong Kong Profits Tax rate of 16.5% (2013:16.5%)	(429)	(2,116)
Tax effect of share of results of joint ventures	105	53
Tax effect of expenses not deductible for tax purpose	1,050	1,975
Tax effect of income not taxable for tax purpose	(1,073)	(1,742)
Tax effect of tax losses not recognised	347	1,830
Income tax expense for the year	—	—

12. DIVIDEND

The board of directors does not recommend the payment of a dividend for the year ended 31 December 2014 (2013: Nil).

13. LOSS PER SHARE

The basic and diluted loss per share is calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	(2,601)	(12,828)

	2014	2013
	'000	*'000*
Weighted average number of ordinary shares in issue	742,896	505,650

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

14. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

The emoluments paid or payable to each of the eight (2013: six) directors and the chief executive were as follows:

	Fees	Salaries and allowances	Retirement benefits scheme contributions	Share option benefit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2014:					
Executive directors					
Mr. Cheng Yang *(Note 1)*	30	—	—	—	30
Mr. Leung Wai Man	120	—	—	—	120
Ms. Jiang Di *(Note 2)*	30	79	—	—	109
Mr. Heung Wai Keung *(Note 3)*	63	—	—	—	63
Ms. Li Yee Mei *(Note 4)*	28	1,430	17	—	1,475
Independent non-executive directors					
Mr. Yip Tai Him	120	—	—	—	120
Mr. Law Yiu Sang, Jacky	120	—	—	—	120
Mr. Fung Wai Ching	120	—	—	—	120
Total	631	1,509	17	—	2,157
For the year ended 31 December 2013:					
Executive directors					
Mr. Cheng Yang *(Note 1)*	120	—	—	—	120
Mr. Leung Wai Man	120	—	—	—	120
Ms. Jiang Di *(Note 2)*	120	840	3	—	963
Independent non-executive directors					
Mr. Yip Tai Him	120	—	—	—	120
Mr. Law Yiu Sang, Jacky	120	—	—	—	120
Mr. Fung Wai Ching	120	—	—	—	120
Total	720	840	3	—	1,563

14. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION *(continued)*

Notes:

1. Mr. Cheng Yang was resigned as executive director and chief executive officer on 28 March 2014.

2. Ms. Jiang Di was resigned as executive director on 28 March 2014.

3. Mr. Heung Wah Keung was appointed as executive director on 28 March 2014 and resigned on 7 October 2014 respectively.

4. Ms. Li Yee Mei was appointed as executive director on 7 October 2014.

Neither the chief executive nor any of the directors waived any emoluments in the year ended 31 December 2014 (2013: nil).

During the year ended 31 December 2014 and 2013, no emoluments paid during the financial year or receivable by directors as an inducement to join or upon joining the listed issuer, and no compensation paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

15. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2013: one) is director whose emoluments are disclosed in note 14. The aggregate of the emoluments in respect of the other four (2013: four) individual are as follows:

	2014	2013
	HK$'000	*HK$'000*
Salaries and allowances	1,171	3,738
Retirement benefits scheme contributions	52	61
	1,223	3,799

The emoluments of the four (2013: four) individuals with the highest emoluments are within the following bands:

	2014	2013
Nil to HK$1,000,000	4	3
HK$1,000,001 – HK$1,500,000	—	1

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$30,000 (HK$25,000 prior to 1 June 2014). Contribution to the plan vest immediately.

During the year, there is no any forfeited contributions included in retirement benefits schemes contributions (2013: nil).

