



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)

Interim Report 2014



* For identification purposes only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. CHENG Chi Chung
(Chief Executive Officer)
Mr. YANG Rongbing
Mr. NG Kam Tsun
Mr. XI Qing
Mr. LI Yige

Independent Non-Executive Directors

Mr. PANG Hong
Mr. LI Fusheng
Mr. KAM Chi Sing

Audit Committee

Mr. KAM Chi Sing *(Chairman)*
Mr. PANG Hong
Mr. LI Fusheng

Remuneration Committee

Mr. LI Fusheng *(Chairman)*
Mr. PANG Hong
Mr. KAM Chi Sing

Nomination Committee

Mr. PANG Hong *(Chairman)*
Mr. LI Fusheng
Mr. KAM Chi Sing

COMPANY SECRETARY

Mr. NG Kam Tsun

AUTHORIZED REPRESENTATIVES

Mr. CHENG Chi Chung
Mr. NG Kam Tsun

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

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Branch Share Registrar in Hong Kong

Tricor Progressive Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

STOCK CODE

00198.HK

WEBSITE

<http://www.smi198.com>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2014, Chinese film industry continued with its rapid growth. For the six months ended 30 June 2014 (the “Reporting Period”), SMI Corporation Limited (the “Company”) and its subsidiaries (collectively the “Group”) have been operating according to our central idea. We have kept track on the trend of the film industry and focused on developing our core business (the movie theater business), more resources will be injected to expand our complementary business (In-theater counter sales and online shopping – Xingmeihui), advertising and promotion business and to enhance the implementation of the New Membership Integrated Marketing Scheme (the “New Membership Scheme”). During the Reporting Period, the Group continued to achieve steady growth in all business lines by adopting a steady business strategy, innovative marketing model, and widening terminal.

During the Reporting Period, the Group’s operating revenue was approximately HK\$875 million, representing an increase of 38% as compared with approximately HK\$633 million of the corresponding period in 2013. Of which the revenue contributed from Xingmeihui surged by 4.4 times to approximately HK\$114 million as compared with the corresponding period in 2013. During the Reporting Period, profit of the Group was approximately HK\$121 million, increased significantly by 81% as compared with approximately HK\$67 million of the corresponding period in 2013.

Movie Theater Business

The Chinese film industry flourished in the first half of 2014, with a total of 506 new movie theaters opened nationwide, of which 68 were 3D theaters and 18 were IMAX theaters. Meanwhile, the total box office revenue exceeded RMB13.5 billion, up 22% year-on-year. Benefited from the favorable prospect of the industry, cinemas of the Group also developed healthily.

For the first half of 2014, this segment has generated revenue of approximately HK\$761 million, up 46% as compared to the corresponding period of 2013, while the profit increased by 217% to approximately HK\$168 million (corresponding period of 2013: HK\$53 million). Gross profit was approximately HK\$541 million (corresponding period of 2013: HK\$323 million), and gross profit margin was 71%.



As at 30 June 2014, the Group has a total of 83 movie theaters with 582 screens in major cities in China, representing an increase of 22% and 19% respectively as compared with 68 movies theaters with 490 screens in 2013. During the first half of 2014, the Group opened 15 movie theaters. The Group expects to have 100 movie theaters nationwide by the end of 2014. During the Reporting Period, the Group made more reasonable investment on setting up new movie theaters, and placed more emphasis on the quality of equipment. During the Reporting Period, in addition to secure its leading position in the first tier cities, our Group kept up its effort in extending its movie theater footprints to second and third tier cities with great development potential, and opened new movie theaters in Xi'an, Wuxi and other cities. Second and third tier cities in China developed rapidly in recent years, the Company believes that there was huge development potential in those cities, and will further leverage on the opportunities in such areas.

Advertising and Promotion Business

During the Reporting Period, under the movie theater business, our innovative business model has resulted in a great leap forward in our advertising and promotion business. This business achieved a revenue of approximately HK\$188 million, representing an increase of 141% year-on-year, and a gross profit of approximately HK\$187 million (corresponding period of 2013: HK\$65 million) with gross profit margin amounted to 99%.

As the Group's movie theaters gradually covers all major first tier cities and fast growing second and third tier cities in the country, the Group's advertising and promotion business has also become a nationwide platform. With the objective to satisfy the different advertising needs of customers, the Group has rationalized the arrangement of the idle time and space of movie theaters, screening halls and projection screens, and utilizing advanced facilities like LED panels to develop our advertising and promotion business on an on-going basis. Besides, the Group has kept diversifying our advertising channels and introducing innovative ways for placing advertisement and promotion, such as holding car exhibition at the cinema concourse and selling more naming rights of large screening halls. In the future, the Group will formulate its advertising and promotion strategy based on our nationwide theater platform, so as to maximize the benefits of our clients and attract more major clients.

New Membership Integrated Marketing Scheme (“New Membership Scheme”)

The New Membership Scheme has helped the Group to get a systematic understanding of customers’ needs, secure existing customers and develop new customers. Moreover, it has built up a complete customer database, which has laid the foundation for the sustainable development of the Group’s core business (the movie theater business) and complementary business (Xingmeihui). With the above scheme, the Group can fully explore the potential business opportunities brought by the massive audiences and those within the community surrounding our movie theaters by providing different contents and utilizing different channels. Through the use of movie theater advertising, on-site event and celebrities, couple with the Online to Offline (“O2O”) sales model, we have become the most valuable diversified platform and branding services provider in China.

During the Reporting Period, the Group continued to push the New Membership Scheme forward and bring it into full play, and has further expanded the Group’s membership database and secured the future development of the Group’s core business and complementary business.

Movie and TV Series Production Business

During the first half of 2014, domestic box office exceeded RMB13.5 billion, and there were 31 movies with more than RMB100 million box office, of which 14 were Chinese domestic movies, and the box office revenue from Chinese domestic movies was RMB6.634 billion. With more domestic movies stroke record-high box office revenue in China, we have witnessed the Chinese film industry entered the golden period of development.

As a strategic move, the Group has gradually transferring its movie and TV series production business to SMI Culture Group Holdings Limited (“SMI Culture”) (stock code: 2366), another listing vehicle of the Group, since the beginning of 2014. In the future, SMI Culture will focus on developing contents production business. At present, the Group held 29.97% of the issued share capital of SMI Culture.



New Complementary Business

Xingmeihui (星美匯)

The Group established Xingmeihui in 2012, which is the first-ever movie theater O2O eShop in China. At present, by leveraging on its chained movie theaters located nationwide and with the support from Xingmeihui O2O social eShop, the Group has taken full advantage of its diversified business model and comprehensive industry chain, as well as the pioneering concept of “Red Wine+Digital” station to tap into the community surrounding the movie theaters and to cover the consumers nearby. Currently, Xingmeihui has already established foothold in first and second tier cities and other prosperous region, and will gradually expand into third and fourth tier cities. As at 30 June 2014, the Group has a total of 83 Xingmeihui in-theater counters, and our future development focus will be setting up relevant stores beyond our movie theaters, which will mostly located at large social community and crowded shopping malls.

