星 美 國 際

SMI CORPORATION LIMITED

星美國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

Annual Report 2012

* For identification purposes only

Theaters
電影院

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. HU Yidong *(Chairman)*
Mr. CHENG Chi Chung *(Chief Executive Officer)*
Mr. WONG Kui Shing, Danny

Independent Non-Executive Directors

Mr. HE Peigang
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

Audit Committee

Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

Remuneration Committee

Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

Nomination Committee

Mr. HE Peigang *(Chairman)*
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

COMPANY SECRETARY

Mr. LAU Chi Yuen

AUTHORIZED REPRESENTATIVES

Mr. WONG Kui Shing, Danny
Mr. LAU Chi Yuen

AUDITOR

RSM Nelson Wheeler

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6701-2 & 13,
The Center,
99 Queen's Road Central,
Central, Hong Kong

SHARE REGISTRARS

Principal Share Registrar in Bermuda

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Pembroke,
Bermuda

Branch Share Registrar in Hong Kong

Tricor Progressive Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East,
Wanchai,
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

STOCK CODE

00198

WEBSITE

www.equitynet.com.hk/smi

Chairman's Statement

Dear Shareholders,

2012 was a year of stable growth for SMI Corporation Limited (the "Company") and its subsidiaries (collectively the "Group"). The Company is putting its focus on its core business (movie theater), and the new complementary businesses (Xingmeihui (on-line shopping and in-theater counter sales) and advertising and promotion business).

The Company continued to capture greater market share by opening up more movie theaters in the high growth second and third tier cities in Mainland China.

The Group also developed gradually in the new complementary businesses (Xingmeihui (on-line shopping and in-theater counter sales) and advertising and promotion business) which brings new movie experience to our customers.

More to that, the Group had started a new membership integrated marketing scheme (the "New Membership Scheme") in 2012. The said Scheme aims to understand the customers so that we can bring the most customer-oriented services and products to the customers and hence helps boost our revenue in all business segments as a whole.

OVERVIEW

The Company is keeping its effort to becoming one of the leading movie theater operators in China. The Company has shown its determination to achieve so and put more resources in developing and strengthening the core business of the Company. In 2012, the Company has been doing moderately on it and has spread its movie theater domain in more high growth second and third tier cities in Mainland China.

In 2012, the Chinese film industry continued to flourish because of the support from the Chinese Government. In February 2012, the Chinese and the U.S. Governments reached into an agreement to increase the annual quotas of U.S. films for China market. The State of Administration of Radio, Film and TV (the "SARFT"), the country's top regulator of the film industry, states that the film box office in China exceeded RMB17 billion in 2012. China has become the world's second largest box office market. More encouraging is that, not only did the film box office, but also the volume of domestic movies had grown significantly. In 2012, there were a total of 893 domestic movies produced in 2012, a 60% growth when compared to that in 2011, which marked a remarkable milestone for the Chinese film industry.

Inspired by this magnificent market result, the Company decided to launch a new membership integrated marketing scheme which ties and concords our core business (movie theater business) and the new complementary business, like Xingmeihui, making our business model an integrated and comprehensive one.

MOVIE THEATER BUSINESS

Under the support of the Chinese government, the film industry continued to prosper in 2012 which attracted keen competition between the movie theater operators at the same time especially in the first tier provinces and cities. The Group therefore decided to take this opportunity to modify our business strategy and strengthen our leading position in the industry.

Driven by the country's economy, the Group had further extended its movie theater network in all over China, focusing on the establishment of movie theaters in fast growing second or third provinces and cities like Wuxi, Longyan and Jinhua though maintaining a steady growth in first tier provinces and cities such as Qingdao and Shenzhen etc. As a pioneer to lay our footprints in the second and third tier cities before many other competitors, we cast hope and confidence on these second or third tier cities in becoming the new growth engine of the Company's movie theater business.

Apart from the persisting dedication to expanding our movie theater network, our Group also aims to bring our movie audiences high quality entertainment and fulfilling enjoyment. We had invested in improving the equipments and facilities of the existing and new cinemas of the Company. In 2012, all the projection facilities have been digitalized. We had put effort in equipping our cinemas with 3D screens and IMAX screens which out-performed the industry average.

New Membership Integrated Marketing Scheme

In addition to that, our Group had launched the New Membership Scheme in 2012 which helped us to understand our customers in a more systematic way which is crucial for us to better formulate our business and marketing plans and strategies to cater our target customers. We provide VIP or tailor-made services to our members thus it helps maintaining the loyalty of the existing movie audiences as well as attracting more new movie audiences to join our New Membership Scheme and boosts up the cinema admission of the Group. In this way, we can explore new markets and sources of customers for our movie theaters.

More importantly, the New Membership Scheme links up our various businesses segments, molding our business model into an integrated one. Under this New Membership Scheme, the members can enjoy various discounts for both movie tickets and for their consumption in our Xingmeihui, the new complementary business. For the development of this germinating complementary business, the New Membership Scheme converts the movie goers to new sources of customers and revenue which further nurtures this new business. We believe that the Company is moving on the right direction of focusing on our core business whilst developing the new complementary businesses (Xingmeihui and advertising and marketing business) and the New Membership Scheme, introduced in 2012, would construct a coherent integrated business model which will make the development of these businesses reciprocally beneficial to each other, providing new synergy for the overall development and revenue to the Group as a whole.

MOVIE AND TV SERIES PRODUCTION BUSINESS

Chinese domestic movies had left a glorious mark in the Chinese film chronology in 2012. In 2012, there were 21 domestic movies achieved an individual box office of over RMB0.1 billion, 3 of these 21 movies even earned a record high individual box office of over RMB0.7 billion. Yet, domestic movie productions have still a long way to go to enter the international or Hollywood arena. As a leading market player, the Group is very positive to dedicate its effort to bring the Chinese movies to the global audiences.

In 2012, the Group had invested in the production of different genres of movies, from martial arts and historical stories of "王的盛宴" (The Last Supper) and "血滴子" (The Guillotines), to mysterious black comedy "殺生" (Design Of Death), to warm and touching art house movie "新天生一對" (New Perfect Two), bringing fresh and high quality stories to the audiences.

Meanwhile, the Group also invested in the production of a few Chinese domestic TV series in 2012, namely "激情永遠燃燒", "愛的保鏢" and "火線三兄弟" which help further reinforcing the image and brand of the Company in all over China.

NEW COMPLEMENTARY BUSINESSES

2012 was a year for improvements and preparation for our new businesses to set off as the new and powerful growth engine for the Group. Attention and resources had been injected in research for most suitable ways and strategies to develop the new businesses, operationally and financially.

With the vision of diversifying the income source and capturing more non-box office earnings, Xingmeihui had achieved a fairly encouraging result which reconfirms our business direction and cements our confidence in moving our way.

Xingmeihui (星美匯)

Xingmeihui provides a combination of new shopping experience of online shopping and in-theater counter sales to our customers. It offers a variety of products to our customers from movie merchandize, high-end brands from overseas to distinctive food & fashionable living goods.

Aiming to translate the existing movie audiences to our retailing business, more resources had been put in refining the business strategies in 2012 so that the business can maintain a sustainable growth in the years ahead.

To nurture this new retail business, we continue to strengthen its management team in order to give new energy and inspiration to the business. Besides, we have established long term business strategic partners such as reputable household brands China Telecom and China National Cereals, Oils and Foodstuffs Corporation etc. In 2012, there were already over 5,000 items in the on-line shopping list.

Thanks to the booming national economy, the high admission to our movie theaters and our extensive nation-wide theater network in 2012, Xingmeihui showed its potential in becoming the new growth engine of the Group. With the competent management team and the support and resources given, we are confident to make this engine accelerate and excel in the near future.

Advertising and Promotion Business

In 2012, the advertising and promotion business was still in the preliminary development stage. We were researching for the most suitable business strategies to develop the business.

With the objectives of transforming the traditional and localized advertising and promotion business model, we hope that by utilizing resources of the Company's movie theatres, in terms of the space in the movie theaters and the idle time of the screening halls, we can make the business model a more advanced one. High technology advertising facilities like the LED panels etc had been installed in some of our movie theaters.

In fact, we had already held a few promotion events in cities like Shanghai, Kunming, Chengdu and Changsha which we received remarkable reviews from the corporate clientele.

CONCLUSION

2012 was a year for transition and transformation of the Group. Inspirations and new business ideas had been put into action with the injection of resources for the healthy growth of the Company's business. More time and effort had been focused on laying a sound foundation and clear business strategies, leading our core and new complementary businesses to complete an integrated business model and made our business direction set in 2011 into reality. It might not, to some, that the performance of the Group in 2012 be as outstanding as that in 2011. Let us not forget that with the solid foundation we built in 2012, the core and new complementary businesses of the Company will grow continuously and strongly and we, together with our shareholders, will enjoy the fruits in a long run.

Sincerely,

Hu Yidong
Chairman

Hong Kong, 28 March 2013

Management Discussion and Analysis

BUSINESS REVIEW

In 2012, the Group was moving on in its new direction of focusing on its core business, new complementary business and membership integrated marketing business. Our Group started to put more resources strengthening its core business and at the same time further developing its new complementary businesses (Xingmeihui and advertising, promotion and marketing business) and membership integrated marketing business. Driven by the prosperous development of global macro economy, as well as the continuous encouragement and support towards the development of cultural industry from China and the Chinese government, the movie market in China continued to flourish in 2012 and created favorable market condition for the Company to carry on the core and new complementary businesses. With our sound operation strategy and innovative marketing model, performance of every business line has improved.

The 2012 financial portfolio was mainly contributed by theaters operation, investment in film production and distribution as well as the in-theater counter sales and online shopping segments.

The revenue from operation of the Group for the financial year of 2012 increased from approximately HK$736 million to approximately HK$857 million, representing an increase of 16.4% compared to the corresponding period last year. Profit for the year dropped from approximately HK$100 million to approximately HK$20 million representing a decrease of 80% compared to the corresponding period last year. The decrease was mainly attributable to the increase of sales, promotion and administrative expenses.

The Group has built up an integrated business model in 2012, which understands the customers' need and the market trend, and as such, the Group actively expanded its movie theater operation business and directed more resources in promotion of a new membership card scheme to increase our publicity in China and expand our sales and marketing network.

At the same time, four subsidiaries of the Group in China successfully issued RMB200 million private placement bonds on Shanghai Stock Exchange in July 2012, which has effectively resolved the funding problem in respect of the large scale business expansion of the Group.

Movie Theater Business

As at 31 December 2012, the Group was operating 52 movie theaters with 363 screens in China, which is a further increase when compared to 2011, when the Group operated only 37 movie theaters with 258 screens. Apart from the numbers of movie theaters, the Group had strived to expand its footprints into the emerging second and third-tier cities with great market potential and further cement its position as a leading movie theater operator in China. During the year of 2012, the Group had established new cinemas in first tier cities like Guangzhou, Shenzhen and Qingdao as well as fast growing second and third-tier provinces and cities like Wuxi, Longyan and Jinhua etc.

The 15 new movie theaters were opened in stages throughout 2012 and therefore time would be required for construction and renovation of the new theaters. Besides this, the Company encountered the full depreciation for the 22 cinemas that were built and opened in 2011 which both offsets the profits in our movie theater operation segment in 2012. The depreciation and amortization in the movie theater operation segment accounts for approximately HK$84 million in 2012 (2011: HK$33 million).

New Membership Integrated Marketing Scheme

The Company is firm to further develop and expand our movie theater business in 2012 and the New Membership Scheme was a trace of our determination. We understand that maintaining our existing source of our theater audiences as well as attracting new audiences to our movie theater is just as crucial for a sustainable development of the movie theater business. We believe that the New Membership Scheme will keep our customer loyalty and open up new source of customers, it also provides a more systematic way for the Company to understand our customers. It is in line with our business strategy of new complementary business (such as: Xingmeihui) which will be one of our profit engine in future.

The validity period of the new membership card generally ranges from three months to one year, therefore certain membership services income will be entirely allocated to the financial year of 2013 in accordance with the respective validity period, and such tranche of membership cards were sold for cash in advance and recognised as receipt in advance for the financial year of 2012.

However, China's film industry continues to be a fast growing industry in the consumer market. The record high annual box office revenue of about RMB17 billion, which was more than 30% growth when compared to that in 2011, reflected the bloom of the industry.

In 2012, the Chinese Government remained supportive to the movie industry. The agreement between the Chinese and the U.S. governments has increased the annual quotas of the U.S. films for Chinese market from 24 movies to 34 movies in which 14 of them are IMAX or 3D movies. Alongside with the market trend and to accommodate the increasing demand for high quality entertainment, 90% of the movie theaters of the Group were equipped with digitalized 3D screens. This attracted more audiences to our movie theaters and contributed to higher box office revenue. Our Group had provided splendid movie experience to over 11.5 million patrons in the financial year ended 31 December 2012 which shows an increase of 35% when compared to the financial year of 2011.

In fact, with the success of domestic and international blockbusters like "Lost in Thailand", "3D Titanic", "Marvel the Avenger" and "Mission Impossible: Ghost Protocol" etc in 2012, which gives an additional push to the market, the Group enjoyed an increase of revenue from theater operation from approximately HK$569 million to HK$730 million when compared to the financial year of 2011 (an increase of 28%).

With the reform of our business strategy and model in 2012, such as the introduction of New Membership Scheme and the broad coverage of our theater network, together with the leadership of our management team, the Group is confident that our movie theater business will enjoy growth from this momentum in the near future.

Movie and TV Series Production Business

The profit generated from this segment in financial year of 2012 was approximately HK$31 million (2011: HK$43 million). The segment of investment in the movie production and distribution generated approximately HK$71 million of revenue (2011: HK$159 million). Both the segment profit and revenue declined as a result of less TV series sold during 2012.

As a leading market player, we have still continuously contributed to the development of the domestic movie and TV industry. In 2012, even though the Group was determined to put its focus on the core business (movie theater business), we also invested in the production of many high profile movies such as "王的盛宴" (The Last Supper), "血滴子" (The Guillotines), "殺生" (Design Of Death) etc. The Company also invested in the production of various Chinese domestic TV series in 2012, namely "激情永遠燃燒", "愛的保鏢", "火線三兄弟" which will be able to generate profit for the Group in financial year of 2013. The investments in movies and TV series will help the Group extend and reinforce its image all over China.

New Complementary Businesses

In 2012, the Company was determined to diversify the income source by developing and strengthening our new complementary business of Xingmeihui and the existing advertising and promotion business.

Taking in mind that the Group has only begun the new complementary businesses in late 2011, 2012 was a year of exploration for the new businesses. More attention and resources have been put in promoting our Xingmeihui (online shopping and in-theater counter) with the aim of establishing it as a well-known brand in China.

As a sprouting business, the performance of the new complementary businesses is fairly encouraging.

Xingmeihui (星美匯)

Launched in the end of 2011, Xingmeihui has begun its way in becoming the new growth engine of the Group. It aims to provide a combination of new shopping experience of online shopping and in-theater counter sales to our customers. In 2012, Xingmeihui was still in its learning stage, the Group was in search of the business strategies that will enhance the growth of the business. The Group has injected more resources into the development of this new complementary business. The number of Xingmeihui in-theater counters had risen drastically from 18 in 2011 to 42 by the end of 2012.