16. 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 2013	2,372	257	415	3,044
Disposal	—	—	(415)	(415)
At 31 December 2013 and 1 January 2014	2,372	257	—	2,629
Written off	(2,372)	(217)	—	(2,589)
At 31 December 2014	—	40	—	40
Accumulated depreciation and impairment:				
At 1 January 2013	316	69	415	800
Charged for the year	474	49	—	523
Disposal	—	—	(415)	(415)
At 31 December 2013 and 1 January 2014	790	118	—	908
Charged for the year	118	16	—	134
Written off	(908)	(102)	—	(1,010)
At 31 December 2014	—	32	—	32
Carrying amounts:				
At 31 December 2014	**—**	**8**	**—**	**8**
At 31 December 2013	1,582	139	—	1,721

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

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
The Company			
Cost:			
At 1 January 2013, 31 December 2013, 1 January 2014	2,372	217	2,589
Written off	(2,372)	(217)	(2,589)
At 31 December 2014	—	—	—
Accumulated depreciation and impairment:			
At 1 January 2013	316	47	363
Charged for the year	474	44	518
At 31 December 2013 and 1 January 2014	790	91	881
Charged for the year	118	11	129
Written off	(908)	(102)	(1,010)
At 31 December 2014	—	—	—
Carrying amounts:			
At 31 December 2014	**—**	**—**	**—**
At 31 December 2013	1,582	126	1,708

17. FILM RIGHTS

	HK$'000
The Group	
Cost:	
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	7,958
Accumulated impairment:	
At 1 January 2013	6,770
Impairment loss recognised during the year	276
At 31 December 2013 and 1 January 2014	7,046
Impairment loss recognised during the year	320
At 31 December 2014	7,366
Carrying amount:	
At 31 December 2014	**592**
At 31 December 2013	912

Film rights represent self-produced films.

For the purpose of impairment testing, film rights have been allocated to the CGU of film production and distribution operation.

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 2014 and 2013, 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 valuer, and determined impairment loss within the business segment "film production and distribution" due to prevailing marketability circumstances.

The recoverable amount of the film right is 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, the cash flow are discounted using a discount rate of 14.76% (2013: 14.72%). The discount rates used are pre-tax and reflect specific risk relating to the segment.

During the year ended 31 December 2014, there is an impairment loss with amount of approximately HK$320,000 (2013: HK$276,000) recognised in respect of film rights.

The impairment loss recognised during the year ended 31 December 2014 solely related to the Group's film production and distribution activities based in Hong Kong. As the CGU has been reduced to its recoverable amount of approximately HK$592,000 (2013: HK$912,000), any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

18. INTERESTS IN SUBSIDIARIES

The Company

	2014	2013
	HK$'000	*HK$'000*
Unlisted shares at cost	—	10
Amounts due from subsidiaries	48,931	109,597
	48,931	109,607
Impairment loss *(Note)*	(37,948)	(42,203)
	10,983	67,404

Note: The impairment at 31 December 2014 includes no impairment provision (2013: HK$10,000) and HK$37,948,000 (2013: HK$42,193,000) for investment and amounts due from subsidiaries, respectively, with reference to the estimated fair value to the underlying assets held by the subsidiaries and the operating performance of these subsidiaries.

Details of the Company's subsidiaries at 31 December 2014 are set out in note 36 to the consolidated financial statements.

Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	2014	2013
	HK$'000	*HK$'000*
At the beginning of the reporting period	42,203	—
Impairment loss recognised	—	42,203
Release of impairment loss recognised upon disposal of subsidiaries	(4,255)	—
At the end of the reporting period	37,948	42,203

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

19. INTERESTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

	2014 HK$'000	2013 HK$'000
Cost of investments in joint ventures		
— Unlisted in Hong Kong	2,325	30,000
Share of post-acquisition losses and other comprehensive losses	(2,321)	(1,683)
	4	28,317

Amount due from/(to) a joint venture is unsecured, interest-free and repayable on demand.

Details of the Group's joint ventures at the end of the reporting period are as follows:

Name of entity	Form of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest held by the Group 2014	Proportion of ownership interest held by the Group 2013	Proportion of voting rights held by the Group	Principal activities
China Star Film Group Limited	Incorporated	British Virgin Islands	Hong Kong	Ordinary	50%	50%	50%	Film production and distribution

On 31 July 2014, China Star Film Group Limited had reduced the share capital from HK$1,000,000 per share to HK$77,500 per share.