After two years of planning and development, Xingmeihui has experienced a super-strong growth during the Reporting Period. The segment achieved a revenue of approximately HK\$114 million, increased significantly by 443% as compared with the corresponding period in 2013, and recorded a profit of approximately HK\$10 million, representing a huge increase by 1,100% as compared with the corresponding period in 2013. Xingmeihui has grown strong to become the new engine for the Group’s development, and is expected to bring stable and strong contribution to us in the future.

During the Reporting Period, the Group was actively seeking cooperation with local and overseas business partners with an aim to join hands with famous brands to provide our customers with a diversity of quality products, including high-end brands and foods from overseas as well as Hong Kong, Macau and Taiwan regions, so as to make Xingmeihui becoming a place where our customers can get fine products from all over the world.

Prospects

According to the relevant authorities, China’s box office revenue in 2014 will reach RMB28 billion, an increase of 30% compared to corresponding period in 2013, and accounting for more than 10% in the global box office revenue, indicates that China has further narrowed the gap between American’s movie market. Meanwhile, domestic movies have stroked record-high box office revenues repeatedly since the beginning of this year, it is obvious that Chinese film industry has already entered a golden period of development. In the future, the Group will keep on consolidating its existing businesses and business model innovation, so as to face the opportunities and challenges in the industry.

In respect of our movie theater business, the Group will continue expanding its cinema terminal as planned, with an aim to capture the opportunities in area with lower penetration by following our strategy to shift our development focus from first tier cities to second and third tier cities. The Group expects to have 100 movie theaters by the end of 2014, and further increase to 200 theaters in three years' time.

In addition, the Group will increase investment in setting up Xingmeihui's channels, and plans to have a total of 200 Xingmeihui stores in 2014, and further increase to 1,000 stores in three years' time. The Group will also cooperate with famous brand on an on-going basis and remain innovative. Recently, the Company announced that it has entered into strategic cooperation with China Telecom Corporation Limited (stock code: 728) to vigorously develop mobile internet business, pursuant to which the Group can provide telecommunication business and services. In order to broaden our income source, the Group will also cooperate with branches of China Telecom in more than 30 provinces to introduce a sim card that can use for watching movies, usage fee received will be shared by the parties, and to provide high-end customized mobile number services to customers.


Looking forward, the Group will continue to lead the Chinese culture industry, and to ensure the sustained growth of performance by taking advantage of its powerful platform nationwide, so as to create greater value for shareholders.

Financial Review

Turnover, Revenue and Profit for the year

During the Reporting Period, the Group achieved a turnover of approximately HK\$875 million and revenue of approximately HK\$875 million (corresponding period of 2013: HK\$649 million and HK\$633 million respectively), an increase of 35% and 38% over the corresponding period in 2013.

During the Reporting Period, the profit after tax increased by 81% from approximately HK\$67 million to approximately HK\$121 million. The increase in profit was mainly due to the stable growth of the Group's core business and the rapid growth of complementary business which commands a higher gross profit margin, and has become the Group's another strong source of revenue and has increased the Group's revenue for the Reporting Period substantially.



During the Reporting Period, the segment revenue and profit were mainly contributed by movie theater business as well as the new complementary business.

The revenue and profit of movie theater business for the Reporting Period increased by approximately HK\$239 million and approximately HK\$115 million respectively compared with the corresponding period in 2013.

The revenue and profit of the new complementary business – Xingmeihui increased by approximately HK\$93 million or 443% and approximately HK\$11 million or 1,100% respectively compared with the corresponding period in 2013.

Selling, Marketing and Administrative Expenses

The selling, marketing and administrative expenses increased by 40% as compared with the corresponding period in 2013, which were mainly attributable to the increase in number of theaters completed and the advertising expenses for the promotion of the new business of the Group during the Reporting Period.

Finance Costs

Finance costs increased by 108% as compared with the corresponding period in 2013, which was mainly attributable to the increase in borrowings during the Reporting Period.

Financial Resources and Liquidity

As at 30 June 2014, the Group had net current liabilities of approximately HK\$619 million. This is mainly due to certain non-current borrowings stated in the last reporting period become due within one year as at 30 June 2014 and the increase in bonds and convertible notes during the Reporting Period.

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

As at 30 June 2014, the gearing ratio (total debts (including convertible notes and other financial derivatives) to equity attributable to equity holders of the Company) rose to 32.2% from 30.6%, which was mainly due to the increase in bonds and convertible notes during the Reporting Period.

The Group was financed mainly through share capital, reserves, bonds and bank and other borrowings.

Foreign Exchange Risks

The Group reports its financial statements in Hong Kong dollars ("HK\$"). All revenues and operating costs of the theater operation and new complementary business were denominated in Renminbi ("RMB"). The expansion of the theater operation business and new complementary business will be principally carried out in China. Therefore, the Group will be exposed to exchange loss if HK\$ strengthens against RMB.

The Group currently does not have any foreign currency hedging policy. The Directors consider that it is unlikely HK\$ would strengthen against RMB in the near future. However, if RMB continues to strengthen against HK\$, the Group is expected to have an exchange gain resulting from its RMB denominated investment in China. The Group will monitor its foreign currency exposure closely and will consider implementing appropriate foreign currency hedging policies should the need arise.

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 statement of the Group.

As at 30 June 2014, the Group and the Company did not have any other significant contingent liabilities.

Employees

Excluding the staff of associates, the Group had a total of 2,563 full-time staff as at 30 June 2014 (including directors but excluding part-time staff). The Group offers remuneration and benefit packages to its employees according to the prevailing salary levels in the market, individual merits and performance.



DIRECTORS' REPORT

The Directors present their interim report of the Group for the Reporting Period.

Results and appropriations

The results of the Group for the Reporting Period are set out in the condensed consolidated statement of profit or loss and condensed consolidated statement of profit or loss and other comprehensive income on pages 22 and 23.

The Board does not recommend the payment of any interim dividend to the shareholders for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

Share capital and reserves

As at 30 June 2014, the total number of shares issued by the Company was 9,394,300,905 shares.

Movements in the Company's authorised and issued share capital are set out in note 25 to the condensed consolidated financial statements on page 51. Movements in the reserves of the Group are set out in the condensed consolidated statement of changes in equity on page 26.

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

On 17 January 2014, the Company entered into a subscription agreement pursuant to which the Company could issue a maximum of 550,000,000 new shares of HK\$0.1 each at the subscription price of HK\$0.21 per share. The gross proceeds from this were approximately HK\$115,500,000. The subscription agreement was completed and 550,000,000 new shares of the Company were issued and allotted on 7 February 2014. Further details of the above transaction are set out in the announcements of the Company dated 17 January 2014 and 7 February 2014 respectively.

On 11 April 2014, a subsidiary of the Company entered into 5 agreements pursuant to which the Company has conditionally agreed to purchase 55% equity interests in TicketChina Holdings Limited, and among the total consideration, it comprised a partial consideration shares in issuance of 122,423,947 ordinary shares of the Company of HK\$0.1 each to vendors at a price of HK\$0.28 per share. The acquisition was completed on 17 April 2014 and the partial consideration shares were issued on the same date. Further details of the above transactions are set out in the announcement of the Company dated 11 April 2014.