Our Company has kept up its effort to ally with more local and overseas business associates in order to further strengthen the business as well as to offer our customers with a spectrum of different products ranging from movie and celebrity related merchandises, fashion and accessories, food and living goods and a wide range of high-ended brands from Hong Kong, Taiwan and overseas.

Benefited from the evolving national economy and the continuously expanding nation-wide movie theater network of the Company, Xingmeihui has achieved satisfactory result in 2012. In the financial year of 2012, the Group made a revenue of approximately HK$45 million which marked an encouraging start for this new complementary business.

Advertising and Promotion business

In late 2011, the Company had decided to expand our advertising and promotion business by utilizing the resources of our movie theaters like the space and idle time of the screening halls in the movie theaters.

During 2012, the Group had been in a period for market research and development for this business segment as we believe only thorough understanding and planning will lead to healthy and sustainable growth of the business. Thus, the advertising and promotion business had been included in the movie theater business segment but not separated as an individual segment in the financial statements for the year ended 31 December 2012.

The Group has been liaising with various corporate clienteles and organized few promotion activities in first and second tier cities (such as Chengdu and Changsha etc), in both indoors and outdoors areas.

With the help of our nation-wide cinema network, high admission to our cinemas and Xingmeihui, the new complementary business of the Company, the advertising and promotion business will become another power engine for our future revenue.

Prospects

2012 was a year of consolidation for the Group. The Group had dedicated significant resources in reforming the membership scheme and strengthening its core and new complementary business. Although the Group's overall business might not be as outstanding as the result in 2011, with the blooming Chinese economy and movie industry, we are more than confident that our effort and investment in 2012 will pay off in the years ahead.

In the coming years, the Group will keep extending our existing movie theater network, especially in potentially fast growing second to third tier cities in China. As the leading market player, we wish to provide our theater audiences with high quality services and on the other hand, to keep our competitive edge, the Group will proceed with the advancement of our cinemas by constructing more 3D facilities in existing and new movie theaters.

Even though the Company will be focusing on its core business (Movie Theater Business) and new complementary business (Xingmeihui and advertising and promotion business), the Group will not overlook any opportunities in investment and distribution of high quality movies and TV series. As before, our Group will continue to be an active participant in the Chinese movie industry.

The new complementary businesses (Xingmeihui and advertising and promotion business) had grown moderately in 2012. With the increasing admission to our cinemas, our Group is assured that these businesses will work hand in hand with our movie theater operation and will persist to provide fresh and powerful impetus to the revenue of the Group.

With the experiences that the Group had gained in our preliminary start of the integrated business model in 2012, the management team will further fine-tune the business strategies and enhance the different operations of our businesses. Our management team will devote our effort to maintain a good financial structure of the Group.

FINANCIAL REVIEW

Turnover, revenues, and profit of the year

Total turnover and revenue during the year ended 31 December 2012 were approximately HK$912 million and HK$857 million (2011: HK$884 million and HK$736 million) respectively, 3.2% and 16.4% increase as compared with the 2011.

The profit after tax for the year ended 31 December 2012 was approximately HK$20 million (2011: HK$100 million). The decrease is 80% of 2011.

The decrease in profit was mainly due to the increase of selling, marketing and administrative expenses, as well as the inter-period allocation of income of the membership cards.

The segment revenues and profit for the year ended 31 December 2012 were mainly contributed by the theater operation and investments in film production and distribution segments.

The revenue and profit of theater operation for the year ended 31 December 2012 has been increased by approximately HK$161 million and decreased by approximately HK$118 million respectively when compared with the corresponding period in 2011.

The revenue and profit of film production and distribution segment for the year ended 31 December 2012 decreased by approximately HK$88 million and HK$12 million respectively when compared with the financial year of 2011.

Meanwhile, it is notable that the segment revenues and profits of the new complementary businesses, Xingmeihui were approximately HK$45 million and approximately HK$1 million respectively.

Selling, marketing and administrative expenses

The increase in selling, marketing and administrative expenses were mainly due to increase in the number of movie theaters built up and promotion of the New Membership Scheme during the year ended 31 December 2012.

Financial Cost

Financial cost mainly represented effective interest of HK$7 million derived from convertible notes and interest of HK$8 million derived from private placement bond issued during the year.

Financial resources and Liquidity

As at 31 December 2012, the Group has net current liabilities of approximately HK$256 million. This is mainly due to the convertible notes of HK$141 million issued to the controlling shareholder which will be due in May 2013 and increase in receipt in advances by approximately HK$175 million which mainly contributed by sales of membership cards during the year 2012.

During the year 2012, the group had issued a private placement bonds ("Bonds") in the size of RMB200 million (equivalent to approximately HK$242 million) to finance the development of the theater operation.

Nevertheless, the Group is operating in profit since 2010. The Directors believe that the Group will have sufficient cash resources to satisfy its future working capital requirement.

The Group net assets were approximately HK$2,596 million, representing an increase of approximately HK$26 million as at 31 December 2012. This was mainly due to the profit earned during the year ended 31 December 2012.

Debt and gearing

The gearing ratio (Total borrowings including convertible notes to equity attributable to equity holders of the Company) increased from 5% to 16% as at 31 December 2012 (2011: 5%) as a result of issue of convertible notes amounting HK$10,250,000 and the Bonds during the year 2012.

The Group was financed primarily through share capital, reserve and the Bonds. There was no bank borrowing as at 31 December 2012.

Foreign Exchange Risks

The Company reports its financial statements in Hong Kong dollars ("HKD"). All of the theater operation and new complementary businesses revenue and operating costs were denominated in Renminbi ("RMB"). The expansion of the theater operation and new complementary businesses will be principally in China. Company will therefore be exposed to exchange loss if HKD strengthens against RMB.

The Group currently does not have a foreign currency hedging policy. The Directors considers that it is unlikely HKD would strengthen against RMB in the near future. However, if RMB continues to strengthen against HKD, the Company is expected to have an exchange gain resulting from its RMB based investments in China. The Group will monitor its foreign currency exposure closely and will consider implementing an appropriate foreign currency hedging policy should the need arise.

Capital Expenditure

During the year, the Group incurred capital expenditure of approximately HK$146 million and the prepayments for construction works for theaters of approximately HK$383 million which were financed by the Bonds of RMB200 million (equivalent to approximately HK$242 million) and internal resources of the Group. The construction contracts were related to building of theaters throughout China.

Contingent Liabilities

Up to the date of this report, there are certain disputes arise from time to time in the ordinary course of the operation of theaters. The Group is in the course of processing these matters. While it is in an early stage of those disputes, the Directors of the Company are of the view that these disputes will not have a material adverse impact on the consolidated financial statements of the Group.

As at 31 December 2012, the Group and the Company did not have any other significant contingent liabilities.

Employees

Excluding the staff of associates and jointly controlled entities, there is total 1,724 full-time staff as at 31 December 2012 (including directors but excluding part-time staff). The Company offers remuneration and benefit packages to its employees according to the prevailing salary levels in the market, individual merits and performance.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. HU Yidong, aged 49, was appointed executive director of the Company on 7 May 2009 and redesignated temporarily as the Chairman of the Company on 17 January 2013.

Mr. HU graduated from Tsinghua University with a Master degree in Executive Master of Business Administration. He is experienced in corporate management and information management system and has over nine years of experience in the management of cinema business in China. Mr. HU is currently the chief executive officer of Stellar Megamedia Group Limited（星美傳媒集團有限公司）, a company registered in P.R.C.

He was a vice president of Stellar Megaunion Corporation, a company listed on the Shenzhen Stock Exchange, and an executive director of See Corporation Limited (stock code: 491), a company listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. CHENG Chi Chung, aged 46, was appointed executive director of the Company on 22 November 2011 and Chief Executive Officer ("CEO") of the Company on 7 June 2012.

He holds an EMBA degree from Tsinghua University of Beijing and a bachelor degree from Taiwan University, and obtained Special Awards and honor of the 44th National Culture and Arts in China. He also has been the chief executive officer of Beijing Gome Online Co., Ltd.（北京國美在線有限公司）, the group vice president of China Seven Star Shopping Limited(a company listed on the main board of the Stock Exchange, stock code: 0245), the chief executive officer of Beijing Yichengyangguang Technology Development Co., Ltd.（北京億誠陽光科技發展有限公司）, the general manager of Eastern Broadcasting and Eastern Shopping (America)（東森電視及東森購物（美洲））, the general manager of Eastern Public Relations Company（東森公關公司）and the director of Eastern Broadcasting News Channel（東森電視新聞台）. Mr. CHENG has extensive management experience in culture, media and retail areas.

Mr. WONG Kui Shing, Danny, aged 53, holds a Bachelor of Arts degree from the University of Hong Kong. He was appointed as an executive director and CEO of the Company on 5 August 2009. He was redesignated as the chairman and non-executive director of the Company and ceased to be the CEO of the Company on 25 November 2009. He resigned from all his positions in the Company on 26 March 2010 due to his need to devote more time to his other commitments. He was appointed executive director of the Company again on 22 November 2011.

Mr. WONG was appointed as an executive director and managing director of See Corporation Limited (stock code: 491) since 21 December 2009. In addition, Mr. WONG was a former executive director of China Oil and Gas Group Limited (stock code: 603), a company listed on the main board of the Stock Exchange. He has extensive exposure in the financial and investment fields for over 20 years and is well experienced in the international investment market.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HE Pei Gang, aged 66, was appointed independent non-executive director of the Company on 8 December 2009. Mr. HE is a certified public accountant with the title of senior accountant in China. He is a council member of a number of institutions such as Association of Beijing Internal Audit, Beijing Institute of Certified Public Accountants, Beijing Keji Jinrong Cujinhui, Beijing Zhongguancun Enterprises Credit Promotion Association. Mr. HE is also a perennial finance expert for Innovation Fund of the Ministry of Science and Technology, Beijing Municipal Development and Reform Commission, Audit Bureau of the Beijing Economic and Technological Development Zone and Beijing Civil Affairs Bureau. He is currently the chief accountant and chief partner of Beijing CRC United Certified Public Accountants General Partner. He attended the training for independent directorship organised by the Securities Association of China in 2003.

Mr. PANG Hong, aged 59, was appointed independent non-executive director of the Company on 28 September 2004. Mr. PANG had worked for various enterprises and government departments in China for over 20 years. He has substantial knowledge of the investment environment in China and has extensive experience in the management of Chinese companies. After studying in the United States for 3 years, he came to Hong Kong to further his career development. He is currently engaged in providing private management consultancy services. Mr. PANG was a former executive director of PACMOS Technologies Holdings Limited (Stock Code: 1010) and a former independent non– executive director of Dragonite International Limited (Stock Code: 329), both shares are listed on the main board of the Hong Kong Stock Exchange.

Mr. CHAN Sek Nin, Jackey, aged 57, was appointed an independent non-executive director of the Company on 14 July 2009. Mr. CHAN has over 20 years of solid experience in sales and marketing in connection with the media industry by holding senior positions in Television Broadcasts Limited as well as an extensive experience in property development, project management and strategic alliance management. He was appointed independent non-executive director of China Ocean Shipbuilding Industry Group Limited (stock code: 651) during the period from 12 April 2007 to 29 May 2008 and China Strategic Holdings Limited (stock code: 235) during the period from 6 June 2007 to 2 October 2007, both companies are listed on the main board of the Hong Kong Stock Exchange. Mr. CHAN is currently a non-executive director of Hanwell Holdings Limited, a company listed on the Singapore Exchange Securities Trading Limited, and the Chief Operating Officer of Hanny Holdings Limited (stock code: 275), a company listed on the main board of the Hong Kong Stock Exchange.

Directors' Report

The Board of Directors (the "Board" or "Directors") presents their annual report of the Company for the year ended 31 December 2012 (the "Reporting Period").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 44 to the consolidated financial statements.

Details of the Company's principal subsidiaries, jointly controlled entities and associates as at 31 December 2012 are set out in notes 44, 20 and 19 to the consolidated financial statements on pages 84-88, 70-71 and, 69-70 respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the Reporting Period are set out in the consolidated income statement on page 31.

No dividend was paid during the Reporting Period. The Directors do not recommend the payment of a final dividend in respect of the Reporting Period.

SHARE CAPITAL AND RESERVES

As at 31 December 2012, the total number of shares issued by the Company was 8,101,606,688 shares.

Movements in the Company's authorized and issued share capital are set out in note 36 to the consolidated financial statements on pages 80 to 81. Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on page 34 and those of the Company are set out in note 45 to the consolidated financial statements on pages 88 to 89.

Changes in authorized and issued share capital of the Company during the Reporting Period are also outlined below:

On 4 September 2012, the Company entered into subscription agreements in respect of the issue of the convertible notes at the conversion price of HK$1.00 per conversion share in the principal amount of HK$10,250,000. The net proceeds from the said agreement was approximately HK$10,000,000. Further details of the above transactions are set out in the announcement of the Company dated 4 September 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment as as 31 December 2012 are set out in note 16 to the consolidated financial statements on page 65.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the Reporting Period and up to the date of this report were:

Executive directors:

Mr. HU Yidong *(temporarily redesignated as Chairman on 17 January 2013)*
Mr. CHENG Chi Chung *(Appointed as CEO on 7 June 2012)*
Mr. WONG Kui Shing, Danny
Mr. QIN Hong *(resigned as executive director and Chairman on 17 January 2013)*

Independent non-executive directors:

Mr. HE Peigang
Mr. PANG Hong
Mr. CHAN Sek Nin, Jackey

In accordance with Bye-law 87(1) and 87(2) of the Company's Bye-laws, Messrs HE Peigang and CHAN Sek Nin, Jackey will hold office until the forthcoming special general meeting or forthcoming annual general meeting ("AGM") whichever is earlier, and being eligible to offer themselves for re-election.

Meanwhile, in accordance to Code Provision A.4.3. of Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange (the"Listing Rules"), which states that if an independent non-executive director ("INED") serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. PANG Hong ("Mr. PANG") has been appointed as the INED of the Company since 28 September 2004 and is subject to be appointed in a separate resolution by shareholders in the forthcoming AGM. The Board considers that Mr. PANG meets the independence guidelines set out in Rule 3.13 of the Listing Rules and the Company has received his annual written independence confirmation. Even though Mr. PANG has served as an INED for more than nine years, the Board is of the view that his duration of service will not interfere with his exercise of independent judgment in carrying out the duties and responsibilities as an INED. The Board considers him to be independent and believes he will continue to contribute to the Board because of his familiarity and experience with the Company's businesses and affairs. Accordingly, Mr. PANG will retire from office and be eligible to offer himself for re-election.

Meanwhile, each of the three independent non-executive directors has entered into a service contract with the Company for a term of three years. The service contract can be terminated by either party by giving three months' notice to the other party.

All annual remuneration packages were determined on arm's length negotiations between the parties based on their respective contributions to and responsibilities in the Company.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2012, the interests and short positions of the directors and chief executives in the shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in the Listing Rules were as follows:

Interests in the shares and underlying shares of the Company

Directors	Capacity	Registered shareholders	Corporate Interest	Long position	Short position	% of total issued shares
HU Yidong	Beneficial owner	–	–	15,000,000	–	0.19%
WONG Kui Shing, Danny	Interest of controlled corporation	–	1,000,000 (Note a)	–	–	0.01%
QIN Hong (resigned as director and Chairman on 17 January 2013)	Beneficial owner	–	–	172,400,000 (Note b)	–	2.13%

Notes:

(a) According to the Director's/Chief Executive's Notice of Mr. WONG Kui Shing, Danny filed on 14 June 2012, 1,000,000 shares are held by Global Moral Investments Limited ("Global Moral"), which Mr. WONG Kui Shing, Danny owns 50% control of Global Moral.