19. INTEREST IN JOINT VENTURES *(continued)*

Summarised financial information of joint ventures

Summarised financial information in respect of the Group's joint ventures is set out below. The summarised financial information below respects amounts shown in the joint ventures' financial statement prepared in accordance with HKFRSs.

China Star Film Group Limited and its subsidiaries ("China Star Film Group")

The joint ventures are accounted for using the equity method in these consolidated financial statements.

	2014	2013
	HK$'000	*HK$'000*
Current assets	56	56,671
Current liabilities	48	36
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	9	55,064
Revenue	—	—
Loss for the year	1,276	644
Total comprehensive loss for the year	1,276	644
Dividend received from China Star Film Group	—	—
The above loss for the year include the following:		
Bank interest income	347	205

19. INTEREST IN JOINT VENTURES *(continued)*

Summarised financial information of joint ventures *(continued)*

China Star Film Group Limited and its subsidiaries ("China Star Film Group") *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in China Star Film Group recognised in the consolidated financial statements:

	2014	2013
	HK$'000	*HK$'000*
Net assets of China Star Film Group	8	56,635
Proportion of the Group's ownership interest in China Star Film Group	50%	50%
Carrying amount of the Group's interest in China Star Film Group	4	28,317
The Group's share of loss	638	322
The Group's share of total comprehensive loss	638	322
Unrecognised share of losses of joint ventures		
The unrecognised share of loss of joint ventures for the year	—	—
Cumulative share of losses of joint ventures	2,321	1,683

20. HELD FOR TRADING INVESTMENTS

	2014	2013
	HK$'000	*HK$'000*
Listed securities:		
— Equity securities listed in Hong Kong, at fair value	17,115	—

At the end of the reporting period, all financial assets at FVTPL are stated at fair value. Fair values of listed securities are determined with reference to quoted market bid prices.

21. TRADE RECEIVABLES

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates:

	2014 HK$'000	2013 HK$'000
0-90 days	—	50

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 for both years.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Deposits, net of impairment	2,073	3,005	14	1,134
Prepayments	416	69	350	—
Other receivables	13	42	13	6
	2,502	3,116	377	1,140

At 31 December 2014, deposits with amount of approximately HK$2,059,000 (2013: HK$1,871,000) represented the deposits paid for artist management and film production.

Movements in impairment loss recognised in respect of deposits paid to artists are as follows:

	2014 HK$'000	2013 HK$'000
At 1 January	7,994	5,440
Impairment loss recognised in respect of deposits paid to artists	—	2,554
At 31 December	7,994	7,994

Included in the above impairment loss recognised in respect of deposits paid to artists is provision for individually impaired receivables with a balance of HK$2,554,000 with a gross carrying amount approximately HK7,994,000 for the year ended 31 December 2013. The impaired deposits are individually determined to be impaired after considering overdue ageing analysis and other qualitative factors.

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the reporting periods as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances:				
United States Dollars ("USD")	**2**	2	**—**	—
HK$	**158,798**	48,778	**156,831**	688
	158,800	48,780	**156,831**	688

Cash at bank earns interest at floating rates based on daily bank deposit rates and placed with credit worthy banks with no recent history of default.

24. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accruals	**1,357**	5,220	**1,051**	4,796
Other payables	**—**	72	**—**	—
	1,357	5,292	**1,051**	4,796

25. CONVERTIBLE LOAN NOTES

On 25 September 2008, the Company issued convertible loan note with a principal amount of HK$35,000,000 to Goldig Investment Group Limited with a term of three years and zero coupon rate (the "Old Convertible Notes"). The Old Convertible Notes 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 Old Convertible Notes is 13.25%.

On 3 February 2009, the Company early redeemed principal amount of HK$28,000,000 of the Old Convertible Notes and a loss on early redemption of Old Convertible Notes is recognised during the year ended 31 December 2009.