On 9 May 2014, the Company entered into a Second Deed of Amendment with Mr. QIN Hui, the largest shareholder of the Company in respect of the alteration of terms of the convertible notes under the subscription agreement dated 30 March 2011 and the first deed of amendment dated 9 May 2013, the maturity date of the convertible notes was further extended from 27 May 2014 to 27 May 2015 and the conversion price was revised from HK\$0.47 per conversion share to HK\$0.37 per conversion share. Further details of the above transaction are set out in the announcement of the Company dated 19 May 2014.

On 20 June 2014, Mr. QIN Hui exercised the conversion rights to the extent of principal amount of HK\$100,000,000 of the convertible notes, to convert the convertible notes at a conversion price of HK\$0.37 per conversion share, a total of 270,270,270 conversion ordinary shares were then issued.

Property, plant and equipment

Details of the Group's property, plant and equipment as at 30 June 2014 are set out in note 11 to the condensed consolidated financial statements on page 37.

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. CHENG Chi Chung (*Chief Executive Officer*)
Mr. YANG Rongbing
Mr. NG Kam Tsun (appointed on 6 June 2014)
Mr. XI Qing (appointed on 6 June 2014)
Mr. LI Yige (appointed on 6 June 2014)
Mr. WONG Kui Shing, Danny (retired on 6 June 2014)
Mr. LEE Chee Chuang, Roger (retired on 6 June 2014)

Independent non-executive directors:

Mr. HE Peigang (resigned on 5 September 2014)
Mr. KAM Chi Sing (appointed on 5 September 2014)
Mr. PANG Hong
Mr. LI Fusheng

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.



DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2014, the interests and short positions of the directors and chief executives of the Company and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in the shares and underlying shares of the Company

Directors	Capacity	Registered Shareholders	Corporate Interest	Underlying Interest	Total Interest	% of total issued shares
CHENG Chi Chung	Beneficial owner	–	–	40,000,000	40,000,000	0.43%
YANG Rongbing (Note a)	Beneficial owner	1,076,000	–	20,000,000	21,076,000	0.22%
HE Peigang (resigned on 5 September 2014)	Beneficial owner	–	–	5,000,000	5,000,000	0.53%
PANG Hong	Beneficial owner	–	–	5,000,000	5,000,000	0.05%
Wong Kui Shing, Danny (retired on 6 June 2014) (Note b)	Interest of controlled corporation/ Beneficial owner	–	1,000,000	40,000,000	41,000,000	0.44%

Notes:

- (a) According to the Director's/Chief Executive's Notice of Mr. YANG Rongbing filed on 17 October 2013, Mr. YANG was interested in 21,076,000 shares comprise 20,000,000 underlying shares and 1,076,000 shares.
- (b) As at the date of this report, Mr. WONG Kui Shing, Danny, who has resigned as an executive director of the Company. According to the Director's/Chief Executive's Notice of Mr. WONG Kui Shing, Danny filed on 17 October 2013, 1,000,000 shares are held by Global Moral Investments Limited, which Mr. WONG Kui Shing, Danny owns 50% control of Global Moral.

Save as disclosed above, as at 30 June 2014, 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 26 to the condensed consolidated financial statements.

During the Reporting Period, 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:

Name	Date of grant	Exercise period (Notes)	Balance	Changes during the period			Balance	Exercise price per share HK\$
			as at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	as at 30 June 2014	
Director								
Director								
CHENG Chi Chung	19 July 2013	1	40,000,000	-	-	-	40,000,000	0.18
YANG Rongbing	19 July 2013	1	20,000,000	-	-	-	20,000,000	0.18
PANG Hong	19 July 2013	1	5,000,000	-	-	-	5,000,000	0.18
HE Peigang (Note 3)	19 July 2013	1	5,000,000	-	-	-	5,000,000	0.18
Ex-Director								
WONG Kui Shing, Danny (Note 4)	19 July 2013	2	40,000,000	-	-	-	40,000,000	0.18



Name	Date of grant	Exercise period (Notes)	Balance	Changes during the period			Balance	Exercise price per share HK\$
			as at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	as at 30 June 2014	
Other Eligible participants								
Consultants ¹	19 July 2013	1	140,000,000	-	-	-	140,000,000	0.18
Consultants ²	19 July 2013	2	160,000,000	-	-	-	160,000,000	0.18
QIN Hong	19 July 2013	1	80,000,000	-	-	-	80,000,000	0.18
HU Yidong	19 July 2013	1	40,000,000	-	-	-	40,000,000	0.18
CHAN Sek Nin	19 July 2013	1	5,000,000	-	-	-	5,000,000	0.18

Notes:

- (1) from 19 July 2013 to 18 July 2016 (both dates inclusive) provided that the maximum number of share options granted on 19 July 2013 which may be exercisable by each of the Grantee in each one year of the exercise period shall not exceed one-third of the Options granted to that Grantee.
- (2) Mr. WONG Kui Shing, Danny and two consultants of the Group entitling the holders of the share options granted on 19 July 2013 to subscribe for a total of 200,000,000 shares options can be exercisable during the exercise period from the 19 July 2013 to 18 July 2016 (both dates inclusive).
- (3) Mr. HE Peigang resigned as an independent non-executive director of the Company on 5 September 2014.
- (4) Mr. WONG Kui Shing, Danny retired as an executive director of the Company on 6 June 2014.

Substantial shareholders' interests

As at 30 June 2014, 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 share capital (note (a))
Mr. QIN Hui	6,424,939,231 (note (b))	23,878,623 (note (c))	6,559,628,664	-	69.83%
Wise Vanguard Holdings Limited	751,256,000	-	751,256,000	-	7.99%
Yeung Sau Shing, Albert	751,256,000	-	751,256,000	-	7.99%
Luk Siu Man, Semon	751,256,000	-	751,256,000	-	7.99%

Notes:

- (a) There were 9,394,300,905 shares of the Company in issue as at 30 June 2014.
- (b) Mr. QIN Hui is beneficially interested in the convertible notes in the principal amount of HK\$141 million issued by the Company which is convertible into 300,000,000 shares at the conversion price of HK\$0.47 per share. On 18 June 2014, the conversion rights attaching to the Convertible Note have been partially exercised for HK\$100,000,000 and a total of 270,270,270 ordinary shares were issued upon conversion. As at the date of this report, 110,810,810 shares shall be issued by the Company to Mr. QIN Hui upon conversion of the Convertible Note in the remaining principal amount of HK\$41,000,000 in full at the prevailing conversion price of HK\$0.37 per share. Mr. QIN Hui is therefore interested in 6,424,939,231 shares which comprise (i) 110,810,810 underlying shares and (ii) 6,314,128,421 shares.
- (c) 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.

Director's interests in competing business

During the Reporting Period, none of the directors were interested in any business apart from the Group's business which competed or was likely to compete, either directly or indirectly, with the business 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.



Purchase, sale or redemption of the listed securities of the company

During the Reporting Period, neither of the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Public float

As at 30 June 2014, 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.

Contingent liabilities

As at 30 June 2014, the Group and the Company did not have any significant contingent liabilities.

Events after the Reporting Period

Details of significant events occurring after the Reporting Period are set out in note 34 to the condensed consolidated financial statements on page 60.