(b) As at the date of this report, Mr. QIN Hong, who has resigned as an executive director and Chairman of the Company, was interested in 172,400,000 shares which comprise 33,000,000 underlying shares and 139,400,000 shares.

Save as disclosed above, as at 31 December 2012, none of the other directors or the chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company, subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) as 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 the Model Code.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 30 September 2009. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to eligible participants, including the directors of the Company, as incentives or rewards for their contributions to the Group, details of the scheme are set out in note 37 to the consolidated financial statements on pages 81-82.

During the year ended 31 December 2012, certain existing executive directors of the Company and other eligible participants have interests in share options to subscribe for shares in the Company. Details of such interests and movement of share options granted by the Company are shown below:

			Number of share options					
Name	Date of grant	Exercise period (Notes)	Balance as at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2012	Exercise price per share HK$
Director								
QIN Hong (Note 2)	11 June 2010	1	33,000,000	–	–	–	33,000,000	0.51
HU Yidong	11 June 2010	1	15,000,000	–	–	–	15,000,000	0.51
Other Eligible participants								
	11 June 2010	1	91,075,507 (Note 3)	–	–	–	91,075,507	0.51
			139,075,507	–	–	–	139,075,507	

Notes:

(1) Divided into 2 tranches exercisable from 11 June 2010 to 10 June 2013.

(2) Mr. QIN Hong has resigned as director and Chairman of the Company on 17 January 2013.

(3) Including 5,000,000 shares granted to Mr. LI Kai, who resigned as director of the Company on 22 November 2011.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2012, so far as it is known to the Directors, the following parties (other than the directors and chief executives of the Company) had interests of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under Section 336 of SFO:

Substantial Shareholders	Registered shareholders	Corporate Interest	Long position	Short position	% of total issued shares
Mr. QIN Hui	6,197,508,961 (Note 1)	23,878,623 (Note 2)	6,221,387,584	–	76.79%
Kingston Finance Limited ("Kingston")	2,057,118,644	–	2,057,118,644 (Note 3)	–	25.39%
Ample Cheer Limited ("Ample Cheer")	2,057,118,644	–	2,057,118,644 (Note 3)	–	25,39%
Best Forth Limited ("Best Forth")	2,057,118,644	–	2,057,118,644 (Note 3)	–	25.39%
Chu Yuet Wah ("Madam Chu")	–	2,057,119,707	2,057,119,707 (Note 4)	–	25.39%

Notes:

1. Mr. QIN Hui is beneficially interested in the convertible notes in the principal amount of HK$141 million issued by the Company whichh is convertible into 300,000,000 shares at the conversion price of HK$0.47 per share. Mr. QIN Hui is therefore interested in 6,197,508,961 shares which comprise (i) 300,000,000 underlying shares and (ii) 5,897,508,961 shares.

2. Mr. QIN Hui owns the entire interest in Strategic Media International Limited ("SMIL") and was accordingly deemed to be interested in 23,878,623 shares of the Company which are held by SMIL.

3. According to the Corporate Substantial Shareholder Notices filed by Kingston, Ample Cheer and Best Forth filed on 30 May 2011, Kingston, as person having a security in shares, is interested in 2,057,118,644 shares which comprise (i) underlying shares and (ii) 300,000,000 shares. Since Kingston is wholly-owned by Ample Cheer who in turn in 80%-owned by Best Forth, Ample Cheer and Best Forth are deemed to be interested in 2,057,118,644 shares held by Kingston.

4. According to the Individual Substantial Shareholder Notice filed by Madam Chu on 30 May 2011, Madam Chu is deemed to be interested in 2,057,119,707 shares which comprise (i) 300,000,000 underlying shares and (ii) 1,757,119,707 shares through corporations controlled by her.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses required to be disclosed pursuant to Rule 8.10 of the Listing Rules are as follows:

Name of director	Name of company	Nature of competing business	Nature of interest
Mr. HU Yidong	Stellar Megamedia Group Limited and its subsidiaries	Movies, television dramas and documentary production distribution and licensing in the PRC	Chief Executive Officer
Mr. QIN Hong (resigned as director and Chairman on 17 January 2013)	Stellar Megamedia Group Limited and its subsidiaries	Movies, television dramas and documentary production distribution and licensing in the PRC	Chairman
	Stellar Mega Films Co. Limited	Movies production and talent management in the PRC	Chairman

Having considered (i) the nature, scope and size of the above businesses as compared to those of the Group; and (ii) the nature and extent of the above-named directors' respective interest in these businesses, the Board believes that the above businesses are unlikely to be of any significant competition with the businesses of the Group.

Apart from the foregoing, no director of the Board is interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director had a material interest, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Reporting Period is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	1.48%	
Five largest customers in aggregate	6.08%	
The largest supplier		26.02%
Five largest suppliers in aggregate		40.57%

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

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

During the Reporting Period, other than those disclosed in note 36 to the consolidated financial statements on pages 80 and 81, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

PUBLIC FLOAT

As at 31 December 2012, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Board.

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefit schemes are set out in note 14 to the consolidated financial statements on page 64.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group and the Company did not have any significant contingent liabilities.

FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years and the Reporting Period is set out on page 90 of the annual report.

AUDITORS

RSM Nelson Wheeler ("RSM"), the Company's auditors, will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint RSM as auditors of the Company.

By order of the Board
HU Yidong
Chairman

Hong Kong, 28 March 2013

Corporate Governance Report

OVERVIEW OF CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Company aims to promote and maintain effective internal control, transparency and accountability to the shareholders.

The Company has established a corporate governance framework comprising principally the Bye-laws and internal control handbook of the Company to implement the code provisions in the Code of Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (the "CG Code") as set out in Appendix 14 to the Listing Rules.

THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company was in compliance with the provisions of the CG Code, except for the deviations from Code Provisions A.2.1 (until 7 June 2012), A.6.7 and E.1.2 as set out in Appendix 14 to the Listing Rules which are explained below:

Chairman and Chief Executive Officer

Under the provision A.2.1 of the Code stipulates that the roles of the Chairman and CEO should be separated and should not be performed by the same individual. The roles of the Chairman and CEO are set out in details in the Bye-laws of the Company. During the Reporting Period, Mr. QIN Hong was the Chairman of the Company. The primary role of the Chairman is to oversee the operation of the Board and to ensure that it works effectively in the discharge of its responsibilities. He also temporarily held the position of the CEO of the Company until 7 June 2012 when the position of CEO has been taken by Mr. CHENG Chi Chung, an existing executive director of the Company.

Thereafter, the post of Chairman and CEO are held separately by Mr. QIN Hong and Mr. CHENG Chi Chung respectively to ensure there is a clear distinction between the responsibility of the Chairman to oversee the operation of the Board and the responsibility of the CEO which is to manage the Company's business with the support of the senior management.

After the Reporting Period, Mr. QIN Hong resigned as the Chairman and executive director of the Company on 17 January 2013. The responsibility of the Chairman is temporarily taken by Mr. HU Yidong, an existing executive director of the Company.

Attendance of directors in general meetings

In respect of the provisions A.6.7 and E.1.2, Messrs. QIN Hong (former-Chairman of the Board), CHENG Chi Chung and HU Yidong, three of the executive directors and Messrs. PANG Hong and CHAN Shek Nin, Jackey, two of the independent non-executive directors, were unable to attend the annual general meeting of the Company held on 29 June 2012 due to their overseas engagements.

Save as those mentioned above, in the opinion of the Board, the Company complied with the Provisions of the CG Code during the Reporting Period.

BOARD OF DIRECTORS

The Company is headed by the Board which is responsible for directing and supervising the Company's affairs.

As at the date of this report, the Board comprises three executive directors and three independent non-executive directors which provide the Board with a balanced composition of skills and experience appropriate for the requirements of the business of the Company. Biographies of all the Directors and the relationships (if any) among them are set out on pages 12 to 13 of this annual report.

The Company has received annual confirmations from all independent non-executive Directors that, save as disclosed in the annual report, they did not have any business or financial interest with the Company or its subsidiaries and were independent as at 31 December 2012 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non executive Directors are independent.

Functions and responsibilities reserved to the Board and the functions and responsibilities delegated to management are as follows:

The Board shall be responsible for:

- Approval of corporate and business strategies and objectives of the Company
- Approval of the annual budgets and financial reports of the Group and selecting suitable accounting policies and ensuring consistent application of these policies
- Monitoring the operating and financial performance of the Group
- Overseeing the management of the Company's relationships with the stakeholders, especially the Government, shareholders etc.
- Approval of investment proposals of the Company
- Restructuring and spin off relating to the Group
- Overseeing the processes for evaluation of the adequacy of internal controls, risk management, financial reporting and compliance
- Monitoring the performance of management
- Overseeing the corporate governance policies adopted by the Company

The management shall be responsible for:

- Day to day operations of the Company and its subsidiaries as delegated by the Board to the management led by the Chief Executive Officer
- Formulation of corporate and business strategies to be approved by the Board
- Execution of corporate and business strategies approved by the Board
- Formulation of investment, acquisition, mergers or spin off proposals
- Execution of investment, acquisition, mergers or spin off proposals and approved by the Board

APPOINTMENT, RE-ELECTION OF DIRECTORS

All Directors (including independent non-executive directors) are subject to retirement by rotation and re-election in accordance with the Company's Bye-law and also the CG Code.

The newly appointed directors will offer themselves for re-election at the forthcoming special general meeting or the forthcoming annual general meeting, whichever is earlier in accordance with the Company's Bye-law.

As Mr. PANG Hong has served as an independent non-executive director of the Company for nine years, he would offer himself for re-election at the forthcoming annual general meeting.

Details of the rotation and re-election of Directors are set in page 15 of this annual report.

NON-EXECUTIVE DIRECTORS

There are currently three non-executive directors who are all independent. Each independent non-executive director has entered into a service agreement with the Company for a period of three years. Pursuant to the bye-laws of the Company, one third of all the directors, including the non-executive directors, shall be subject to retirement by rotation at each annual general meeting.

One of three independent non-executive directors is professional accountant and two of them possess the related extensive management experience. This composition is in compliance with the requirement of Rule 3.10 of the Listing Rules. Each independent non-executive director has, pursuant to Rule 3.13 of the Listing Rules, provided an annual confirmation of his independence to the Company and the Company also considers them to be independent.

The independent non-executive directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. The Board also considers that the independent non-executive directors can provide independent advice on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

TRAINING AND CONTINUOUS SUPPORT

Each newly appointed director would receive an induction upon his appointment. Such induction may include visits to the business site of the Company and meetings with the management of the Company, and/or briefing of a director's obligation in the Listing Rules and other statutory requirements. This enables the Directors to have a more comprehensive understanding of the Company's business and operation as well as to be aware of his responsibilities as a director in a listed company.

Meanwhile, directors' training is an ongoing process. Pursuant to Code Provision A.6.5 of the CG Code, the directors should participate in continuous professional development to develop their knowledge and skills. During the Reporting Period, the directors are provided with monthly updates on the Company's performance to enable the Board as a whole and each director to discharge their duties. The Company would also keep the Directors updated with the latest information regarding the developments and changes in the Listing Rules and other regulatory requirements.

Apart from the updates of the Listing Rules and the Company, Directors also visited and met the key managements and the Company's facilities in Hong Kong or PRC in order to understand and be updated of the Company's business and operations. The Company believes that it would ensure that the contribution of the Directors to the Board remains informed and relevant to the Company.

The participation by the Directors since 1 April 2012 up to 31 December 2012 is as follows:–

Name of Directors	Reading Regulatory Updates	Visit/Meeting Key Management
Executive Directors		
HU Yidong	✓	✓
CHENG Chi Chung	✓	✓
WONG Kui Shing, Danny	✓	✓
QIN Hong (resigned as director and Chairman on 17 January 2013)	✓	✓
Independent Non-Executive Directors		
HE Pei Gang	✓	✓
PANG Hong	✓	✓
CHAN Sek Nin, Jackey	✓	✓

DIRECTORS' AND OFFICERS' INSURANCE ("D&O INSURANCE")

The Company has arranged appropriate D&O insurance cover to protect the Directors and senior officers from potential legal actions against them.

ATTENDANCE OF INDIVIDUAL DIRECTORS AT BOARD MEETINGS AND GENERAL MEETINGS IN 2012

There were a total of 8 board meetings and 1 general meeting held during the year ended 31 December 2012. The attendance of individual directors at the board meetings and general meeting held during the year is as follows:

Name of Director	Number of board meetings	Number of general meeting
Executive Directors		
Mr. HU Yidong	8/8	0/1
Mr. CHENG Chi Chung	7/8	0/1
Mr. WONG Kui Shing, Danny	8/8	1/1
Mr. QIN Hong (resigned as Chairman and executive director on 17 January 2013)	6/8	0/1
Independent Non-Executive Directors		
Mr. HE Peigang	8/8	1/1
Mr. PANG Hong	8/8	0/1
Mr. CHAN Sek Nin, Jackey	8/8	0/1

Minutes of board meetings and general meetings are kept by the secretary of the Company (the "Secretary") and are open for inspection by the Directors of the Company. Every Director of the Company is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Secretary, and has the liberty to seek external professional advice if so required.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD COMMITTEES

Audit Committee

Since 14 July 2009, the Company has established an audit committee (the "Audit Committee") with written terms of reference aligned with the Provisions of the CG Code. The terms of reference of the Audit Committee are disclosed in full on the Company's website. The Audit Committee currently comprises three independent non-executive Directors, namely, Mr. HE Peigang (as chairman), PANG Hong and CHAN Sek Nin, Jackey.

The primary roles of the Audit Committee are to monitor integrity of the annual report and accounts and half-yearly report of the Company and to review significant reporting judgments contained in such reports; to review the Group's financial and accounting policies and practices; to review the Group's financial control, internal control and risk management system of the Group with particular regard to their effectiveness and to make recommendations to the Board where the monitoring activities of the committee reveal cause for concern or scope for improvement. The Audit Committee also meets regularly with the Company's external auditors to discuss the audit progress and accounting matters.

The Audit Committee held 2 meetings during the year ended 31 December 2012 to consider the full year audit report for financial year ended 31 December 2012. The attendance records of the meetings are as follows:–

Name	Attendance
HE Peigang *(Chairman)*	2/2
PANG Hong	2/2
CHAN Sek Nin, Jackey	2/2

Remuneration Committee

Since 14 July 2009, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference. The terms of reference of the Remuneration Committee are disclosed in full on the Company's website. The Remuneration Committee currently comprises three independent non-executive directors, namely, Mr. HE Peigang (as Chairman), PANG Hong and CHAN Sek Nin, Jackey.

Within the authority delegated by the Board, the Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of all Directors and senior management on the establishment of a formal and transparent procedure for developing policy on such remuneration; reviewing the specific remuneration packages of all Directors and senior management by reference to corporate goals and objective resolved by the Board from time to time; ensuring no Director or any of his associates is involved in deciding his own remuneration and advising shareholders on how to vote with respect to any service contracts of directors that requires shareholders' approval.