Pursuant to the Company's circular dated 12 August 2009, the Company and the bondholders of the Old Convertible Notes entered into the deed of amendments to modify the terms and conditions of the remaining of HK$7,000,000 of the Old Convertible Notes. 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 conversion of any outstanding amount of the Old Convertible Notes into new conversion shares at HK$0.239.

The conversion price was adjusted to HK$0.999 per share and HK$0.884 per share upon the completion of first and second tranche placing on 25 January 2010 and 5 February 2010 respectively.

The conversion price was adjusted to HK$0.50 per share upon the distribution of special dividend on 24 May 2010.

On 23 December 2010, an amount of HK$800,000 of Old Convertible Notes was converted into ordinary shares of the Company.

The conversion price was adjusted to HK$0.487 per share on 30 December 2010 upon placing of new shares.

Upon the acceptance of the cash offers on 2 March 2012, Old Convertible Notes 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 Old Convertible Notes remain unchanged.

On 10 September 2013, the Group announced to have entered into the deed of amendments with the holder of Old Convertible Notes whereby the parties agreed to extend the maturity date of the outstanding Old Convertible Notes from 24 September 2013 to 23 September 2015. The extension became effective upon the approval by the shareholders of the Company at a special general meeting held on 23 October 2013. The maturity date of the Old Convertible Notes has therefore been extended to 24 September 2015 ("CN Amendment") and the mandatory conversion of any outstanding amount of the Old Convertible Notes into conversion shares at HK$0.487. The conversion price was adjusted to HK$0.436 per share on 19 June 2014 upon placing of new shares.

Upon the CN Amendment, the Company extinguished the original liability component and transfer the equity component to accumulated losses. The revised terms hereinafter referred to as "New Convertible Notes", were measured at fair value, which was carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected with the Group.

25. CONVERTIBLE LOAN NOTES *(continued)*

The New Convertible Notes contain equity component, which contains (a) the Company's option to exchange the obligation to pay the outstanding debt for a fixed number of shares of the Company any time before maturity; and (b) the bondholder's option to convert the instruments into ordinary share of the Company any time before the maturity. On 24 September 2013, the difference of approximately HK$1,935,000 between the fair value of the New Convertible Notes and the liability of Old Convertible Notes is recognised in profit or loss for the year ended 31 December 2013.

On 16 October 2014, the principal amount of HK$6,200,000 of New Convertible Notes was converted into ordinary shares of the Company.

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
Old Convertible Notes			
At 1 January 2013	5,637	2,381	8,018
Effective interest expenses	563	—	563
Extinguishment of liability/equity component of Old Convertible Notes	(6,200)	(2,381)	(8,581)
At 31 December 2013	—	—	—
New Convertible Notes			
At 1 January 2013	—	—	—
Recognition of equity component of the New Convertible Notes	—	4,265	4,265
At 31 December 2013 and 1 January 2014	—	4,265	4,265
Conversion of New Convertible Notes	—	(4,265)	(4,265)
At 31 December 2014	—	—	—

26. SHARE CAPITAL

	2014 Number of shares	2014 Share capital	2013 Number of shares	2013 Share capital
	'000	HK$'000	'000	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and 31 December	3,000,000	30,000	3,000,000	30,000
Issued and fully paid:				
At 1 January	505,649	5,056	505,649	5,056
Placing of new shares *(Notes (i) and (ii))*	400,000	4,000	—	—
Conversion of New Convertible Notes *(Note (iii))*	14,220	142	—	—
At 31 December	919,869	9,198	505,649	5,056

Notes:

(i) On 15 April 2014, the Company completed the first tranche placing of 100,000,000 ordinary shares of HK$0.01 each at a placing price of HK$0.23 per share with the net proceeds from the placing amount to approximately HK$22,175,000.

(ii) On 17 June 2014, the Company completed the second tranche placing of 300,000,000 ordinary shares of HK$0.01 each at a placing price of HK$0.28 per share with the net proceeds from the placing amount to approximately HK$81,019,000.