Appreciation

I would like to take this opportunity to thank my fellow directors, as well as the management and all our employees for the contribution they have made towards the Group's continued progress and to our shareholders, customers and business partners for their support.

By order of the Board
SMI Corporation Limited
CHENG Chi Chung
Executive Director & Chief Executive Officer

Hong Kong, 29 August 2014

CORPORATE GOVERNANCE REPORT

Overview of corporate governance

The Company is committed to maintaining high standards of corporate governance. The Company emphasizes on effective internal control, transparency and its 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 Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules.

Corporate governance code

During the Reporting Period, the Company has complied with the code provisions of the Corporate Governance Code ("CG Code"), except for the deviations from Code Provisions A.2.1 and A.6.7 as set out in Appendix 14 to the Listing Rules which is explained below:

Chairman and Chief Executive Officer

Under Code Provision A.2.1 of the CG Code, the role of both the Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. On 3 May 2013, after the Company announced the resignation of Mr. HU Yidong as chairman of the Company, no individual was appointed as chairman of the Company. The role of the chairman has been performed collectively by all executive directors of the Company.

The Board considers this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and the interest of the shareholders of the Company as a whole.

The Board will continue to use its best endeavor in looking for a suitable candidate to act as Chairman of the Company as soon as possible.



Attendance of directors in general meetings

In respect of the Code provision A.6.7 of the CG Code, Messrs. CHENG Chi Chung, WONG Kui Shing, Danny (retired on 6 June 2014), and LEE Chee Chuang, Roger (retired on 6 June 2014), three of our executive directors and Mr. PANG Hong, the independent non-executive director of the Company, were unable to attend the annual general meeting and special general meeting of the Company held on 6 June 2014 due to their overseas engagements.

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

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.

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 ("Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by Directors. Upon specific enquiries of all Directors by the Company, all Directors confirmed that they have complied with the Model Code.

Changes in Directors' Biographical Details

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are shown as follows:

Mr. NG Kam Tsun

- appointed as an Executive Director of the Company with effect from 6 June 2014

Mr. XI Qing

- appointed as an Executive Director of the Company with effect from 6 June 2014

Mr. LI Yige

- appointed as a Non-executive Director of the Company with effect from 6 June 2014

Mr. KAM Chi Sing

- appointed as an independent non-executive director of the Company with effect from 5 September 2014

Mr. WONG Kui Shing, Danny

- retired from the Board after the conclusion of the Annual General Meeting held on 6 June 2014

Mr. LEE Chee Chuang, Roger

- retired from the Board after the conclusion of the Annual General Meeting held on 6 June 2014

Updated biographical details of the Directors are also available on the website of the Company.

Save as disclosed above, there is no other change of Directors' biographical details required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.



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. During the Reporting Period, the Audit Committee comprises three independent non-executive Directors, namely, Messrs. HE Peigang (as Chairman), Mr. PANG Hong and Mr. LI Fusheng.

The primary role of the Audit Committee are to monitor integrity of the annual report, 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 has reviewed with the management of the Company, the accounting principles and practices adopted by the Group and discussed internal control and the financial reporting matters, including reviewing the Group’s unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014.

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. During the Reporting Period, the Remuneration Committee comprises three independent non-executive directors, namely, Messrs. HE Peigang (as Chairman), PANG Hong and Mr. LI Fusheng.

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 objectives 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 has reviewed and made recommendation to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Company.

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. During the Reporting Period, the Nomination Committee comprises three independent non-executive directors, namely, Messrs. HE Peigang (as Chairman), PANG Hong and Mr. LI Fusheng.

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 has reviewed the structure, size and composition of the Board.

Internal control

The Board has overall responsibility for the internal control and risk management systems of the Group and for reviewing the effectiveness of the internal control and risk management system through the Audit Committee during the Reporting Period. The Group has in place internal control and risk management systems covering financial, operational, compliance and risk management.



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Note	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	874,641	649,097
Revenue	3	874,641	632,671
Cost of sales		(310,292)	(289,382)
Gross profit		564,349	343,289
Other income	5	8,157	23,597
Gain on disposal of held-for-trading investments		–	5,119
Selling and marketing expenses		(291,457)	(220,207)
Administrative expenses		(69,528)	(37,448)
Other operating expenses		(765)	(3,219)
Profit from operations		210,756	111,131
Finance costs	6	(38,970)	(18,720)
Share of profits and losses of associates		(6,220)	290
Share of profits of joint ventures		–	1,616
Equity settled share-based payments		(4,510)	–
Change in fair value of warrants		(3,581)	–
Profit before tax		157,475	94,317
Income tax expense	7	(36,384)	(27,094)
Profit for the period	8	121,091	67,223
Attributable to:			
Owners of the Company		101,004	69,961
Non-controlling interests		20,087	(2,738)
		121,091	67,223
Earnings per share	10		
Basic		HK1.13 cents	HK0.86 cents
Diluted		HK1.08 cents	HK0.86 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	121,091	67,223
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>(18,252)</u>	<u>8,888</u>
Other comprehensive income for the period, net of tax	<u>(18,252)</u>	<u>8,888</u>
Total comprehensive income for the period	<u>102,839</u>	<u>76,111</u>
Attributable to:		
Owners of the Company	<u>90,004</u>	75,051
Non-controlling interests	<u>12,835</u>	<u>1,060</u>
	<u>102,839</u>	<u>76,111</u>



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

		30 June 2014	31 December 2013
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	1,582,562	1,284,053
Goodwill	12	1,431,416	1,421,706
Intangible assets	13	167,445	129,257
Investments in associates	14	178,888	184,233
Available-for-sale financial assets		23,020	23,020
Rental deposits		28,751	28,486
Prepayments for construction of cinemas	15	826,350	823,732
		<u>4,238,432</u>	<u>3,894,487</u>
Current assets			
Inventories		94,163	45,341
Trade and other receivables	16	611,691	512,953
Due from an associate	17	21,725	–
Current tax assets		73	73
Bank and cash balances		44,089	41,383
		<u>771,741</u>	<u>599,750</u>
Current liabilities			
Trade and other payables	18	791,619	784,182
Due to associates		1,008	1,672
Due to related parties	19	1,712	1,548
Finance lease payables		13,996	13,164
Bank loans	20	79,990	53,586
Other loans	21	217,190	63,103
Convertible notes	22	41,000	141,000
Short term bonds and warrants	23	144,949	–
Current tax liabilities		99,407	68,008
		<u>1,390,871</u>	<u>1,126,263</u>
Net current liabilities		<u>(619,130)</u>	<u>(526,513)</u>
Total assets less current liabilities		<u>3,619,302</u>	<u>3,367,974</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2014

	Note	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Non-current liabilities			
Bank loans	20	52,245	55,121
Other loans	21	–	165,000
Convertible notes	22	80,397	9,934
Long term bonds	24	296,646	273,648
Finance lease payables		41,239	47,093
Deferred income		2,864	1,953
Deferred tax liabilities		4,637	5,056
		<u>478,028</u>	<u>557,805</u>
NET ASSETS		<u>3,141,274</u>	<u>2,810,169</u>
Capital and reserves			
Share capital	25	939,430	845,161
Reserves		<u>2,106,291</u>	<u>1,890,209</u>
Equity attributable to owners of the Company		3,045,721	2,735,370
Non-controlling interests		<u>95,553</u>	<u>74,799</u>
TOTAL EQUITY		<u>3,141,274</u>	<u>2,810,169</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