The Remuneration Committee held 1 meeting during the year ended 31 December 2012 to review the remuneration of Directors and senior management for the financial year ended 31 December 2012 and to make recommendations on the remuneration package of the newly appointed Directors. The attendance records of the meeting are as follows:–

Name	Attendance
HE Peigang *(Chairman)*	1/1
PANG Hong	1/1
CHAN Sek Nin, Jackey	1/1

Nomination Committee

Since 14 July 2009, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference. The terms of reference are disclosed in full on the Company's website. The Nomination Committee currently comprises three independent non-executive directors, namely, Messrs. HE Peigang (as chairman), PANG Hong and CHAN Sek Nin, Jackey.

The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. All appointments of directors were nominated by the Nomination Committee based on considerations including vacancy available, competence and experience, possession of requisite skills and qualifications, independence and integrity.

The Nomination Committee held 1 meeting during the year ended 31 December 2012. The attendance records of the meeting are as follows:–

Name	Attendance
HE Peigang *(Chairman)*	1/1
PANG Hong	1/1
CHAN Sek Nin, Jackey	1/1

ACCOUNTABILITY AND AUDIT

Remuneration of the Auditors

The remuneration in respect of audit services provided by auditors of the Group for the year ended 31 December 2012 is HK$2,799,000. There is no significant non-audit service fees paid to the auditors of the Group during the year ended 31 December 2012.

Internal Control

The Board has overall responsibility for the internal control and risk management systems of the Company and for reviewing the effectiveness of the internal control and risk management system through the Audit Committee during the year.

The Company has strived to improve its internal control. Due to the existing operational scale, in late 2012, the Company has reviewed and reformed the existing internal control menu of the Company. Revised internal control menu will be designed to facilitate the effectiveness and efficiency of existing and future operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records for provision of reliable financial information and to ensure compliance with relevant legislation and regulations. Internal control reports will be submitted and discussed by the Audit Committee regularly to review the effectiveness of the internal control policies.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year which give a true and fair view of the state of affairs of the Company and that appropriate accounting policies have been selected and applied consistently.

The responsibilities of the auditors of the Company in preparing the financial statements are set out in the independent auditor's report on pages 29 to 30 of this annual report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Investor Relations and Communication with Shareholders

The Company is committed to ensure that its shareholders and the investment community are provided with comprehensive information of the Company in a timely and transparent manner through the announcements, circulars, annual reports and interim reports etc. publish in the websites of the Stock Exchange and the Company, so that the shareholders and investment community are well-informed of the developments and information of the Company. The Company also updates its website regularly to provide other latest information to the shareholders and the investment community.

Effective communication with the shareholders is also maintained by ongoing dialogue with the shareholders through annual general meetings and other general meetings.

The Company has established a shareholder communication policy in March 2012 to provide framework to facilitate effective communication with shareholders.

Shareholder's Rights

Set below is a summary of certain rights of the shareholders of the Company:

(1) ***Convening an special general meeting on requisition by shareholders***

According to the Bye-Laws of the Company, the shareholders of the Company 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 meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

(2) ***Procedures for directing shareholders' enquiries to the board***

Shareholders may at any time send enquires and concerns to the Board of Directors of the Company in writing through the Company Secretary whose contact details are as follows:–

The Company Secretary
SMI Corporation Limited
Suite 6701-2 & 13,
The Center,
99 Queen's Road Central,
Central, Hong Kong
E-mail: info@smi198.com
Tel No.: +852 2111 9859
Fax No.: +852 2111 0498

The Company Secretary shall forward enquires and concerns received to the Board of Directors and/or the relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

(3) Procedures for putting forward proposals at general meetings by shareholders

Pursuant to Bye-law 88 of the Company, the shareholders of the Company may refer to the procedures below for proposing a person for election as a Director of the Company:

Any shareholder (who is duly qualified to attend and vote at the meeting), who wishes to propose a person other than a retiring director of the Company for election as a Director at any general meeting, may do so by sending the written notice together with other relevant documents in relation to the said proposal ("Nomination Documents") to the head office or at the registration office of the Company. The period of lodgment of such written notice shall commence on or after the day after the despatch of the notice of general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting. The minimum length of such notice period shall be at least 7 days.

The shareholders may send the Nomination Documents to the following principal place of business of the Company in Hong Kong:

The Company Secretary
SMI Corporation Limited
Suite 6701-2 & 13, 67/F
The Centre
99 Queen's Road Central
Central, Hong Kong

The Nomination Documents includes:

(1) Notice of intention regarding the proposal by the shareholder;

(2) Consent in writing to be elected as Director of the Company by the nominated candidate;

(3) Biography of the nominated candidate; and

(4) Any other relevant information of the proposal.

Independent Auditor's Report

29th Floor
Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Hong Kong

TO THE SHAREHOLDERS OF SMI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

28 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	6	**911,707**	883,543
Revenue	6	**857,205**	736,317
Cost of sales		**(378,862)**	(321,881)
Gross profit		**478,343**	414,436
Other income/(loss)	8	**45,965**	(11,276)
(Loss)/gain on disposal of held-for-trading investments		**(4,459)**	3,556
Selling and marketing expenses		**(381,096)**	(194,171)
Administrative expenses		**(84,254)**	(65,864)
Other operating expenses	9	**(525)**	(1,560)
Profit from operations		**53,974**	145,121
Finance costs	10	**(15,673)**	(14,620)
Loss on acquisition of subsidiaries, net		**–**	(7,277)
Share of profits of associates		**157**	9,522
Share of profits of a jointly controlled entity		**3,118**	13,376
Impairment loss on goodwill	17	**–**	(5,912)
Profit before tax		**41,576**	140,210
Income tax expense	11	**(21,263)**	(39,902)
Profit for the year	12	**20,313**	100,308
Attributable to:			
Owners of the Company		**30,875**	101,626
Non-controlling interests		**(10,562)**	(1,318)
		20,313	100,308
Earnings per share	15		
– Basic		**HK0.38 cents**	HK1.34 cents
– Diluted		**HK0.38 cents**	HK1.34 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Profit for the year		**20,313**	100,308
Other comprehensive income:			
Exchange differences on translating foreign operations		**3,362**	18,780
Other comprehensive income for the year, net of tax		**3,362**	18,780
Total comprehensive income for the year		**23,675**	119,088
Attributable to:			
Owners of the Company		**32,803**	109,909
Non-controlling interests		**(9,128)**	9,179
		23,675	119,088

Consolidated Statement of Financial Position

At 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**941,227**	719,366
Goodwill	17	**1,421,706**	1,421,706
Intangible assets	18	**220,749**	213,678
Investments in associates	19	**16,705**	16,533
Investments in jointly controlled entities	20	**79,228**	76,071
Deposits paid for investments	21	**–**	11,764
Available-for-sale financial assets	22	**23,020**	23,020
Rental deposits		**28,171**	18,475
Prepayments for construction of cinemas	23	**383,151**	160,040
Deferred tax assets	35	**–**	2,521
		3,113,957	2,663,174
Current assets			
Inventories	24	**21,671**	23,221
Trade and other receivables	25	**269,984**	229,301
Held-for-trading investments	26	**–**	45,106
Convertible notes designated at financial assets at fair value through profit or loss	27	**25,442**	21,700
Bank and cash balances	28	**68,458**	45,295
		385,555	364,623
Current liabilities			
Trade and other payables	29	**472,948**	280,231
Due to associates	30	**569**	379
Due to related parties	31	**821**	469
Convertible notes	33	**138,216**	–
Current tax liabilities		**29,245**	36,368
		641,799	317,447
Net current (liabilities)/assets		**(256,244)**	47,176
Total assets less current liabilities		**2,857,713**	2,710,350
Non-current liabilities			
Long term bonds	32	**245,404**	–
Convertible notes	33	**9,864**	132,144
Deferred income		**761**	1,709
Deferred tax liabilities	35	**5,890**	6,781
		261,919	140,634
NET ASSETS		**2,595,794**	2,569,716
Capital and reserves			
Share capital	36	**810,161**	810,161
Reserves	45	**1,721,114**	1,687,898
Equity attributable to owners of the Company		**2,531,275**	2,498,059
Non-controlling interests		**64,519**	71,657
TOTAL EQUITY		**2,595,794**	2,569,716

Approved by the Board of Directors on 28 March 2013.

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (note (c))	Contributed surplus HK$'000	Foreign currency translation reserve HK$'000 (note (a))	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (note (b))	Share-based payment reserve HK$'000	(Accumulated loss)/ retained profit HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	647,449	1,056,632	(36,615)	31,172	3,320	323,900	15,995	29,342	(59,112)	2,012,083	47,672	2,059,755
Total comprehensive income for the year	–	–	–	–	8,283	–	–	–	101,626	109,909	9,179	119,088
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	2,240	2,240
Recognition of share option lapsed	–	–	–	–	–	–	–	(22,070)	22,070	–	–	–
Transfer to statutory reserve (note (b))	–	–	–	–	–	–	13,176	–	(13,176)	–	–	–
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	12,566	12,566
Recognition of equity component of convertible note (note 33a)	–	–	–	–	–	12,500	–	–	–	12,500	–	12,500
Conversion of convertible notes	162,712	609,885	–	–	–	(323,900)	–	–	–	448,697	–	448,697
Acquisition of economic interest of subsidiaries note (c)	–	–	(85,130)	–	–	–	–	–	–	(85,130)	–	(85,130)
Changes in equity for the year	162,712	609,885	(85,130)	–	8,283	(311,400)	13,176	(22,070)	110,520	485,976	23,985	509,961
At 31 December 2011	810,161	1,666,517	(121,745)	31,172	11,603	12,500	29,171	7,272	51,408	2,498,059	71,657	2,569,716
At 1 January 2012	810,161	1,666,517	(121,745)	31,172	11,603	12,500	29,171	7,272	51,408	2,498,059	71,657	2,569,716
Total comprehensive income for the year	–	–	–	–	1,928	–	–	–	30,875	32,803	(9,128)	23,675
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,990	1,990
Transfer to statutory reserve (note (b))	–	–	–	–	–	–	4,920	–	(4,920)	–	–	–
Recognition of equity component of convertible note (note 33b)	–	–	–	–	–	413	–	–	–	413	–	413
Changes in equity for the year	–	–	–	–	1,928	413	4,920	–	25,955	33,216	(7,138)	26,078
At 31 December 2012	810,161	1,666,517	(121,745)	31,172	13,531	12,913	34,091	7,272	77,363	2,531,275	64,519	2,595,794

Notes:

(a) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(e) to the financial statements.

(b) Statutory reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

(c) Other reserve

(i) The difference between the fair value of the 843,500,000 ordinary shares issued for the acquisition of the entire equity interest in Colour Asia Pacific Limited ("Colour Asia") and the issued and fully paid up amount of such ordinary shares;

(ii) The consideration for the additional economic interests of two principal subsidiaries (Further details of the transactions are set out in the circular of the Company dated 18 January 2011).

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**41,576**	140,210
Adjustments for:		
Finance costs	**15,673**	14,620
Interest income	**(1,054)**	(1,091)
Amortisation of lease contracts rights	**3,565**	2,948
Amortisation of prepaid building lease rights	**1,075**	655
Amortisation of investments in film production	**39,224**	116,744
Depreciation	**81,609**	31,195
Share of profits of associates	**(157)**	(9,522)
Share of profits of a jointly controlled entity	**(3,118)**	(13,376)
Fair value (gain)/loss of held-for-trading investments	**(13,855)**	13,855
Fair value (gain)/loss of convertible notes designated at financial assets at fair value through profit or loss	**(3,742)**	6,900
Dividend income from held-for-trading investments	**(1,313)**	(594)
Loss on acquisition of subsidiaries	**–**	7,277
Loss on disposal of property, plant and equipment	**355**	138
Impairment loss on goodwill	**–**	5,912
Impairment loss on deposits paid for investments	**–**	1,207
Impairment loss on other receivables	**170**	215
Operating profit before working capital changes	**160,008**	317,293
Decrease/(increase) in inventories	**1,550**	(21,139)
Increase in rental deposits	**(9,696)**	(3,475)
(Increase)/decrease in trade and other receivables	**(55,626)**	94,093
Additional cost incurred in investments in film production	**(68,920)**	(127,620)
Return in investments in film production	**17,985**	20,886
Dividend income from held-for-trading investments	**1,313**	594
Decrease/(increase) in held-for-trading investments	**58,961**	(45,691)
Decrease in deferred income	**(948)**	–
Increase in trade and other payables	**171,560**	93,700
Cash generated from operations	**276,187**	328,641
Income taxes paid	**(23,708)**	(7,457)
Income taxes refund	**58**	–
Net cash generated from operating activities	**252,537**	321,184

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(145,720)**	(416,517)
Prepayments for construction of cinemas	**(383,151)**	(160,040)
Investment in an associate	**–**	(13,244)
Investment in jointly controlled entities	**–**	(23,440)
Decrease in amounts due from associates	**190**	7,788
Decrease in amounts due from a jointly controlled entity	**–**	606
Proceeds from disposal of property, plant and equipment	**10,045**	287
Net cash inflow from acquisition of subsidiaries, net of acquisition cost	**–**	1,152
Acquisition of additional economic interests of subsidiaries	**–**	(85,130)
Net deposits refund for investments	**7,462**	16,335
Interest received	**1,054**	1,091
Net cash used in investing activities	**(510,120)**	(671,112)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of long term loans	**244,989**	–
Proceeds from issue of convertible notes	**10,250**	141,000
Repayment from non-controlling interests of subsidiaries	**29,325**	561
Capital contribution from non-controlling interests	**1,990**	2,240
Repayment to related parties	**(1)**	(483)
Interest paid	**(861)**	(2,963)
Net cash generated from financing activities	**285,692**	140,355
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**28,109**	(209,573)
Effect of foreign exchange rate changes	**(4,946)**	1,051
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**45,295**	253,817
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**68,458**	45,295
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**68,458**	45,295

Notes to the Financial Statements

For the year ended 31 December 2012

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 44 to the financial statements.

In the opinion of the Directors of the Company, as at 31 December 2012, Mr. QIN Hui is the controlling party of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("IAS") and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new IFRSs, that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and the financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost conversion, as modified by the revaluation of certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income, the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associates (Continued)

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(d) Joint venture (Continued)

The gain or loss on the disposal of a jointly controlled entity that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that jointly controlled entity and (ii) the Group's share of the net assets of that jointly controlled entity plus any remaining goodwill relating to that jointly controlled entity and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	the term of the lease
Operation equipment	20%
Broadcasting equipment	10% to 20%
Electronic equipment	33.33%
Furniture, fixtures and equipment	10% to 33.33%
Motor vehicles	20%

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Operating lease

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(h) Trademark

Trademark acquired by the Group are stated at cost less impairment losses.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

(i) Prepaid building lease rights

Prepaid building lease rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the remaining lease terms of the corresponding lease contracts from 10 to 20 years and is subject to the impairment review at the end of the reporting period.

(j) Lease contracts

Lease contracts are the fair value of the difference between the market rent and the minimum lease payment of the lease contract held by the acquired companies at the date of acquisition. Lease contracts are stated at cost and amortised over the remaining lease terms of the corresponding lease contracts.