(iii) On 16 October 2014, New Convertible Notes with principal amount of HK$6,200,000 was converted into 14,220,183 ordinary shares at a conversion price of HK$0.436 per share.

27. EMPLOYEE AWARD PLAN

The Company's employee award plan (the "Plan") was adopted by the board of directors 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 2014 (2013: nil).

28. 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 35 to the consolidated financial statements.

The Company

	Share premium *HK$'000* *(Note i)*	Contributed surplus *HK$'000* *(Note ii)*	Convertible loan notes reserve *HK$'000* *(Note iii)*	Retained earnings/ (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2013	47,383	28,294	2,381	30,258	108,316
Loss for the year	—	—	—	(51,493)	(51,493)
Total comprehensive loss for the year	—	—	—	(51,493)	(51,493)
Transfer to accumulated losses upon extinguishment of Old Convertible Notes	—	—	(2,381)	2,381	—
Recognition of equity component of New Convertible Notes	—	—	4,265	—	4,265
At 31 December 2013 and 1 January 2014	47,383	28,294	4,265	(18,854)	61,088
Loss for the year	—	—	—	(2,219)	(2,219)
Total comprehensive loss for the year	—	—	—	(2,219)	(2,219)
Placing of new shares	103,000	—	—	—	103,000
Share issuing expenses	(3,806)	—	—	—	(3,806)
Conversion of New Convertible Notes	4,123	—	(4,265)	—	(142)
At 31 December 2014	**150,700**	**28,294**	**—**	**(21,073)**	**157,921**

28. RESERVES *(continued)*

The Company *(continued)*

Notes:

(i) Under the Companies Act 1981 of Bermuda (as amended), the share premium of the Company can be used in paying up unissued shares of the Company to be issued to members of the Company as fully paid bonus shares.

(ii) The contributed surplus of the Company represents the capital reduction and capital reorganisation of share capital and reserves of the Company during the year ended 31 December 2010.

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:

(a) it is, or would after the payment be unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

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

29. ACQUISITION/DISPOSAL OF A SUBSIDIARIES

(a) Disposal of nine subsidiaries

On 31 March 2014, the Group disposed of the entire issued share capital of nine wholly owned subsidiaries to an independent third party at a cash consideration of HK$24.40. A gain on disposal of approximately HK$5,261,000 arose from this disposal was recognised in the consolidated statement of profit or loss and other comprehensive income. Summary of the effect of the disposal of the subsidiaries is as follows:

	HK$'000
Trade receivables	1
Deposits, prepayments and other receivables	9
Amount due from a shareholder	10
Cash and cash equivalents	6
Accruals and other payables	(73)
Amount due to the Company	(5,205)
Net liabilities disposed of	(5,252)

	HK$'000
Gain on disposal of subsidiaries:	
Consideration	—
Net liabilities disposed of	5,252
Non-controlling interests	9
	5,261
Net cash outflow in respect of the disposal of subsidiaries	
Cash consideration received	—
Cash and cash equivalents disposed of	(6)
	(6)

29. ACQUISITION/DISPOSAL OF A SUBSIDIARIES *(continued)*

(b) Acquisition of China Star Movie Limited ("CSML")

On 14 April 2014, the Group entered into a sale and purchase agreement with China Star Entertainment Holding Limited ("CSEHL") for acquiring the entire equity interest and a shareholder loan of approximately HK$9,002,000 in CSML at a cash consideration of approximately HK$4,340,000. The acquisition was completed on 17 April 2014.

Acquisition related costs of approximately HK$5,000 have been excluded from the consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2014.

Assets acquired and liabilities recognised at the date of acquisition:

	HK$'000
Trade receivables	21
Deposits, prepayments and other receivables	6,171
Cash and cash equivalents	36
Accruals and other payables	(1,888)
Shareholder loan	(9,002)
Net liabilities acquired	(4,662)
Shareholder loan assigned to the purchaser	9,002
Total consideration, satisfied by cash	4,340

	HK$'000
Net cash outflow in respect of the acquisition of a subsidiary	
Cash consideration paid	4,340
Cash and cash equivalents acquired	(36)
	4,304

Included in the loss for the year is HK$166,000 attributable to the additional business generated by CSML, and no turnover was generated from CSML for the year.