For the six months ended 30 June 2013

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000 (note (a))	Other reserve HK\$'000 (note (b))	Contributed surplus HK\$'000 (note (c))	Foreign currency translation reserve HK\$'000 (note (d))	Convertible notes reserve HK\$'000	Statutory reserve HK\$'000 (note (e))	Share-based payment reserve HK\$'000	Retained profits HK\$'000	Dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2013 (Audited)	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
Total comprehensive income for the period	-	-	-	-	5,090	-	-	-	69,961	-	75,051	1,060	76,111
Transfer to statutory reserve	-	-	-	-	-	-	195	-	(195)	-	-	-	-
Recognition of share options lapsed	-	-	-	-	-	-	-	(7,272)	7,272	-	-	-	-
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	126	126
Changes in equity for the period	-	-	-	-	5,090	-	195	(7,272)	77,038	-	75,051	1,186	76,237
At 30 June 2013 (Unaudited)	810,161	1,666,517	(121,745)	31,172	18,621	12,913	34,286	-	154,401	-	2,606,326	65,705	2,672,031

For the six months ended 30 June 2014

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000 (note (a))	Other reserve HK\$'000 (note (b))	Contributed surplus HK\$'000 (note (c))	Foreign currency translation reserve HK\$'000 (note (d))	Convertible notes reserve HK\$'000	Statutory reserve HK\$'000 (note (e))	Share-based payment reserve HK\$'000	Retained profits HK\$'000	Dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2014 (Audited)	845,161	1,692,627	(121,745)	31,172	22,669	12,913	44,400	20,874	187,299	-	2,735,370	74,799	2,810,169
Total comprehensive income for the period	-	-	-	-	(11,000)	-	-	-	101,004	-	90,004	12,835	102,839
Approved final dividend for the year ended 31 December 2013	-	-	-	-	-	-	-	-	(37,409)	37,409	-	-	-
Dividend paid during the period	-	-	-	-	-	-	-	-	(37,409)	(37,409)	(37,409)	-	(37,409)
Reduction of share premium	-	(1,692,627)	-	1,432,498	-	-	-	-	260,129	-	-	-	-
Recognition of equity component of convertible notes	-	-	-	-	-	6,932	-	-	-	-	6,932	-	6,932
Issue of shares by subscription (note 25(b))	55,000	57,035	-	-	-	-	-	-	-	-	112,035	-	112,035
Allotment of shares for acquisition of a subsidiary (note 25(c))	12,242	22,037	-	-	-	-	-	-	-	-	34,279	-	34,279
Issue of conversion shares (note 25(d))	27,027	72,973	-	-	-	(8,865)	-	-	8,865	-	100,000	-	100,000
Non-controlling interests on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	7,919	7,919
Share based payments	-	-	-	-	-	-	-	4,510	-	-	4,510	-	4,510
Changes in equity for the period	94,269	(1,540,582)	-	1,432,498	(11,000)	(1,933)	-	4,510	332,589	-	310,351	20,754	331,105
At 30 June 2014 (Unaudited)	939,430	152,045	(121,745)	1,463,670	11,669	10,980	44,400	25,384	519,888	-	3,045,721	95,553	3,141,274

Notes:

(a) Share premium

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

Pursuant to Section 46(2) of the Companies Act 1981 of Bermuda, the Company was authorised by a special resolution passed at the annual general meeting of the Company held on 6 June 2014 to reduce the share premium account ("Share Premium Reduction"). As at 31 December 2013, the amount standing to the credit of the share premium account of the Company was approximately HK\$1,692,627,000 and the amount of accumulated losses was approximately HK\$260,129,000. Under the Share Premium Reduction, the entire amount standing to the credit of the share premium account of the Company as at 31 December 2013 in the sum of approximately HK\$1,692,627,000 be reduced, with part of the credit arising therefrom being applied to offset the accumulated losses of the Company as at 31 December 2013 in the sum of approximately HK\$260,129,000 in full and the remaining balance of the credit in the sum of approximately HK\$1,432,498,000 being credited to the contributed surplus account of the Company.

(b) 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 and the issued and fully paid up amount of such ordinary shares in 2009;
- (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).

(c) 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, plus the balance of credit arising from the Share Premium Reduction during the period, 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.

(d) 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.

(e) Statutory reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (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.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Note	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Operating activities			
Cash generated from operations		138,110	156,282
Finance lease charges paid		(2,196)	–
Income taxes paid		(3,551)	(10,395)
Net cash generated from operating activities		<u>132,363</u>	<u>145,887</u>
Investing activities			
Acquisition of a subsidiary, net of cash acquired	27	2,432	–
Purchase of property, plant and equipment		(423,527)	(40,205)
Net prepayments for construction of cinemas		(2,618)	(248,861)
Other net cash flows arising from investing activities		(11,146)	28,934
Net cash used in investing activities		<u>(434,859)</u>	<u>(260,132)</u>
Financing activities			
Net proceeds from issue of bonds, bank loans and convertible notes		267,195	–
Net proceeds from issue of shares by subscription		112,035	–
Net (repayments of)/proceeds from other loans		(10,913)	62,000
Dividend paid		(37,409)	–
Other net cash flows arising from financing activities		(32,198)	4,826
Net cash generated from financing activities		<u>298,710</u>	<u>66,826</u>
Net decrease in cash and cash equivalents		(3,786)	(47,419)
Cash and cash equivalents at the beginning of period		41,383	68,458
Effect of foreign exchange rate changes		6,492	6,537
Cash and cash equivalents at the end of period		<u>44,089</u>	<u>27,576</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These condensed consolidated financial statements should be read in conjunction with the 2013 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2013 except as stated below.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. IFRSs comprise International Financial Reporting Standards ("IFRS"); 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 period and prior years.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has 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 financial position.



3. 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 and trading of equity securities during the period are as follows:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Theater operation	761,094	522,162
In-theater counter sales and online shopping	113,547	21,066
Investments in film production and distribution	–	89,291
Proceeds from held-for-trading investments	–	16,426
Others	–	152
	874,641	649,097

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Theater operation	761,094	522,162
In-theater counter sales and online shopping	113,547	21,066
Investments in film production and distribution	–	89,291
Others	–	152
	874,641	632,671

4. SEGMENT INFORMATION

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) In-theater counter sales and online shopping – sales of goods through in-theater counter and online website
- (c) Investments in film production and distribution – investments in production and distribution of films
- (d) Securities trading – trading of marketable securities

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.