(k) Investments in film production

Investments in film production is stated at cost less accumulated amortisation and impairment loss. Amortisation is charged to the profit or loss based on the proportion of actual income earned during the period to the total estimated income from the distribution of the film. An impairment review is performed annually. Films under production are accounted for on a film-by-film basis.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(n) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investments (Continued)

(iii) Unlisted equity securities

Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be realiably measured are recognised in the statement of financial position at cost less impairment losses.

(o) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(q) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Convertible notes

Convertible notes which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

(t) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

(u) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(w) Revenue recognition

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

Income from box office takings is recognised when the services have been rendered to the buyers.

Income from screen advertising is recognised when the services are provided.

Income from sales of food and beverage, posters and audio-visual products is recognised when the goods are delivered and title has passed.

Income from investments in film production is recognised when the result of the film distribution can be reliably measured and when the income is received or receivables.

Management fee income is recognised upon the provision of the services.

Interest income from a financial asset is accrued on a time-proportion 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.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(w) **Revenue recognition (Continued)**

Dividend income from held-for-trading investments is recognised when the shareholders' rights to receive payment have been established.

(x) **Employee benefits**

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(y) **Share-based payments**

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(z) **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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(ab) Related parties

A related party is a person or entity that is related to the Group.

(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;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(ab) Related parties (Continued)

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company 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. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(ac) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, inventories and receivables 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ad) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(ae) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlying the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 3 to the financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(b) Fair value of convertible notes designated at financial assets at fair value through profit or loss

The fair value of the convertible notes involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation. As at 31 December 2012, the carrying amount of the convertible notes is HK$25,442,000 (2011: HK$21,700,000).

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the Reporting Period was HK$1,421,706,000 (2011: HK$1,421,706,000).

(d) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Impairment loss on investments in film production

At the end of the reporting period, when the present value of the expected future net revenue of investments in film production is estimated to be less than its carrying amount, the carrying amount of films under production will be written down to its present value of the expected future net revenue. If the actual revenue differs from the estimated net revenue expected to be realised, such difference may result in further impairment loss. As at 31 December 2012, the carrying amount of the investments in film production was HK$133,976,000 (2011: HK$122,265,000).

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate 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.

(a) Foreign currency risk

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

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables and investments, included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group's credit risk is primarily attributable to trade receivables and advances made to some independent third parties which were included in other receivables and bank balances.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual at the end of the Reporting Period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The Group has concentration of credit risk as 76% (2011: 63%) of the total trade receivables was due from the Group's five largest customers.

The credit risk on cash and bank balances is limited because majority of the counterparties are reputable banks or banks registered in the PRC and Hong Kong.

None of the Group's financial assets are secured by collateral or other credit enhancements.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 years HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
At 31 December 2012				
Trade and other payables	**240,462**	**–**	**–**	**–**
Due to associates	**569**	**–**	**–**	**–**
Due to related parties	**821**	**–**	**–**	**–**
Convertible notes	**142,218**	**513**	**11,618**	**–**
Long-term bonds	**23,628**	**23,628**	**264,473**	**–**
At 31 December 2011				
Trade and other payables	223,046	–	–	–
Due to associates	379	–	–	–
Due to related parties	469	–	–	–
Convertible notes	–	141,705	–	–

(d) Interest rate risk

The Group's exposure to changes in interest rate risk is mainly attributable to its bank balances. Bank balances at variable interest rate expose the Group to cash flow interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

At 31 December 2012, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been HK$554,000 (2011: HK$144,000) lower, arising mainly as a result of lower interest income on bank balances. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been HK$554,000 (2011: HK$144,000) higher, arising mainly as a result of higher interest income on bank.

5. FINANCIAL RISK MANAGEMENT (Continued)

(e) Price risk

The Group is exposed to equity price risk through its investments in convertible notes designated at financial assets at fair value through profit or loss ("financial assets at FVTPL"). The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

The sensitivity analyses below have been determined based on the exposure to the change of share price and its volatility of the convertible notes at the reporting date only.

As 31 December 2012, if the share prices of convertible notes had been 10% (2011: 10%) higher/lower and all other variables were held constant, the consolidated profit after tax for the year ended 31 December 2012 would increase by HK$1,879,000 (2011: HK$2,205,000) and decrease by HK$1,879,000 (2011: HK$1,488,000) respectively, as a result of changes in fair value of convertible notes designated at financial assets at FVTPL.

(f) Categories of financial instruments at 31 December 2012

	2012 **HK$'000**	2011 HK$'000
Financial assets		
Financial assets at fair value through profit or loss:		
– Held for trading	**–**	45,106
– Convertible notes designated at financial assets at FVTPL	**25,442**	21,700
Available-for-sale financial assets	**23,020**	23,020
Loans and receivables (including cash and cash equivalents)	**215,104**	163,121
Financial liabilities		
Financial liabilities at amortised cost	**635,336**	356,038

(g) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

5. FINANCIAL RISK MANAGEMENT (Continued)

(g) Fair values (Continued)

The following disclosures of fair value measurements use a fair value hierarchy which has 3 levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Disclosures of level in fair value hierarchy at 31 December 2012:

	Fair value measurement using:			Total
Description	**Level 1**	**Level 2**	**Level 3**	**2012**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Convertible notes designated at financial assets at FVTPL	**–**	**25,442**	**–**	**25,442**
Total	**–**	**25,442**	**–**	**25,442**

	Fair value measurement using:			Total
Description	Level 1	Level 2	Level 3	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Held-for-trading investments – listed equity securities	45,106	–	–	45,106
Convertible notes designated at financial assets at FVTPL	–	21,700	–	21,700
Total	45,106	21,700	–	66,806

There have no transfers between levels 1 and 2 during the Reporting Period. Gain arising from fair value changes of held-for-trading investments of approximately of HK$13,855,000 (2011: loss of HK$13,855,000) was included in the consolidated income statement for the year ended 31 December 2012. Included in the consolidated income statement is amounting approximately HK$3,742,000 (2011: loss of HK$6,900,000) fair value gain related to convertible notes designated at financial assets at FVTPL.

6. **TURNOVER AND REVENUE**

The Group's turnover which represents the amounts received and receivable from theater operation, in-theater counter sales and online shopping, return from investments in film production and distribution, dividend income and trading of equity securities during the year are as follows:

	2012 HK$'000	2011 HK$'000
Theater operation	**729,799**	569,170
Dividend income from held-for-trading investments	**1,313**	594
Investments in film production and distribution	**71,376**	159,138
In-theater counter sales and online shopping	**44,629**	–
Others	**10,088**	7,415
Proceeds from held-for-trading investments	**54,502**	147,226
	911,707	883,543

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

	2012 HK$'000	2011 HK$'000
Theater operation	**729,799**	569,170
Dividend income from held-for-trading investments	**1,313**	594
Investments in film productions and distribution	**71,376**	159,138
In-theater counter sales and online shopping	**44,629**	–
Others	**10,088**	7,415
	857,205	736,317

7. **SEGMENT INFORMATION**

During the year, the Group has a new reportable segment, "In-theater counter sales and online shopping". The four reportable segments of the Group are as follows:

(a) Theater operation – box office income, advertising income, facilities rental income, membership service income and sales of food and beverage

(b) Securities trading – trading of marketable securities

(c) Investments in film production and distribution – investments in production and distribution of films

(d) In-theater counter sales and online shopping – sales of goods through in-theater counter and online website

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

7. SEGMENT INFORMATION (Continued)

The Group's other operating segments include the operating and management business which earns operating and management income, advertising and public relation services which earn service income for advertising and trading business which earn profit from goods sold. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the "others" column.

Segment profit represents the profit earned by each segment without allocation of central administrative expenses, change in fair value of convertible notes designated at financial assets at FVTPL, interest income from convertible notes designated at financial assets at FVTPL, financial costs incurred by convertible notes and equity-settled share-based expenses. Segment assets do not include convertible notes designated at financial assets at FVTPL, assets of headquarters and other receivables of the headquarters. Segment liabilities do not include amounts due to related parties, other payables of headquarters and convertible notes. Segment non-current assets do not include non-current assets of headquarters. This is the measure reported to the Chief Operation Decision Maker, the Directors of the Company, for the purposes of resource allocation and performance assessment.

Information about reportable segment profit or loss, assets and liabilities:

	Theater operation HK$'000	Securities trading HK$'000	Investments in film production and distribution HK$'000	In-theater counter sales and online shopping HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2012						
Revenue from external customers	729,799	1,313	71,376	44,629	10,088	857,205
Segment profit	3,802	9,707	31,061	1,369	4,231	50,170
Interest revenue	152	–	–	1	–	153
Interest expense	(8,316)	(744)	–	–	–	(9,060)
Depreciation and amortisation	(84,207)	–	(39,224)	(105)	–	(123,536)
Other material items of income and expense:						
Share of profits of jointly controlled entities	–	–	–	–	3,118	3,118
Share of profits of associates	157	–	–	–	–	157
Income tax expense	(20,820)	–	–	(443)	–	(21,263)
Other material non-cash items:						
Impairment loss on receivables, net	(170)	–	–	–	–	(170)
Additions to segment non-current assets	537,007	–	68,920	420	1,140	607,487
As at 31 December 2012						
Segment assets	3,165,065	150	202,873	12,930	80,635	3,461,653
Segment liabilities	(739,884)	–	(3,965)	(3,644)	(447)	(747,940)
Investments in associates	16,705	–	–	–	–	16,705
Investments in jointly controlled entities	–	–	–	–	79,228	79,228

7. SEGMENT INFORMATION (Continued)

	Theater operation HK$'000	Securities trading HK$'000	Investments in film production and distribution HK$'000	In-theater counter sales and online shopping HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2011						
Revenue from external customers	569,170	594	159,138	–	7,415	736,317
Segment profit/(loss)	121,645	(13,230)	42,737	–	(1,660)	149,492
Interest revenue	112	–	5	–	–	117
Interest expense	(9)	(2,337)	–	–	–	(2,346)
Depreciation and amortisation	(33,045)	–	(116,744)	–	(64)	(149,853)
Other material items of income and expense:						
Loss on acquisition of subsidiaries, net	(7,277)	–	–	–	–	(7,277)
Share of profits of jointly controlled entities	10,542	–	–	–	2,834	13,376
Share of profits of associates	9,522	–	–	–	–	9,522
Income tax (expense)/credit	(39,971)	69	–	–	–	(39,902)
Other material non-cash items:						
Impairment loss on goodwill	–	–	–	–	(5,912)	(5,912)
Impairment loss on other receivables	(215)	–	–	–	–	(215)
Additions to segment non-current assets	629,827	–	127,620	–	3,332	760,779
As at 31 December 2011						
Segment assets	2,638,970	45,292	190,847	–	119,757	2,994,866
Segment liabilities	(277,106)	(42,601)	(1,598)	–	(2,227)	(323,532)
Investments in associates	16,533	–	–	–	–	16,533
Investments in jointly controlled entities	–	–	–	–	76,071	76,071

Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2012 (31 December 2011: Nil).

7. SEGMENT INFORMATION (Continued)

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

	2012 HK$'000	2011 HK$'000
Revenue		
Total revenue of reportable segments	**857,205**	736,317
Profit or loss		
Total profit of reportable segments	**50,170**	149,492
Other income	**1,069**	997
Unallocated amounts:		
Fair value gain/(loss) on convertible notes designated at financial assets at FVTPL	**3,742**	(6,900)
Impairment loss on deposits paid for investment	**–**	(1,207)
Unallocated finance costs	**(6,613)**	(12,274)
Corporate expenses	**(28,055)**	(29,800)
Consolidated profit for the year	**20,313**	100,308

	2012 HK$'000	2011 HK$'000
Assets		
Total assets of reportable segments	**3,461,653**	2,994,866
Convertible notes designated at financial assets at FVTPL	**25,442**	21,700
Unallocated headquarter amounts:		
Property, plant and equipment	**331**	2,377
Prepayments and other receivables	**11,701**	7,178
Bank and cash balance	**385**	1,676
Consolidated total assets	**3,499,512**	3,027,797
Liabilities		
Total liabilities of reportable segments	**747,940**	323,532
Amounts due to related parties	**821**	469
Convertible notes	**148,080**	132,144
Unallocated headquarters amounts:		
Others liabilities	**6,877**	1,936
Consolidated total liabilities	**903,718**	458,081

Geographical information:

The Group principally operates in the PRC (country of domicile) with revenue and profit derived mainly from its operations in the PRC.

7. **SEGMENT INFORMATION (Continued)**

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

	Revenue		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**28,478**	6,199	**1,727**	2,377
PRC except Hong Kong	**828,727**	730,118	**3,089,210**	2,635,256
Consolidated total	**857,205**	736,317	**3,090,937**	2,637,633

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

There are no major customers contributing over 10% of the Group's revenue for the year ended 31 December 2012 and 31 December 2011.

8. OTHER INCOME/(LOSS)

	2012	2011
	HK$'000	HK$'000
Interest income	**153**	192
Coupon interest income from convertible notes designated at financial assets at FVTPL	**901**	899
Fair value gain/(loss) of convertible notes designated as at financial assets at FVTPL	**3,742**	(6,900)
Fair value gain/(loss) of held-for-trading investments	**13,855**	(13,855)
Government grants (note)	**12,087**	1,750
Waiver of other payables	**10,755**	–
Others	**4,472**	6,638
	45,965	(11,276)

Note:

Government grants mainly represented the refund of the contributions to the National Film Development Trust (國家電影事業發展專項資金).

9. OTHER OPERATING EXPENSES

	2012	2011
	HK$'000	HK$'000
Impairment loss on receivables, net	**170**	215
Impairment loss on deposits paid for investments	**–**	1,207
Loss on disposal of property, plant and equipment	**355**	138
	525	1,560

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on borrowings wholly repayable within five years		
– securities margin facilities	**744**	2,337
– private placement bonds	**8,203**	–
– convertible notes	**6,609**	12,274
– bank overdraft	**117**	9
	15,673	14,620

11. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Current tax – Hong Kong Profits Tax		
Over-provision in prior years	**–**	(69)
Current tax – Overseas		
Provision for the year	**23,242**	38,972
(Over)/under-provision in prior years	**(3,609)**	1,736
	19,633	40,708
Deferred tax (note 35)	**1,630**	(737)
	21,263	39,902

Hong Kong Profits Tax has been provided at a rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year ended 31 December 2012.