Had this business combination been effected at 1 January 2014, the loss for the year would have been approximately of HK$2,642,000. The directors of the Group consider these "pro-forma" numbers to represent and approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

29. ACQUISITION/ DISPOSAL OF A SUBSIDIARIES *(continued)*

(b) Acquisition of China Star Movie Limited ("CSML") *(continued)*

In determining the "pro-forma" turnover and loss of the Group has CSML been acquired at the beginning of the current year, the directors have:

- calculated the asset on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

(c) Disposal of CSML

On 7 October 2014, the Group entered into a sale and purchase agreement with CSEHL to dispose of the entire equity interest and a shareholder loan of approximately HK$13,501,000 in CSML at a cash consideration of approximately HK$8,673,000. Summary of the effect of the disposal of CSML is as follows:

	HK$'000
Films in progress	18,437
Deposits, prepayments and other receivables	192
Amount due from fellow subsidiary	8
Cash and cash equivalents	38
Accruals and other payables	(2)
Other borrowings	(10,000)
Shareholder loan	(13,501)
Net liabilities disposed of	(4,828)
Shareholder loan assigned to the purchaser	13,501
Consideration received	8,673
Gain on disposal of a subsidiary:	
Consideration	8,673
Net liabilities disposed of	(8,673)
	—
Net cash inflow in respect of the disposal of a subsidiary	
Cash consideration received	8,673
Cash and cash equivalents disposed of	(38)
	8,635

30. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Acquisition and disposal of subsidiary

On 14 April 2014, Dance Star Group Limited ("Dance Star"), a wholly owned subsidiary of the Company and CSEHL entered into a sale and purchase agreement pursuant to which CSEHL, a wholly owned subsidiary of China Star Entertainment Limited, for acquiring the entire equity interest and the shareholder loan of CSML at a cash consideration of approximately HK$4,340,000. Acquisition of a subsidiary from a related company, which has common chairman and executive director. The transaction was constitutes as a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Particulars of the transaction are set out in the Company's announcement dated 14 April 2014.

On 7 October 2014, Dance Star entered into a sale and purchase agreement with CSEHL to dispose the entire equity interest and the shareholder loan of approximately HK$13,501,000 of CSML at a cash consideration of approximately HK$8,673,000. Disposal of a subsidiary to a related company, which has common chairman and executive director. The disposal was constitutes as a connected transaction for the Company under Chapter 20 of the GEM Listing Rules. Particulars of the transaction are set out in the Company announcement dated 7 October 2014.

(b) Related entities

	Notes	2014 HK$'000	2013 HK$'000
Rental expenses paid to related company	*(i)*	1,110	4,488
Interest expenses of convertible loan notes payable to related company	*(ii)*	—	563

Notes:

(i) 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.

(ii) Interest expense of convertible loan notes charged by the related company, in which is subsidiary of an entity and the Group is an associate of that entity.

(c) Compensation of key management personnel

	2014 HK$'000	2013 HK$'000
Salaries and allowances	2,140	5,078
Retirement benefits scheme contributions	17	63
	2,157	5,141

31. 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 for the year ended 31 December 2013.

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

	2014	2013
	HK$'000	*HK$'000*
Within one year	—	1,137
In the second to fifth years, inclusive	—	43
	—	1,180

32. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at the end of reporting period (2013: nil).

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	The Group		The Company	
	2014	2013	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial asset classified as held for trading investments	17,115	—	—	—
Loans and receivables (including cash and cash equivalents	160,886	51,883	167,841	69,222
Financial liabilities				
Financial liabilities at amortised cost	1,360	5,292	1,072	4,796

33. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, equity price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by Group treasury under policies approved by the board of directors. The Group treasury identifies and evaluate financial risks in close co-operation with the Group's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Foreign currency risk

The Group's functional and reporting currency is in HK$.