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

	Segment revenue		Segment result		Segment assets		Segment liabilities	
	Six months ended 30 June		Six months ended 30 June		At		At	
	2014	2013	2014	2013	30 June	31 December	30 June	31 December
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Theater operation	761,094	522,162	168,463	52,928	4,484,826	4,121,609	(1,088,481)	(1,144,768)
In-theater counter sales and online shopping	113,547	21,066	10,176	(1,099)	179,601	74,835	(153,361)	(36,764)
Investments in film production and distribution	-	89,291	(7,519)	19,262	132,827	107,965	(4,789)	(4,818)
Securities trading	-	-	-	5,057	123	8,123	-	-
Other	-	152	(15,254)	(304)	202,839	171,505	(72,791)	(77,256)
	874,641	632,671	155,866	75,844	5,000,216	4,484,037	(1,319,422)	(1,263,606)



4. SEGMENT INFORMATION (Continued)

Notes:

- (a) Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$Nil).
- (b) Segment result of theater operation includes share of profits of associates from related theater operation.

Reconciliations of reportable segment profit or loss:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total profit of reportable segments	155,866	75,844
Other income	437	1,014
Unallocated amounts:		
Increase in fair value of convertible notes designated as financial assets at fair value through profit or loss ("financial assets at FVTPL")	–	5,231
Unallocated finance costs	(26,946)	(4,513)
Corporate expenses	(8,266)	(10,353)
	<hr/>	<hr/>
Consolidated profit for the period	121,091	67,223
	<hr/>	<hr/>

5. OTHER INCOME

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	739	73
Coupon interest income from convertible notes designated as financial assets at FVTPL	–	223
Increase in fair value of convertible notes designated as financial assets at FVTPL	–	5,231
Net exchange gain	–	8,101
Government grants (note (a))	6,491	9,122
Others	927	847
	8,157	23,597

Note:

- (a) 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).

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on borrowings wholly repayable within five years		
– bank overdraft	4	13
– bank loans	2,829	–
– convertible notes	2,984	3,246
– long term bonds	11,203	12,549
– other loans	8,807	2,912
– securities margin facilities	4,387	–
– short term bonds	5,722	–
Interest on long term bonds wholly repayable more than five years	838	–
Finance lease charges	2,196	–
	38,970	18,720



7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong Profits Tax	–	–
Current tax – PRC Enterprise Income Tax		
Provision for the period	36,838	27,959
Over provision in prior years, net	(35)	(447)
	<u>36,803</u>	<u>27,512</u>
Deferred tax	(419)	(418)
	<u>36,384</u>	<u>27,094</u>

No provision for Hong Kong Profits Tax is required since the Group has sufficient tax losses brought forward or no assessable profit for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$Nil).

For the PRC subsidiaries of the Group, the provision for PRC Enterprise Income Tax is based on a statutory rate of 25% (six months ended 30 June 2013: 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 charges 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.

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of lease contracts (included in selling and marketing expenses)	1,672	1,672
Amortisation of prepaid building lease rights (included in selling and marketing expenses)	558	558
Amortisation of technology (included in selling and marketing expenses)	733	–
Amortisation of investments in film production and distribution	–	71,670
Auditor's remuneration	180	110
Cost of services provided	207,034	187,618
Cost of inventories sold	103,258	30,094
Directors' emoluments		
– salaries, bonus and allowances	1,926	1,856
– directors' fees	83	–
– equity-settled share-based payments	942	–
– retirement benefit scheme contributions	7	8
	2,958	1,864
Depreciation on property, plant and equipment	59,685	49,746
Prepaid building lease rights written off	–	3,217
Net exchange loss/(gain)	17,009	(8,101)
Operating lease charges of land and buildings		
– minimum lease payments	70,880	52,659
– contingent rent	8,268	8,857
	79,148	61,516
Staff costs excluding directors' emoluments		
– salaries, bonus and allowances	73,493	55,564
– equity-settled share-based payments	1,885	–
– retirement benefit scheme contributions	15,367	12,664
	90,745	68,228
Equity-settled share-based payments paid to consultants	1,683	–

9. DIVIDENDS

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Final dividend for the year ended 31 December 2013 approved and paid – HK0.41 cents (2012: Nil) per ordinary share	37,409	–

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings attributable to owners of the Company, used in the basic earnings per share calculation	101,004	69,961
Effect of assumed conversions from finance cost saving on conversion of convertible notes	2,984	–
	<u>103,988</u>	<u>69,961</u>
Earnings attributable to owners of the Company, used in the diluted earnings per share calculation	103,988	69,961
Number of shares		
Issued ordinary shares at beginning of year	8,451,606,688	8,101,606,688
Effect of new shares issued by subscription	437,569,061	–
Effect of new shares issued for acquisition of a subsidiary	50,728,155	–
Effect of new conversion shares issued	16,425,265	–
	<u>8,956,329,169</u>	<u>8,101,606,688</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	8,956,329,169	8,101,606,688
Effect of dilutive potential ordinary shares arising from share options	185,064,789	–
Effect of dilutive potential ordinary shares arising from convertible notes	443,724,830	–
	<u>9,585,118,788</u>	<u>8,101,606,688</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	9,585,118,788	8,101,606,688

The effects of dilutive potential ordinary shares arising from warrants and convertible notes outstanding are not included in calculating the diluted earnings per share as they had an anti-dilutive effect on the basic earnings per share for the six months ended 30 June 2014 and the six months ended 30 June 2013 respectively.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group spent approximately HK\$423,527,000 (six months ended 30 June 2013: HK\$40,205,000) on additions to property, plant and equipment.

12. GOODWILL

	HK\$'000
Cost	
At 1 January 2013, 31 December 2013 and 1 January 2014 (Audited)	1,427,618
Addition on acquisition of a subsidiary (note 27)	<u>9,710</u>
At 30 June 2014 (Unaudited)	<u>1,437,328</u>
Accumulated impairment losses	
At 1 January 2013, 31 December 2013 and 1 January 2014 (Audited) and at 30 June 2014 (Unaudited)	<u>5,912</u>
Carrying amount	
At 30 June 2014 (Unaudited)	<u>1,431,416</u>
At 31 December 2013 (Audited)	<u>1,421,706</u>

13. INTANGIBLE ASSETS

	Trademark (purchased)	Lease contracts (purchased)	Prepaid building lease rights (purchased)	Technology (purchased)	Investments in film production	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 1 January 2013	25,120	31,188	40,000	–	133,976	230,284
Additions	–	–	–	–	6,295	6,295
Written off	–	–	(3,217)	–	–	(3,217)
Return of investment	–	–	–	–	(90,110)	(90,110)
At 31 December 2013 (Audited)	25,120	31,188	36,783	–	50,161	143,252
Additions	–	–	–	44,000	12,960	56,960
Return of investment	–	–	–	–	(15,809)	(15,809)
At 30 June 2014 (Unaudited)	25,120	31,188	36,783	44,000	47,312	184,403
Accumulated amortisation and impairment losses						
At 1 January 2013	–	7,805	1,730	–	–	9,535
Amortisation	–	3,343	1,117	–	90,110	94,570
Return of investment	–	–	–	–	(90,110)	(90,110)
At 31 December 2013 (Audited)	–	11,148	2,847	–	–	13,995
Amortisation	–	1,672	558	733	–	2,963
At 30 June 2014 (Unaudited)	–	12,820	3,405	733	–	16,958
Carrying amount						
At 30 June 2014 (Unaudited)	25,120	18,368	33,378	43,267	47,312	167,445
At 31 December 2013 (Audited)	25,120	20,040	33,936	–	50,161	129,257

14. INVESTMENTS IN ASSOCIATES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Listed investments:		
Share of net assets	223,400	228,670
Less: impairment loss	(61,600)	(61,600)
	161,800	167,070
Unlisted investments:		
Share of net assets	7,383	7,458
Goodwill	9,705	9,705
Net assets	17,088	17,163
	178,888	184,233
Fair value of listed investments in associates based on quoted market price (level 1 fair value measurement)	177,027	116,968

Details of the Group's associates at 30 June 2014 are as follows:

Name	Place of incorporation/ establishment	Issued/paid up capital	Percentage of equity interest held by the Group/profit sharing		Principal activities
			30 June 2014	31 December 2013	
星美文化集團控股有限公司 SMI Culture Group Holdings Limited	Cayman Islands	562,557,684 ordinary shares of US\$0.1 each	29.97%/ 29.97%	29.70%/ 29.70%	Provision of media services in the PRC
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%	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%	40.85%/ 40.85%	Operation of cinema

The above associates are limited liability companies.