For the PRC subsidiaries of the Group, the provision for PRC enterprise income tax is based on a statutory rate of 25% (2011: 25%) of the estimated assessable profits of the Group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

11. INCOME TAX EXPENSE (Continued)

The reconciliation between the income tax expense and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2012 HK$'000	2011 HK$'000
Profit before taxation (excluding share of profits of associates and share of profits of a jointly controlled entity)	**38,301**	117,312
Tax at the applicable income tax rate of 16.5% (2011: 16.5%)	**6,320**	19,356
Tax effect of expenses not deductible for tax purposes	**8,466**	7,145
Tax effect of income not taxable for tax purposes	**(10,954)**	(9,754)
Tax effect of unrecognised tax losses	**14,810**	9,205
Tax effect on utilisation of tax losses not previously recognised	**(1,708)**	(256)
Tax effect of tax holidays/tax concession	**7**	20
Under-provision in prior years	**1,206**	1,934
Over-provision in prior years	**(4,815)**	(267)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,768**	12,414
Tax effect of temporary differences not recognised	**212**	119
Tax effect of current year tax loss not recognised	**(49)**	(14)
Income tax expense	**21,263**	39,902

12. PROFIT FOR THE YEAR

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

	2012 HK$'000	2011 HK$'000
Amortisation of lease contracts (included in selling and marketing expenses and administrative expenses)	**4,640**	3,603
Amortisation of investments in film production	**39,224**	116,744
Auditor's remuneration		
– Current	**2,503**	2,404
– Under-provision in prior year	**296**	246
	2,799	2,650
Cost of service provided	**270,799**	178,481
Cost of inventories sold	**68,839**	26,656
Impairment loss on receivables, net	**170**	215
Directors' emoluments (note 13)	**4,209**	1,903
Depreciation on property, plant and equipment	**81,609**	31,195
Net exchange gain	**(4,458)**	(13,634)
Operating lease charges of land and buildings		
– Minimum lease payments	**83,744**	40,826
– Contingent rent	**17,126**	19,711
	100,870	60,537
Staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**96,659**	61,039
– retirement benefits scheme contributions	**22,683**	12,457
	119,342	73,496

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Director fees HK$'000	Salaries and allowances HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Name of director				
Executive directors				
Mr. CHENG Chi Chung	**1,766**	**–**	**–**	**1,766**
Mr. HU Yidong	**120**	**–**	**–**	**120**
Mr. QIN Hong (note a)	**720**	**–**	**–**	**720**
Mr. WONG Kui Shing, Danny	**1,200**	**–**	**16**	**1,216**
Independent non-executive directors:				
Mr. CHAN Sek Nin, Jackey	**129**	**–**	**–**	**129**
Mr. HE Peigang	**129**	**–**	**–**	**129**
Mr. PANG Hong	**129**	**–**	**–**	**129**
Total for 2012	**4,193**	**–**	**16**	**4,209**
Name of director				
Executive directors				
Mr. CHENG Chi Chung	190	–	–	190
Mr. HU Yidong	120	–	–	120
Mr. LI Kai (note b)	180	–	–	180
Mr. QIN Hong	720	–	–	720
Mr. SUNG Chit Nim (note c)	200	–	3	203
Mr. WONG Kui Shing, Danny	130	–	–	130
Independent non-executive directors:				
Mr. CHAN Sek Nin, Jackey	120	–	–	120
Mr. HE Peigang	120	–	–	120
Mr. PANG Hong	120	–	–	120
Total for 2011	1,900	–	3	1,903

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

(a) resigned on 17 January 2013

(b) appointed on 26 March 2010 and resigned on 22 November 2011

(c) appointed on 17 December 2010 and resigned on 22 November 2011

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments during the year.

The five highest paid individuals in the Group during the year included three (2011: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2011: three) individuals are set out below:

	2012 HK$'000	2011 HK$'000
Basic salaries and allowances	1,203	1,613
Retirement benefit scheme contributions	28	38
	1,231	1,651

The emoluments fell within the following band:

	Number of individuals 2012	 2011
Nil to HK$1,000,000	2	3

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

14. RETIREMENT BENEFIT SCHEME

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31 December 2012 amounted to approximately HK$22,563,000 (2011: HK$12,309,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2012. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group's contribution to the MPF for the year ended 31 December 2012 amounted to approximately HK$136,000 (2011: HK$151,000).

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2012 **HK$'000**	2011 HK$'000
Earnings		
Earnings for the year attributable to owners of the Company	**30,875**	101,626
Finance costs saving on conversion of convertible notes outstanding	**6,609**	12,274
Earnings for the purpose of calculating diluted earnings per share	**37,484**	113,900
Number of shares		
Issued ordinary shares at beginning of year	**8,101,606,688**	6,474,488,044
Effect of conversion of convertible notes	**–**	1,100,603,668
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**8,101,606,688**	7,575,091,712
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	**303,313,699**	705,693,058
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**8,404,920,387**	8,280,784,770

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2012 and 2011.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Operation equipment HK$'000	Electronic equipment HK$'000	Broadcasting equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2011	103,742	13,090	1,518	46,347	5,954	3,249	173,900
Reclassification	805	1,157	32	(1,958)	(32)	(4)	–
Additions	400,857	33,774	6,094	89,949	1,046	–	531,720
Acquisition of subsidiaries	28,047	5,252	203	14,002	59	–	47,563
Disposal	(443)	(369)	(116)	(44)	(152)	–	(1,124)
Exchange differences	13,546	1,493	156	4,257	104	93	19,649
At 31 December 2011 and 1 January 2012	546,554	54,397	7,887	152,553	6,979	3,338	771,708
Reclassification	2,744	(4,038)	(39)	1,103	230	–	–
Additions	190,408	29,204	6,691	75,318	797	3,342	305,760
Disposal	(10,918)	(626)	(25)	(1,397)	(22)	(1,082)	(14,070)
Exchange differences	6,454	681	129	2,034	27	28	9,353
At 31 December 2012	735,242	79,618	14,643	229,611	8,011	5,626	1,072,751
Accumulated depreciation and impairment							
At 1 January 2011	6,997	3,145	389	3,415	5,228	951	20,125
Reclassification	376	103	–	(479)	–	–	–
Charge for the year	15,784	4,492	1,667	8,446	404	402	31,195
Disposal	(265)	(243)	(94)	(18)	(79)	–	(699)
Exchange differences	790	300	49	540	15	27	1,721
At 31 December 2011 and 1 January 2012	23,682	7,797	2,011	11,904	5,568	1,380	52,342
Reclassification	–	97	(19)	(101)	23	–	–
Charge for the year	44,121	12,553	3,208	20,382	637	708	81,609
Disposal	(2,798)	(472)	(5)	(4)	(7)	(384)	(3,670)
Exchange differences	624	193	38	353	26	9	1,243
At 31 December 2012	65,629	20,168	5,233	32,534	6,247	1,713	131,524
Carrying amount							
At 31 December 2012	669,613	59,450	9,410	197,077	1,764	3,913	941,227
At 31 December 2011	522,872	46,600	5,876	140,649	1,411	1,958	719,366

17. GOODWILL

	Group
	HK$'000
Cost	
At 1 January 2011	1,434,349
Derecognisation of goodwill	(275,193)
Arising on acquisition of subsidiaries	268,462
At 31 December 2011, 1 January 2012 and 31 December 2012	1,427,618
Accumulated impairment losses	
At 1 January 2011	–
Impairment loss recognised for the year	5,912
At 31 December 2011,1 January 2012 and 31 December 2012	5,912
Carrying amount	
At 31 December 2011 and 2012	1,421,706

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2012	2011
	HK$'000	HK$'000
Film exhibition:		
Colour Asia Pacific Limited ("Colour Asia")	**15,431**	15,431
North Hollywood Limited ("North Hollywood")	**1,406,275**	1,406,275
	1,421,706	1,421,706

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2011: 3%). The rate used to discount the forecast cash flows from the subsidiaries of Colour Asia and North Hollywood is 15.2% (2011: 15%).

18. INTANGIBLE ASSETS

	Trademark (purchased) HK$'000 (Note a)	Lease contracts (purchased) HK$'000 (Note b)	Prepaid building lease rights (purchased) HK$'000 (Note c)	Investments in film production HK$'000 (Note d)	Total HK$'000
Cost					
At 1 January 2011	25,120	28,079	40,000	132,275	225,474
Additions during the year	–	–	–	127,620	127,620
Return of investment	–	–	–	(79,040)	(79,040)
Acquisition of subsidiaries	–	3,109	–	–	3,109
At 31 December 2011 and 1 January 2012	25,120	31,188	40,000	180,855	277,163
Additions during the year	–	–	–	68,920	68,920
Return of investment	–	–	–	(115,799)	(115,799)
At 31 December 2012	25,120	31,188	40,000	133,976	230,284
Accumulated amortisation and impairment losses					
At 1 January 2011	–	1,292	–	–	1,292
Amortisaton for the year	–	2,948	655	116,744	120,347
Return of investment	–	–	–	(58,154)	(58,154)
At 31 December 2011 and 1 January 2012	–	4,240	655	58,590	63,485
Amortisaton for the year	–	3,565	1,075	39,224	43,864
Return of investment	–	–	–	(97,814)	(97,814)
At 31 December 2012	–	7,805	1,730	–	9,535
Carrying amount					
At 31 December 2012	25,120	23,383	38,270	133,976	220,749
At 31 December 2011	25,120	26,948	39,345	122,265	213,678

18. INTANGIBLE ASSETS (Continued)

Notes:

(a) Trademark

The trademark, PhotonVFX, was originally owned by Photon Group. The principal activities of Photon Group are entertainment related business in relation to the production, distribution and licensing of entertainment related contents for movies, television drama series, documentary and information or entertainment programs, and cinemas business. After the completion of sale and purchase agreement dated 12 July 2010, the Company indirectly owned the legal right in this trademark.

PhotonVFX, has a legal right life of 10 years commencing 28 October 2003 but is renewable every 10 years at minimal cost. The directors of the Company are of the opinion of the Group would renew the trademark continuously and has the ability to do so. Various studies including product life cycle studies, market, and brand extension opportunities have been performed by management of the Company, which supports that this trademark-PhotonVFX has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Company.

The Group has assessed the recoverable amount of the trademark acquired with indefinite life for the CGUs and determined that such trademark has not been impaired at 31 December 2012. Such trademark has been allocated to the business segment of "Investments in film production and distribution".

The recoverable amount of the CGUs is determined from value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. The rates used to discount the forecast cash flows are approximately 19.3% (2011: 18.0%). The assumptions used are based on management's past experience of the specific market and reference to external sources of information.

(b) Lease contracts

The Group carried out reviews of the recoverable amount of the lease contract rights in 2012, having regard to the market conditions of the property market in the cities in which the Group's cinemas are located. These assets are used in the Group's theater operation segment. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 15%.

(c) Prepaid building lease rights

During the year ended 31 December 2010, the Group purchased from an independent third party, 星美投資有限責任公司 (Xingmei Investment Co., Ltd.), the building lease contracts rights for the leasing of 25 sites in the PRC, intended for the operation of 25 cinemas. Details of the transaction are disclosed in the circular dated 13 September 2010. As at 31 December 2012, the legal titles of 14 (2011: 12) leases contracts out of the total 25 of lease contracts has been transferred to the Group, others are still in the name of the vendor.

The prepaid building lease rights are used in the theater operation segment and are amortised on a straight-line basis over the remaining lease terms ranged from 10 to 20 years.

18. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(d) **Investments in film production**

Investments in film production represent funds advanced to licensed production houses for co-financing of the production of films, which are freely to be exploited by the production houses. The investments are governed by the relevant investment agreements entered into between the Group and the production houses whereby the Group is entitled to benefits generated from the distribution of the related films. The amounts will be recoverable by the Group from a pre-determined share of the sales proceeds of the respective co-financed films, resulting from the distribution to be confirmed by the relevant production houses.

19. INVESTMENTS IN ASSOCIATES

	2012 HK$'000	2011 HK$'000
Unlisted investments:		
Share of net assets	**7,000**	6,828
Goodwill	**9,705**	9,705
Net assets	**16,705**	16,533

Details of the Group's associates at 31 December 2012 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of equity interest held by the Group/ profit sharing	Principal activities
廣州市華影星美影城有限公司 Guangzhou Huaying Stellar Cineplex Limited	PRC	Registered capital of RMB1,000,000	**46.55%/46.55%**	Operation of cinema
北京世紀東都國際影城有限公司	PRC	Registered capital of RMB1,000,000	**40.85%/40.85%**	Operation of cinema

The above associates are limited liability companies incorporated in the PRC.

19. INVESTMENTS IN ASSOCIATES (Continued)

Summarised financial information in respect of the Group's associates is set out below:

	2012 HK$'000	2011 HK$'000
At 31 December		
Total assets	**46,545**	43,384
Total liabilities	**(30,828)**	(27,394)
Net assets	**15,717**	15,990
Group's share of associates' net assets	**7,000**	6,828
Total revenue	**42,133**	88,136
Total profit for the year	**447**	9,751
Group's share of associates' profit for the year	**157**	9,522

20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	2012 HK$'000	2011 HK$'000
Unlisted investments:		
Share of net assets	**28,509**	25,352
Goodwill	**50,719**	50,719
	79,228	76,071

Details of the jointly controlled entities at 31 December 2012 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of equity interest held by the Group/ profit sharing	Principal activities
匯揚控股有限公司 Top Frontier Holdings Limited	HK	2 ordinary shares of HK$1 each	**50%/50%**	Investment Holdings
北京麗水寶貝教育科技有限公司	PRC	Registered capital of RMB41,000,000	**50%/50%**	Early Childhood Education

20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Continued)

Note:

The following amounts are the Group's share of the jointly controlled entities that are accounted for by the equity method of accounting.

	2012 HK$'000	2011 HK$'000
At 31 December		
Current assets	**4,492**	4,307
Non-current assets	**37,392**	24,863
Current liabilities	**(13,375)**	(3,818)
Net assets	**28,509**	25,352

	2012 HK$'000	2011 HK$'000
Turnover	**38,699**	42,405
Expenses	**(32,464)**	(29,028)

21. DEPOSITS PAID FOR INVESTMENTS

	2012 HK$'000	2011 HK$'000
Deposit paid for investment in a subsidiary	**–**	11,764

At 31 December 2011, the group has paid a deposit of RMB10 million (equivalent the approximately HK$11.8 million) of acquisition of an artist management company. The project is cancelled. During the year ended 31 December 2012, amount of HK$7.5 million has been refunded. The remaining of HK$4.3 million as at 31 December 2012 was included in trade and other receivables.

22. AVAILABLE– FOR-SALE FINANCIAL ASSETS

	2012 HK$'000	2011 HK$'000
Unlisted equity security, at cost	**23,020**	23,020

The Group owned 20% equity interests in a company incorporated in Hong Kong. Due to certain contractual arrangements with the other shareholders of that company, the Group is unable to exercise significant influence over that company and the investment is classified as available-for-sale financial assets.

Such unlisted equity security was carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

23. PREPAYMENTS FOR CONSTRUCTION OF CINEMAS

The Group has made agreements with certain construction companies for the supervision, administration and quality control of the construction projects cinemas in the PRC. As at 31 December 2012, the Group has prepaid approximately HK$383,151,000 (2011: HK$160,040,000) to these construction companies for the planning and design and construction work of the construction projects.

24. INVENTORIES

	2012 HK$'000	2011 HK$'000
Food and beverage	**13,883**	20,743
Others	**7,788**	2,478
	21,671	23,221

25. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**41,344**	43,991
Rental and other deposits	**78,850**	63,461
Amounts due from non-controlling interests of subsidiaries (note a)	**2,412**	21,487
Prepayments and other receivables (note b)	**147,378**	100,362
	269,984	229,301

Notes:

(a) The amount of HK$2,412,000 (2011: HK$21,487,000) as at 31 December 2012 is unsecured, interest-free and repayable on demand.

(b) As at 31 December 2012, included in prepayments and other receivables are advances to independent third parties of approximately HK$8,193,000 (2011: HK$6,004,000) which are unsecured, interest-free and repayable within 1 year. The remaining other receivables are unsecured, interest-fee and repayable on demand.

25. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows an average credit period of 90 days to its trade customers. The aging analysis of the Group's trade receivables based on the invoice date at end of Reporting Period is as follow:

	2012 HK$'000	2011 HK$'000
0 to 30 days	**15,578**	28,727
31 to 90 days	**4,391**	10,381
91 to 180 days	**9,869**	4,883
181 days to 1 year	**4,094**	–
Over 1 year	**7,412**	–
	41,344	43,991

As at 31 December 2012, trade receivables of HK$21,375,000 (2011: HK$4,883,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2012 HK$'000	2011 HK$'000
91 to 180 days	**9,869**	4,883
181 days to 1 year	**4,094**	–
Over 1 year	**7,412**	–
	21,375	4,883

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

	2012 HK$'000	2011 HK$'000
Hong Kong dollars	**21,524**	1,600
Renminbi ("RMB")	**19,820**	42,391
Total	**41,344**	43,991

At the end of each Reporting Period, the Group's trade and other receivables were individually to be impaired. The individually impaired receivables are recognised based on the credit history of the counterparties, such as financial difficulties or default in payments. Consequently, specific impairment loss was recognised.

Impairment loss on other receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against other receivable balance directly.

25. TRADE AND OTHER RECEIVABLES (Continued)

The movement in the impairment loss of other receivables is as follow:

	2012 HK$'000	2011 HK$'000
Balance at the beginning of the year	535	253
Impairment loss recognised	695	215
Acquisition of subsidiaries	–	83
Reversal of impairment	(525)	–
Written off of receivables	(3)	(25)
Exchange difference	7	9
Balance at the end of the year	709	535

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

26. HELD-FOR-TRADING INVESTMENTS

	2012 HK$'000	2011 HK$'000
Equity securities, at fair value listed in Hong Kong	–	45,106

The investments included above represent investments in listed equity securities that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. They are classified as held-for-trading and recorded in current assets.

The fair values of listed securities are based on current quoted market bid prices available on the Stock Exchange.

As at 31 December 2012, no held-for-trading investments is pledged as security for the margin account facility (2011: HK$45,106,000).

27. CONVERTIBLE NOTES DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On 2 November 2009, the Group acquired a 5% coupon rate convertible notes, with the maturity date on 2 November 2011, with a principal amount of HK$18,000,000 issued by ITC Corporation Limited ("ITC") (Stock Code: 372), a company listed on the main board of the Hong Kong Stock Exchange. The convertible notes can be converted, in amounts of not less than HK$1,000,000, into new ordinary shares of ITC at any time within a period of two years following the date of issue at a conversion price of HK$0.5 per share. On 22 October 2010, ITC announced the conversion price of the convertible notes has been adjusted from HK$0.5 per share to HK$0.3 per share. Further details of the adjustment of conversion price are set out in the announcements of ITC dated 22 October 2010. No early redemption is allowed. The Group has designated the convertible notes as financial assets at fair value through profit or loss.

27. CONVERTIBLE NOTES DESIGNATED AT FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

On 29 September 2011, ITC approved the extension of the maturity date of the said convertible notes from 2 November 2011 to 2 November 2013. The conversion price and all the other terms and conditions of the convertible notes remain unchanged. No early redemption is allowed. Further details regarding the above extension of the maturity date of the convertible notes are set out in the announcement dated on 26 August 2011 and in the circular dated on 12 September 2011.

A fair value gain of approximately HK$3,742,000 (2011: loss of HK$6,900,000) was recorded for the year ended 31 December 2012.

At 31 December 2012, the fair value of the convertible notes was valued by Roma Appraisals Limited ("Roma"), an independent qualified professional valuer. Binomial option pricing model is used for valuation for the conversion component of the convertible notes designated at fair value through profit or loss. The fair value was estimated by considering the key assumptions as follows:

	31 December 2012
Share price of the ITC	**HK$0.50**
Expected volatility	**38.28%**
Risk free rate	**0.073%**
Life of the options	**0.82 year**
Expected ordinary dividend yield	**8%**

28. BANK AND CASH BALANCES

As at 31 December 2012, the bank and cash balances of the Group denominated in RMB amounted to HK$67,660,000 (2011: HK$34,920,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

29. TRADE AND OTHER PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables	**77,606**	84,789
Customers' deposits and receipt in advances	**232,486**	57,185
Long term bonds interest payables	**7,876**	–
PRC business and other tax payables	**8,280**	6,537
Amount due to a non-controlling interest of subsidiaries (note a)	**10,250**	–
Margin payable due to financial institution (note b)	**–**	42,601
Accrued charges and other payables	**136,450**	89,119
	472,948	280,231

Note: (a) The amount of HK$10,250,000 (2011: HK$ Nil) as at 31 December 2012 is unsecured, interest-free and repayable on demand.

(b) The margin payable due to financial institution was secured and repayable on demand. The interest was charged at 8% per annum.

29. TRADE AND OTHER PAYABLES (Continued)

The average credit period on purchases of goods is 30 to 60 days. The following is an aging analysis of trade payables presented based on the invoice date at the end of the Reporting Period:

	2012 **HK$'000**	2011 HK$'000
Up to 30 days	**33,962**	28,415
31 to 60 days	**25,695**	12,441
Over 60 days	**17,949**	43,933
	77,606	84,789

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

	2012 **HK$'000**	2011 HK$'000
Hong Kong dollars	**–**	720
RMB	**77,606**	84,069
Total	**77,606**	84,789

30. DUE TO ASSOCIATES

The amounts due to associates are unsecured, interest-free and have no fixed repayment terms.

31. DUE TO RELATED PARTIES

	2012 **HK$'000**	2011 HK$'000
Mr. QIN Hui (note a)	**730**	378
Strategic Media International Limited ("SMIL")	**91**	91
	821	469

Note a: Mr. QIN Hui is the controlling shareholder of the Company.

Note b: Mr. QIN Hui has significant influence over SMIL.

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

32. LONG-TERM BONDS

	2012 HK$'000	2011 HK$'000
SMEs Private Placement Bonds	**245,404**	–

Pursuant to the 上海證券交易所中小企業私募債券業務指引（試行）(Tentative Measures for SMEs Private Placement Bonds*), the Joint Issuers are classified as micro, small and medium sized enterprises which conform to the stipulations in the "Notice on Issuing Provisions on Classification Standards for Small and Medium-sized Enterprises" (No. 300 [2011] of the Ministry of Industry and Information Technology) and are therefore eligible to issue private placement bonds to qualified investors.

The SMEs Private Placement Bonds (the "Bonds") has been arranged and underwritten by 首創證券有限責任公司, a qualified financial institution approved by the Securities Association of China. The Private Placement Bonds will only be transferred to qualified investors solely through the Shanghai Stock Exchange Comprehensive Electronic Platform of Fixed Income Securities（上海證券交易所固定收益綜合電子平台）. The Bonds are issued by four PRC subsidiaries of the Group, namely 北京回龍觀星美國際影城管理有限公司 (Beijing Huilongguan Stellar Cineplex Management Co., Ltd*), 天津星美影城管理有限公司 (Tianjin Stellar Cineplex Management Co., Ltd*), 北京名翔國際影院管理有限公司 (Beijing Mingxiang International Cinema Mgt Co. Ltd*), and北京望京星美國際影城管理有限公司 (Beijing Wangjing Stellar International Cinema Mgt Co. Ltd*) ("Joint Issuers") on 30 August 2012 with par value of RMB100 each totaling RMB200 million (equivalent to approximately HK$242 million).

The Bonds are of 3-year term but may be redeemed in whole at the date falling on the second financial year of the date of issue of the Bonds at the option of the Joint Issuers (the "Redemption Option"). Upon exercise of such Redemption Option by the Joint Issuers, the date falling on the end of the second year of the term of the Bonds will be taken as the maturity date of the entire outstanding Bonds. On the other hand, the holders of the Bonds may, at their own option, on the date falling the interest payment date for the second year sell the whole or part of their Bonds back to the Joint Issuers. The Bonds carry at rate of 9.5% per annum payable at the end of each financial year of the date of issue of the Bonds. At 31 December 2012, accrued interests for these bonds amounted to HK$7,876,000. The effective interest rate of the Bonds is 10.37%.

At 31 December 2012, the fair value of the Bonds is estimated to be approximately RMB213,378,000 (equivalent to approximately HK$265,357,000). The fair value is derived from discounted future cash flows using bond interest rate with similar terms of 8% per annum.

The Company, Mr. QIN Hui and several subsidiaries have issued joint guarantees to the underwriter at a maximum amount of RMB200 million (equivalent to approximately HK$242 million) in respect of the issuance of the Bonds.

Details of the said issue of Private Placement Bonds are disclosed in the announcement and supplemental announcement of the Company dated 25 July 2012 and 26 July 2012 respectively.

* *For identification only*

33. CONVERTIBLE NOTES

	2012 HK$'000	2011 HK$'000
Convertible notes with principal amount of:		
– HK$141 million (note a)	**138,216**	132,144
– HK$10.25 million (note b)	**9,864**	–
	148,080	132,144

Notes:

(a) The Company issued a 2-year 0.25% convertible note ("Convertible Note") with principal amount of HK$141,000,000 on 27 May 2011 to Mr. QIN Hui. The Convertible Note is denominated in Hong Kong dollars and entitle the holder to convert them into ordinary shares of the Company at any business days after the date of issue of the Convertible Notes up to and including the date which is 7 business days prior to the maturity date on 26 May 2013 at a conversion price of HK$0.47. If the Convertible Note has not been converted, it will be redeemed at 100% of its principal amount on the maturity date. No early redemption is allowed. Interest of 0.25% will be paid semi-annually up until the settlement date.

The Convertible Note contains two components, liability and equity element. The equity element is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 5.0%.

The Directors estimate the fair value of the liability component at 31 December 2012 to be approximately HK$138,200,000. This fair value has been calculated by discounting the future cash flows at the market rate.

The net proceeds received from the issue of the Convertible Note has been split between the liability element and an equity component, as follows:

	HK$'000
Nominal value of Convertible Note issued	141,000
Equity component	(12,500)
Liability components at date of issue	128,500
Interest charged	3,855
Interest paid	(211)
Liability component at 31 December 2011	132,144
Interest charged	6,425
Interest paid	(353)
Liability component at 31 December 2012	138,216

(b) The Company issued some 5-year 5% convertible notes ("Convertible Notes II") with principal amount totaling of HK$10,250,000 on 4 September 2012 to certain independent third parties investors. The Convertible Notes II is denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business day after the date of issue of the Convertible Notes II up to and including the date which is 7 business days prior to the maturity date on 4 September 2017 at a conversion price of HK$1.00 per share. If the Convertible Notes II have not been converted, it will be redeemed at 100% of its principal amount on the maturity date. No early redemption is allowed. Interest of 5.0% per annum will be payable annually on the last business day of each calendar year.

The Convertible Notes II contain two components, liability and equity element. The equity element is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 5.9%.

33. CONVERTIBLE NOTES (Continued)

Notes: (Continued)

The net proceeds received from the issue of the Convertible Notes II has been split between the liability element and an equity component, as follows:

	2012 HK$'000
Nominal value of Convertible Notes II issued	10,250
Equity component	(413)
Liability components at date of issue	9,837
Interest charged	184
Interest paid	(157)
Liability component at 31 December 2012	9,864

The Directors estimate the fair value of the liability component at 31 December 2012 to be approximately HK$9,800,000. This fair value has been calculated by discounting the future cash flows at the market rate.

34. PLEDGE OF ASSETS

At 31 December 2011, the Group's held-for-trading investments amounted to approximately HK$45,106,000 were pledged to secure margin account facilities granted to the Group.

35. DEFERRED TAX

(a) The following are the major deferred tax assets/(liabilities) recognised by the Group:

	Allowance of trade and other receivables HK$'000	Deferred income HK$'000	Expenses to be claimed on paid basis HK$'000	Lease contracts HK$'000	Others HK$'000	Total HK$'000
At 1 January 2011	1,070	587	388	(6,697)	225	(4,427)
Acquisition of subsidiaries	27	–	80	(777)	–	(670)
(Charge)/credit to profit or loss for the year	(996)	3	957	737	36	737
Exchange differences	(10)	25	39	–	46	100
At 31 December 2011	91	615	1,464	(6,737)	307	(4,260)
(Charge)/credit to profit or loss for the year	(91)	(615)	(1,464)	847	(307)	(1,630)
At 31 December 2012	**–**	**–**	**–**	**(5,890)**	**–**	**(5,890)**

35. DEFERRED TAX (Continued)

(b) The following is the analysis of the deferred tax balance (after offset) for statement of financial position purposes:

	2012	2011
	HK$'000	HK$'000
Deferred tax liabilities	**(5,890)**	(6,781)
Deferred tax assets	**–**	2,521
	(5,890)	(4,260)

(c) At the end of the Reporting Period, the Group has used tax losses of approximately HK$144,733,000 (2011: HK$65,328,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$88,315,000 (2011: HK$15,052,000) that will expire within 5 years. Other tax losses may be carried forward indefinitely.

(d) At the end of the Reporting Period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, associates and jointly controlled entities for which deferred tax liabilities have not been recognised is approximately HK$17,507,000 (2011: HK$16,235,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

36. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorised:		
Ordinary shares of HK$0.1 (2011: HK$0.1) each		
At 1 January 2011	5,000,000,000	500,000
Increase during the year	15,000,000,000	1,500,000
At 31 December 2011, 1 January 2012 and 31 December 2012	20,000,000,000	2,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 (2011: HK$0.1) each		
At 1 January 2011	6,474,488,044	647,449
Issue of shares for conversion of convertible notes on 27 April 2011	1,500,000,000	150,000
Issue of shares for conversion of convertible notes on 24 May 2011	127,118,644	12,712
At 31 December 2011, 1 January 2012 and 31 December 2012	8,101,606,688	810,161

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the current year.

36. **SHARE CAPITAL (Continued)**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group regularly reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the raising of new debts or the repayment of existing debts.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2012, 25.18% (2011: 25.68%) of the shares were in public hands.

37. **SHARE-BASED PAYMENT**

Equity-settled share option scheme

On 30 September 2009, an ordinary resolution was proposed at the special general meeting to approve the adoption of a new share option scheme ("New Share Option Scheme") and termination of the operation of the old share option scheme. The resolution was approved by the shareholders and the New Share Option scheme became effective for a period of 10 years commencing on 30 September 2009. Option granted during the life of the 2002 old share option scheme and remain unexpired prior to the expiry of the 2002 old share option Scheme shall continue to be exercisable in accordance with their terms of issue after the expiry of the 2002 old share option scheme.

Under the New Share Option Scheme, the consideration paid for each grant of share options will be HK$1.00. The subscription price shall be determined by the Board of Directors and notified to a participant and shall be at least the higher of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share. Details of the principal terms of the New Share Option Scheme were summarised and set out in a circular to shareholders dated 9 September 2009.

During the year ended 31 December 2010, total numbers of share options 546,128,507 were granted to consultants, directors and senior management of the Company. Details of specific categories of share options are as follows:

	Date of grant	Exercise period	Exercise price	Number of share options granted
May 2010	3 May 2010	3.5.2010 – 2.5.2011	HK$0.57	209,977,500
June 2010 (Lot A)	11 June 2010	11.6.2010 – 10.6.2013	HK$0.51	139,075,507
June 2010 (Lot B)	11 June 2010	11.6.2010 – 10.6.2011	HK$0.51	197,075,500

Options granted to consultants were incentives for helping the Group expand its business network, acquire and explore new business projects and opportunities. The fair value of such benefit could not be estimated reliably and as a result, their fair values are measured by reference to the fair value of share option granted.

37. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

The numbers of share options of 209,977,500 and 197,075,500 granted on 3 May 2010 and 11 June 2010 respectively were lapsed during the year ended 31 December 2011. The corresponding equity-settled share-based expenses previously recognised in share-based payment reserve were transferred to retained profits during the year ended 31 December 2011.

No share option was exercised or lapsed during the year.

The fair value of the options granted is estimated at the date of grant using Black-Schole option pricing method taking into account the terms and conditions upon which the options were granted. The fair value of options granted during the year ended 31 December 2010 was estimated on the date of grant using the following assumptions:

	May 2010	June 2010 (Lot A)	June 2010 (Lot B)
Date of grant	3 May 2010	11 June 2010	11 June 2010
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	41.566	46.519	46.519
Risk-free interest rate (%)	0.145	0.145	0.145
Expected life (years)	1	1	1
Weighted average share price	0.572	0.504	0.504

38. LEASE COMMITMENTS

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012 **HK$'000**	2011 HK$'000
Within one year	**212,000**	134,000
In the second to fifth years inclusive	**1,183,000**	848,000
After five years	**3,391,000**	2,695,000
	4,786,000	3,677,000

Operating lease payments represent rentals payable by the Group for its office, staff quarters and warehouse in Hong Kong and the office, a residential club house and certain cinemas premises in the PRC.

The lease in Hong Kong are negotiated for an average term of 2 years while the leases in the PRC are negotiated for an average term of 15 to 20 years.

The above lease commitments only include commitments for basic rentals, and do not include commitments for additional rental payable (contingent rents), if any, which are to be determined generally by applying pre-determined percentages to future revenue less the basic rentals of the respective leases, as it is not possible in advance the amount of such additional rental.

39. OTHER COMMITMENTS

At the end of Reporting Period, the Group had the following commitments:

		2012 HK$'000	2011 HK$'000
(a)	Amount contracted for but not provided in the consolidated financial statements in respect of:		
	Investments in film production	**14,053**	11,485
	Construction for cinemas premises	**364,150**	209,268
	Consultancy fee paid	**6,279**	8,073
(b)	Capital expenditure authorised but not contract for in respect of:		
	Construction for cinemas premises	**1,043,625**	1,373,250
	Purchase of leasehold properties	**37,308**	–

40. CONTINGENT LIABILITIES

Up to the date of this report, there are certain disputes which arise from time to time in the ordinary course of the operation of theaters. The Group is in the course of processing these matters. While it is in an early stage of those disputes, the Directors of the Company are of the view that these disputes will not have a material adverse impact on the consolidated financial statements of the Group.

As at 31 December 2012, the Group and the Company did not have any other significant contingent liabilities.

41. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group did not have any transactions with its related parties during the year.

(b) During the year, the key management personnel compensation paid by the Group was disclosed in note 13 to the financial statements.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries	44	**295,647**	280,847
Available-for-sale financial assets		**23,020**	23,020
		318,667	303,867
Current assets			
Prepayments, deposits and other receivables		**2,952**	2,963
Due from subsidiaries	44	**2,112,774**	2,102,096
Bank and cash balances		**17**	519
		2,115,743	2,105,578
Current liabilities			
Trade and other payables		**5,910**	1,672
Due to related parties		**821**	469
Due to subsidiaries	44	**1,303**	1,210
Financial guarantee contracts liabilities	43	**12,333**	–
Convertible notes		**138,216**	–
		158,583	3,351
Net current assets		**1,957,160**	2,102,227
Total assets less current liabilities		**2,275,827**	2,406,094
Non-current liabilities			
Convertible notes		**9,864**	132,144
NET ASSETS		**2,265,963**	2,273,950
Capital and reserves			
Share capital	36	**810,161**	810,161
Reserves	45	**1,455,802**	1,463,789
TOTAL EQUITY		**2,265,963**	2,273,950

43. FINANCIAL GUARANTEE CONTRACTS LIABILITIES

	Company	
	2012 HK$'000	2011 HK$'000
Financial guarantee contracts at fair value	**12,333**	–

The Company, Mr. QIN Hui and several subsidiaries (the "Guarantors") have issued a guarantee of RMB200 million (equivalent to approximately HK$242 million) to an underwriter in respect of the issue of Bonds by four subsidiaries. Financial guarantee contracts liabilities represents the fair value of the financial guarantees provided by the Company at the inception of the Bonds. At the end of the Reporting Period, the maximum liability of the Guarantors under the guarantee is the outstanding amount of the Bonds which amounted to approximately HK$245,400,000.

44. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012 HK$'000	2011 HK$'000
Unlisted investments, at cost	**295,647**	280,847

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

44. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up/ registered capital	Percentage of equity interest held by the Company Directly	Indirectly	Percentage of profit sharing	Principal activities
Able Charm Limited	HK	10,000,000 ordinary share of HK$1 each	100%	–	100%	Investment holding
Admiral Team Limited	BVI	1 Ordinary share of US$1 each	–	100%	100%	Investment holding
*Beijing Huilongguan Stellar Cineplex Management Co., Ltd. (note) 北京回龍觀星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
*Beijing Mingxiang International Cinema Mgt Co. Ltd (note) 北京名翔國際影院管理有限公司	PRC	Registered capital of RMB7,000,000	–	72.86%	100%	Operation of cinema
*Beijing Shijiecheng Stellar Cineplex Management Co., Ltd. (note) 北京世界城星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
*Beijing Wangjing Stellar International Cinema Mgt Co. Ltd (note) 北京望京星美國際影城管理有限公司	PRC	Registered capital of RMB7,500,000	–	60%	100%	Operation of cinema
Bravissimi Films (International) Limited	BVI	1 ordinary share of US$1 each	100%	–	100%	Investment in production of film
Campbell Hall Limited	BVI	3 ordinary shares of US$1 each	–	100%	100%	Investment holding
Chengdu Stellar Cineplex Limited 成都星美影業發展有限公司	PRC	Registered capital of RMB10,000,000	–	57%	57%	Operation of cinema
*Chongqing Stellar Cinema Management Co., Ltd (note) 重慶星美影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
Color Asia Pacific Limited	HK	1 ordinary share of HK$1 each	–	100%	100%	Investment holding
GDL Nominee Limited	HK	2 ordinary shares of HK$1 each	–	100%	100%	Investment holding
*Lanzhou Stellar Cineplex Limited (note) 蘭州星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
LS Education Centre Company Limited	HK	100 ordinary shares of HK$1 each	–	51%	51%	Provision of entertainment arts education and training services

44. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up/ registered capital	Percentage of equity interest held by the Company Directly	Percentage of equity interest held by the Company Indirectly	Percentage of profit sharing	Principal activities
Market Dynamics (Hong Kong) Limited	HK	10,000 ordinary shares of HK$1 each	100%	–	100%	Provision of advertising and public relation services
North Hollywood Limited	BVI	1 ordinary share of US$1 each	100%	–	100%	Investment holding
*Shanghai Lemo Stellar Cineplex Management Co., Ltd (note) 上海星美樂莫影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	75%	100%	Operation of cinema
*Shanghai Stellar Cineplex Management Co., Ltd (note) 上海星美影院管理有限公司	PRC	Registered capital of RMB12,000,000	–	75%	100%	Operation of cinema
*Shenyang Stellar Cineplex Management Co., Ltd (note) 瀋陽星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
SMI International Cinemas Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	100%	Investment holding
SMI Investment (HK) Limited	HK	1 ordinary share of HK$1 each	100%	–	100%	Investment in securities
SMI Management (Beijing) Limited	HK	1 ordinary share of HK$1 each	100%	–	100%	Provision of administrative services
SMI Management (HK) Limited	HK	1 ordinary share of HK$1 each	100%	–	100%	Provision of administrative services
SMI Photon (HK) Limited	HK	1 ordinary share of HK$1 each	–	100%	100%	Inactive
SMI Photon Pty Limited	Australia	100 ordinary shares of AUD55,000 each	–	80%	80%	Provision of visual effect and post-production of film making
Star East Services Limited	HK	2 ordinary shares of HK$1 each	–	100%	100%	Nominees of company secretary of group companies
*Tianjin Stellar Cineplex Management Co., Ltd (note) 天津星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema
*Xuzhou Stellar Cineplex Management Co., Ltd (note) 徐州星美影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	#49%	100%	Operation of cinema

44. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up/ registered capital	Percentage of equity interest held by the Company Directly	Indirectly	Percentage of profit sharing	Principal activities
Beijing Xingmeihui Catering Mgt Co. Ltd. 北京星美滙餐飲管理有限公司	PRC	Registered capital of RMB8,800,000	–	100%	100%	Operation of café and sale of food and beverage in cinema
Beijing Zhong Xingmeihui Trading Co. Ltd. 北京中星美滙商貿有限公司	PRC	Registered capital of RMB10,000,000	–	100%	100%	Operation of In-theater counter sales and online shopping
Beijing Stellar Jincheng International Advertising Co. Ltd. 北京星美今晟國際廣告有限公司	PRC	Registered capital of RMB10,000,000	–	76%	76%	Provision of advertising and public relation services
Changshou Stellar Cineplex Mgt Co. Ltd. 常熟市星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Shanghai Jinshan Baibei Cineplex Mgt Co. Ltd. 上海金山星美百倍影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	75%	100%	Operation of cinema
Shenyang Dayue Stellar Mgt Co. Ltd. 沈陽大悦星美企業管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Hohhot Stellar International Cineplex Mgt Co. Ltd. 呼和浩特星美國際影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Kunming Stellar Enterprise Mgt Co. Ltd. 昆明星美企業管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Nanjing Wending Stellar Cineplex Mgt Co. Ltd. 南京星美文鼎影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Qingdao Yangguang Stellar Cineplex Mgt Co. Ltd. 青島陽光星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Beijing Yangguang Stellar International Cineplex Mgt Co. Ltd. 北京陽光星美國際影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Chengdu Jiana Stellar Cineplex Mgt Co. Ltd. 成都戛納星美影城管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema
Nanchang Stellar Cineplex Mgt Co. Ltd. 南昌市星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	95%	95%	Operation of cinema

44. INVESTMENTS IN SUBSIDIARIES (Continued)

Although the Group owns less than 50% of the equity interest in these companies, they are deemed to be subsidiaries of the Company as the Group is able to control the composition of the board of directors.

* These subsidiaries are sino-foreign equity joint ventures established in the PRC.

Note: During the year, the Group has made profit entitlement agreements and supplementary agreements with most of the non-controlling interests of its subsidiaries in which the non-controlling interests agreed to waive their share of the profit after tax for the year ended 31 December 2012 in the corresponding subsidiaries. Therefore, the Group is entitled to 100% of the profit after tax for most of the subsidiaries for the year ended 31 December 2012. Pursuant to the profit entitlement agreements, the Group is entitled to 90% or 95% of the respective profit after tax from 1 January 2013 onwards of the relevant subsidiaries. In addition, the non-controlling interests confirmed that they would indemnify the Group for all expenses incurred for the distribution of profits from them under the profit entitlement agreements.

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

45. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium HK$'000	Other reserve HK$'000	Contributed surplus HK$'000	Conversion notes reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	1,056,632	(36,615)	36,003	323,900	29,342	(222,280)	1,186,982
Loss for the year	–	–	–	–	–	(21,678)	(21,678)
Recognition of share option lapsed	–	–	–	–	(22,070)	22,070	–
Recognition of equity component of convertible notes	–	–	–	12,500	–	–	12,500
Conversion of convertible notes	609,885	–	–	(323,900)	–	–	285,985
At 31 December 2011	1,666,517	(36,615)	36,003	12,500	7,272	(221,888)	1,463,789
Loss for the year	–	–	–	–	–	(8,400)	(8,400)
Recognition of equity component of convertible notes (note 33(b))	–	–	–	413	–	–	413
At 31 December 2012	1,666,517	(36,615)	36,003	12,913	7,272	(230,288)	1,455,802

45. RESERVES (Continued)

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

(ii) Other reserve

The other reserve represents (i) the difference between the fair value of the 843,500,000 ordinary shares issued for the acquisition of the entire equity interest in Colour Asia and the issued and fully paid up amount of such ordinary shares and (ii) the consideration for the additional economic interests of two principal subsidiaries (Further details of the transactions are set out in the circular of the Company dated 18 January 2011).

(iii) Contributed surplus

The contributed surplus of the Group represented the balance of credit arising from the reduction of share capital and the cancellation of share premium in relation to the capital reorganisation in 1996 less the amount transferred to accumulated losses in relation to another capital reorganisation in the years ended 31 March 2003 and 2005 and the amount released from disposal of certain associates and distribution of dividend in prior years.

Under the Companies Act of Bermuda, the contributed surplus account 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) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

46. OTHER MATTERS

Issue of private placement bonds by subsidiaries

On 18 December 2012, four indirect non-wholly subsidiaries of the Company, namely 北京世界城星美國際影城管理有限公司 (Beijing Shijiecheng Stellar Cineplex Management Co., Ltd*), 上海星美樂莫影院管理有限公司 (Shanghai Lemo Stellar Cineplex Management Co. Ltd*), 上海星美影院管理有限公司 (Shanghai Stellar Cineplex Management Co., Ltd*) and 徐州星美影院管理有限公司 (Xuzhou Stellar Cineplex Management Co., Ltd*), had entered into an underwriting agreement in respect of the issue of the private placement bonds in the issue size of up to RMB50 million (equivalent to approximately HK$62 million).

Details of the said issue of private placement bonds are disclosed in the announcement and clarification announcement of the Company dated 18 December 2012 and 27 December 2012 respectively.

Up to the date of this report, the issuance of the private placement bonds are not yet completed.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2013.

* *For identification only.*

Financial Summary

Results	1.4.2008- 31.3.2009 HK$'000	1.4.2009- 31.12.2009 HK$'000	1.1.2010- 31.12.2010 HK$'000	1.1.2011- 31.12.2011 HK$'000	**1.1.2012- 31.12.2012 HK$'000**
Revenue	35,551	72,029	356,637	736,317	**857,205**
(Loss)/Profit before tax	(28,231)	32,189	130,146	140,210	**41,576**
Taxation	–	(4,196)	(7,397)	(39,902)	**(21,263)**
(Loss)/Profit before non-controlling interests	(28,231)	27,993	122,749	100,308	**20,313**
Non-controlling interests	–	(3,991)	616	1,318	**10,562**
Net (loss)/profit for the year/period	(28,231)	24,002	123,365	101,626	**30,875**

Assets and liabilities	31.3.2009 HK$'000	31.12.2009 HK$'000	31.12.2010 HK$'000	31.12.2011 HK$'000	**31.12.2012 HK$'000**
Total assets	62,117	308,222	2,681,235	3,027,797	**3,499,512**
Total liabilities	(146,287)	(108,679)	(621,480)	(458,081)	**(903,718)**
Total equity	(84,170)	199,543	2,059,755	2,569,716	**2,595,794**

Blockbusters
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