The major operating companies of the Group have certain transactions in Renminbi ("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 HK$. The Group is not exposed to foreign exchange risk in respect of HK$ against USD as they are pegged.

The following table details the Group's exposure at the end 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**	
	At 31 December			
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**1,069**	2,572	**—**	—

33. 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 profit or loss, and the balance below would be negative.

	Loss before tax	
	2014	2013
	HK$'000	*HK$'000*
RMB	**(53)**	(129)

This is mainly attributable to the exposure outstanding on deposit paid denominated in RMB not subject to cash flow hedge at the end of the reporting period. A negative number below indicates a increase in loss where functional currencies of the relevant group entities weaken 5% against the relevant foreign currency.

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

Equity price risk

The Group is exposed to equity price risk through its equity investments classified as held for trading investments in financial assets at FVTPL which are measured at fair value at the end of each reporting period. Management of the Company manages this exposure by maintaining a portfolio of investment with difference risk profiles. The Group's equity price risk is mainly concentrated on equity securities operating in health industry, media business and properties investment. In addition, the Group will consider hedging the risk exposure when the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If equity prices had been 5% higher/lower, the Group's post tax profit for the year ended 31 December 2014 would increase/decrease by approximately HK$856,000. This is mainly due to the changes in fair value of financial assets classified as held for trading investments.

33. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

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.

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 bank overdraft, bank borrowings, finance leases, other interest-bearing loans, and convertible loan notes.

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Group							
At 31 December 2014							
Non-derivative financial liabilities							
Accruals and other payables	**–**	**1,357**	**–**	**–**	**–**	**1,357**	**1,357**
Amount due to a joint venture	**–**	**3**	**–**	**–**	**–**	**3**	**3**
		1,360	**–**	**–**	**–**	**1,360**	**1,360**
At 31 December 2013							
Non-derivative financial liabilities							
Accruals and other payables	–	5,292	–	–	–	5,292	5,292
The Company							
At 31 December 2014							
Non-derivative financial liabilities							
Accruals and other payables	**–**	**1,051**	**–**	**–**	**–**	**1,051**	**1,051**
Amount due to a joint venture	**–**	**21**	**–**	**–**	**–**	**21**	**21**
		1,072	**–**	**–**	**–**	**1,072**	**1,072**
At 31 December 2013							
Non-derivative financial liabilities							
Accruals and other payables	–	4,796	–	–	–	4,796	4,796

33. FINANCIAL INSTRUMENTS *(continued)*

Financial risk management objective and policies *(continued)*

Credit risk

The Group's credit risk is primarily attributable to trade receivables and cash and cash equivalents and the Company's credit risk is primarily attributable to cash and cash equivalents.

At 31 December 2014 and 2013, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company 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.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regards, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group and the Company deposited its cash and bank balances with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's and the Company'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 2014 and at 31 December 2013 were minimal.

The Group has no significant concentrations of credit risk. The exposures to these credit risks are monitored on an ongoing basis.

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

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.

At 31 December 2014 and 2013, 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, Level 2 and Level 3 in both years.

The directors of the Company consider that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statement approximate to their fair values.

33. FINANCIAL INSTRUMENTS *(continued)*

Fair value estimation *(continued)*

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

Level 1: fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are input for which market data are not available; and

Level 3: fair value measured using significant unobservable inputs.

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2014				
Fair value on a recurring basis				
Held for trading investments	**17,115**	**—**	**—**	**17,115**

34. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For the purpose, adjusted net debt is defined as total debt less cash and cash equivalents. Adjusted capital comprises all components of equity.

During the year ended 31 December 2014, the Group's strategy, which was unchanged from 2013, was to maintain the adjusted net debt-to-equity ratio at the lower end of the range 20% to 25%. The Group is not subject to any externally imposed requirements.