15. 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 of cinemas in the PRC. During the six months ended 30 June 2014, the Group has prepaid approximately HK\$2,618,000 (six months ended 30 June 2013: HK\$248,861,000) to these construction companies for the planning, design and construction work of the construction projects.

16. TRADE AND OTHER RECEIVABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade receivables	83,497	31,357
Rental and other deposits	224,610	275,374
Amounts due from non-controlling interests of subsidiaries	29,391	17,029
Prepayments and other receivables	274,193	189,193
	611,691	512,953

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 the end of the reporting period is as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
0 to 30 days	49,344	7,778
31 to 90 days	31,075	12,828
Over 90 days	3,078	10,751
	83,497	31,357

17. DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest-bearing at 10% per annum and no fixed repayment term.

18. TRADE AND OTHER PAYABLES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade payables	284,138	200,288
Customers' deposits and receipts in advance	126,145	209,622
Long term bonds interests payable	18,556	8,159
Other loans interests payable	9,613	2,511
PRC business and other tax payables	16,293	18,319
Amounts due to non-controlling interests of subsidiaries (note (a))	22,552	14,874
Margin payable due to financial institution (note (b))	69,140	75,731
Accrued charges and other payables	245,182	254,678
	791,619	784,182

Notes:

- (a) The amounts of approximately HK\$8,942,000 (At 31 December 2013: HK\$14,874,000) are unsecured, interest-free and repayable on demand. The remaining amounts of approximately HK\$13,610,000 (At 31 December 2013: HK\$Nil) are unsecured, interest bearing at 7% per annum and repayable on demand.
- (b) The margin payable due to financial institution is secured and repayable on demand. The interest is charged at 12% per annum.

The average credit period on purchases of goods is 30 to 60 days. The aging analysis of the Group's trade payables based on the invoice date at the end of the reporting period is as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
0 to 30 days	51,424	30,884
31 to 60 days	155,379	84,249
Over 60 days	77,335	85,155
	284,138	200,288



19. DUE TO RELATED PARTIES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Mr. QIN Hui (note (a))	331	167
Strategic Media International Limited ("SMIL") (note (b))	1,381	1,381
	1,712	1,548

Notes:

- (a) Mr. QIN Hui is the controlling shareholder of the Company.
- (b) Mr. QIN Hui has significant influence over SMIL.
- (c) The amounts are unsecured, interest-free and repayable on demand.

20. BANK LOANS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Bank loans, secured, with principal amount of:		
– RMB25 million (note (a))	31,187	31,973
– RMB71 million (At 31 December 2013: RMB60 million) (note (b))	88,573	76,734
– RMB10 million (note (c))	12,475	–
	132,235	108,707

20. BANK LOANS (Continued)

The bank loans are repayable as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	79,990	53,586
In the second year	37,575	30,847
In the third to fifth years, inclusive	14,670	24,274
	132,235	108,707
Less: amount due for settlement within one year (shown under current liabilities)	(79,990)	(53,586)
Amount due for settlement after one year	52,245	55,121

All bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

- (a) Bank loan of approximately HK\$31,187,000 (At 31 December 2013: HK\$31,973,000) is wholly repayable within one year and secured by the Group's building situated outside Hong Kong. The bank loan is arranged at floating rate with average interest rate of 9.0% (At 31 December 2013: 9.0%) per annum.
- (b) Bank loans of approximately HK\$88,573,000 (At 31 December 2013: HK\$76,734,000) are wholly repayable within three years and secured by personal guarantee given by Mr. QIN Hong, a former director and chairman of the Company, and the equity interest of the subsidiaries held by the Group, namely 北京回龍觀星美國國際影城管理有限公司 (Beijing Huilongguan 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.*), 北京世界城星美國國際影城管理有限公司 (Beijing Shijiecheng Stellar Cineplex Management Co., Ltd.*), 北京望京星美國國際影城管理有限公司 (Beijing Wangjing Stellar International Cinema Mgt Co., Ltd.*) and 北京陽光星美國國際影院管理有限公司 (Beijing Yangguang Stellar Cineplex Management Co., Ltd.*). These bank loans are arranged at floating rate with average interest rate of 6.9% (At 31 December 2013: 6.7%) per annum.
- (c) Bank loan of approximately HK\$12,475,000 (At 31 December 2013: HK\$Nil) is wholly repayable within one year and secured by personal guarantee given by Mr. QIN Hong, a former director and chairman of the Company. The bank loan is arranged at floating rate with average interest rate of 7.2% (At 31 December 2013: Nil) per annum.

* For identification purposes only



21. OTHER LOANS

	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Repayable on demand or within one year (shown under current liabilities), with principal amount of:		
– HK\$12 million (note (a))	–	5,000
– HK\$50 million (note (b))	2,190	38,103
– HK\$20 million (note (c))	–	20,000
– HK\$165 million (note (d))	165,000	–
– HK\$50 million (note (e))	50,000	–
	<u>217,190</u>	<u>63,103</u>
Repayable over one year		
– HK\$165 million (note (d))	–	165,000
	<u>217,190</u>	<u>228,103</u>

Notes:

- (a) In March 2013, the Group entered into a loan agreement for a principal amount of HK\$12,000,000 with an independent third party. The loan was interest bearing at 3% per month and was repayable on 2 April 2013. The loan was originally secured by convertible notes designated as financial assets at FVTPL and the pledge was discharged in August 2013.

The repayment date of the loan was extended to 28 February 2014. The loan was fully settled during the reporting period.

21. OTHER LOANS (Continued)

Notes: (Continued)

- (b) In April 2013, the Group entered into a project management contract ("PM Contract") with a construction company, an independent third party. Pursuant to the PM Contract, the construction company will provide management services to the Group in relation to the construction of seven cinemas in the PRC as specified in the PM Contract. The management service fee is charged at 20% of total borrowings drawn by the Group as stated below.

The construction company will make borrowings with a maximum amount of HK\$50 million to the Group for the settlement of construction costs incurred. The borrowings are unsecured and interest bearing at 1.5% per month.

The loan would be fully repayable on 30 September 2014. Since 1 December 2013 the loan interest is increased to 3.0% per month.