34. CAPITAL MANAGEMENT *(continued)*

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

	The Group		The Company	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Debt	**—**	—	**—**	—
Cash and cash equivalents	**(158,800)**	(48,780)	**(156,831)**	(688)
Net cash	**(158,800)**	(48,780)	**(156,831)**	(688)
Total equity *(Note)*	**174,786**	74,193	**167,119**	66,144
Gearing ratio	**N/A**	N/A	**N/A**	N/A

Note:

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

35. EVENTS AFTER THE REPORTING PERIOD

On 24 November 2014, (i) the Company, and (ii) Jiaxuan Group Company Limited（稼軒集團有限公司）, Vision Path Limited, First Charm Investments Limited and Reorient Global Limited (collectively, the "Subscribers") entered into the subscription agreement (as amended by the supplemental agreement dated 16 February 2015) pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 2,759,609,727 subscription shares, comprising 1,379,804,865 new ordinary shares and 1,379,804,862 new preferred shares at an issue price of HK$0.20 per subscription share (the "Subscription"). The aggregate subscription price amounts to approximately HK$551,922,000.

In addition, on 24 November 2014 the Company has an authorised share capital of HK$30,000,000 divided into 3,000,000,000 ordinary shares of HK$0.01 each. In view of the Subscription, the board of directors proposes to increase the authorised share capital of the Company from HK$30,000,000 to HK$100,000,000 by (i) the creation of an additional 5,000,000,000 ordinary shares and (ii) the creation of 2,000,000,000 new preferred shares, such that the authorised share capital of the Company will be HK$100,000,000 divided into 8,000,000,000 ordinary shares and 2,000,000,000 preferred shares.

The Subscription and the increase in authorised share capital were approved by the shareholders at the special general meeting held on 16 March 2015. The Subscription was completed on 19 March 2015. Details please refer to the Company's announcement dated 18 December 2014, 16 February 2015, 27 February 2015, 16 March 2015 and 19 March 2015 and Company's circular dated 18 February 2015.

36. PARTICULARS OF INTERESTS IN SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particular of excessive length.

Name	Place of incorporation/ operation	Class of shares	Issued and fully paid up capital	Proportion of ownership interest and voting power held by the Company		Principal activity
				Directly	Indirectly	
Anglo Market International Limited	British Virgin Islands	Ordinary	US$1	—	100%	Artist management
Best Version Holdings Limited	British Virgin Islands	Ordinary	US$1	100%	—	Sales of financial assets
Star Kingdom Management Limited (Formerly known as "China Star Management Limited") *(Note)*	Hong Kong	Ordinary	HK$290,000	—	100%	Artist management
Creative Formula Limited	Hong Kong	Ordinary	HK$10,000,000	—	100%	Film production and distribution
Dance Star Group Limited	British Virgin Islands	Ordinary	US$1	100%	—	Investment holdings

Note: Subsequent to the reporting period, Star Kingdom Management Limited had changed the name to Hong Kong Xuanhe Management Limited.

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 March 2015.

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				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**5,949**	15,698	26,547	44,330	21,371
Loss before tax	**(2,601)**	(12,829)	(12,008)	(8,836)	(136,970)
Income tax expenses	**—**	—	—	—	—
Loss for the year from continuing operations	**(2,601)**	(12,829)	(12,008)	(8,836)	(136,970)
(Loss)/profit for the year from discontinued operations	**—**	—	(3,092)	(11,415)	84,517
Loss for the year	**(2,601)**	(12,829)	(15,100)	(20,251)	(52,453)
Loss for the year attributable to:					
Owners of the Company	**(2,601)**	(12,828)	(15,100)	(20,251)	(52,453)
Non-controlling interests	**—**	(1)	—	—	—
	(2,601)	(12,829)	(15,100)	(20,251)	(52,453)

ASSETS AND LIABILITIES

	At 31 December				
	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**179,021**	82,902	95,632	112,809	138,064
Total liabilities	**(4,235)**	(8,700)	(12,876)	(14,953)	(22,366)
	174,786	74,202	82,756	97,856	115,698