- (c) In December 2013, the Group entered into a loan agreement with a financial institution, Emperor Finance Limited. The loan was interest bearing at 2% per month, unsecured and repayable in April 2014. The loan was fully settled during the reporting period.
- (d) From September to November 2013, the Group entered into several loan agreements with an independent third party. The loans are interest bearing at 5% per annum, unsecured and repayable within one year.
- (e) In June 2014, the Group entered into a loan agreement with a financial institution, Emperor Finance Limited. The loan is interest bearing at 2% per month, unsecured and repayable in November 2014.

22. CONVERTIBLE NOTES

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Convertible notes with principal amount of:		
– HK\$141 million (note (a))	41,000	141,000
– HK\$10.25 million (note (b))	9,973	9,934
– HK\$77.64 million (note (c))	70,424	–
	121,397	150,934
Analysed as:		
Current liabilities	41,000	141,000
Non-current liabilities	80,397	9,934
	121,397	150,934



22. CONVERTIBLE NOTES (Continued)

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 it into ordinary shares of the Company at any business day after the date of issue of the Convertible Note up to and including the date which is 7 business days prior to the maturity date on 27 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% per annum will be payable semiannually.

On 25 June 2013, a special general meeting was passed for the approval of the extension of the maturity date of the Convertible Note from 27 May 2013 to 27 May 2014. The conversion price and all the other terms and conditions of the Convertible Note remain unchanged. No early redemption is allowed.

On 6 June 2014, a special general meeting was passed for the approval of the further extension of the maturity date of the Convertible Note from 27 May 2014 to 27 May 2015, and the conversion price was revised from HK\$0.47 per conversion share to HK\$0.37 per conversion share. All the other terms and conditions of the Convertible Note remain unchanged. No early redemption is allowed.

On 20 June 2014, the Convertible Note holder, Mr. QIN Hui exercised the conversion rights to the extent of principal amount of HK\$100,000,000 of the Convertible Note, to convert the Convertible Note at a conversion price of HK\$0.37 per ordinary share, a total of 270,270,270 conversion ordinary shares were then issued. Premium on issue of shares, amounted to approximately HK\$72,973,000, was credited to the Company’s share premium account.

The Convertible Note contains two components, liability and equity element. The equity element is presented in equity as convertible notes reserve. The revised effective interest rate of the liability component is 0.25%.

The Directors estimate the fair value of the liability component at 30 June 2014 to be approximately HK\$41,000,000 (At 31 December 2013: HK\$141,000,000). This fair value has been calculated by discounting the future cash flows at the market rate (Level 2 fair value measurement).

22. CONVERTIBLE NOTES (Continued)

Notes: (Continued)

- (b) The Company issued several 5-year 5% convertible notes (“Convertible Notes II”) with principal amount totaling of HK\$10,250,000 on 11 September 2012 to certain independent third party investors. The Convertible Notes II are 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 10 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%.

The Directors estimate the fair value of the liability component at 30 June 2014 to be approximately HK\$9,900,000 (At 31 December 2013: HK\$9,900,000). This fair value has been calculated by discounting the future cash flows at the market rate (Level 2 fair value measurement).

- (c) The Company issued a 5-year 8% convertible note (“Convertible Note III”) with principal amount totaling of HK\$77,643,990 on 26 March 2014 to an independent third party investor, KTB China Platform Fund. The Convertible Note III is denominated in Hong Kong dollars and entitles the holder to convert into ordinary shares of the Company at any business day after the date of issue of the Convertible Note III up to and including the maturity date on 26 March 2019 at a conversion price of HK\$0.30. If the Convertible Note III has not been converted, it will be redeemed at 100% of its principal amount on the maturity date. The Subscriber, KTB China Platform Fund may on the date falling on the third anniversary of the date of issue of the Convertible Note III require the Company to redeem the Convertible Note III in whole or in part at 112% of the outstanding principal amount of the Convertible Note III by serving at least 30 Business Days’ prior written notice to the Company. Interest of 8% per annum will be payable semi-annually.

The Convertible Note III 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 13.81%.

The Director estimate the fair value of the liability component at 30 June 2014 to be approximately HK\$76,616,000 (At 31 December 2013: HK\$ Nil). This fair value has been calculating by discounting the future cash flows at the market rate (Level 2 fair value measurement).

23. SHORT TERM BONDS AND WARRANTS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Bonds component	139,162	–
Warrants component	5,787	–
	144,949	–

The Company issued 1-year 8% Bonds with principal amount of HK\$147,200,000 on 27 March 2014 to certain independent third party investors. The Bonds are denominated in Hong Kong dollars. The Company may at any time before the maturity date redeem the Bonds in whole or in part at 100% of the total principal amount of the Bonds together with payment of interests accrued up to the date of such early redemption. The effective interest rate of the Bonds is 16.10%.

The Directors estimate the fair value of the Bonds at 30 June 2014 to be approximately 149,847,000 (At 31 December 2013: HK\$Nil). This fair value has been calculated by discounting the future cash flows at the market rate (Level 2 fair value measurement).

Warrants were issued to the subscribers of the Bonds on 27 March 2014 with no additional payment from them on the basis of 4,000,000 Warrants for every whole multiple of HK\$1,280,000 in the principal amount of the Bonds taken up. Accordingly, an aggregate of 460,000,000 Warrants had been issued by the Company to the subscribers. The Warrants entitles the holder to subscribe for a new share of the Company for each warrant, from the date of issue of the Warrants to the date falling on the first anniversary of the issue of the Warrants at an exercise price of HK\$0.32 per new share of the Company.

The Warrants are detachable from the Bonds and both the Warrants and the Bonds can be transferred individually and separately.

The fair value of the Warrants issued was valued by Roma Appraisals Limited, an independent qualified professional valuer, and was estimated at the day of issue of the Warrants using binomial option pricing model taking into account the terms and conditions upon which the Warrants were issued.

The fair value of the Warrants at 30 June 2014 was estimated to be approximately 5,787,000 (At 31 December 2013: HK\$Nil), which was valued by Roma Appraisals Limited, an independent qualified professional valuer, using binomial option pricing model taking into account the terms and conditions of the Warrants (Level 2 fair value measurement).

24. LONG TERM BONDS

	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Long-term bonds consist of:		
– SMEs Private Placement Bonds (note (a))	250,711	253,648
– 7-year 5% bonds (note (b))	30,000	20,000
– 7-year 5% bonds (note (c))	15,935	–
	296,646	273,648

Notes:

- (a) 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 “SMEs Private Placement 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 SMEs 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 SEMs Private Placement Bonds are issued by four PRC subsidiaries of the Group, namely 北京回龍觀星美國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 Management Co., Ltd.*), and 北京望京星美國國際影城管理有限公司 (Beijing Wangjing Stellar International Cinema Management Co., Ltd.*) (“Joint Issuers”) on 30 August 2012 with par value of RMB100 each totaling RMB200 million (equivalent to approximately HK\$242 million).



24. LONG TERM BONDS (Continued)

Notes: (Continued)

(a) (Continued)

The SMEs Private Placement Bonds are of 3-year term but may be redeemed in whole on the date falling on the second financial year from the date of issue of the SMEs Private Placement Bonds at the option of the Joint Issuers (the “Redemption Option”). Upon exercise of such redemption option by the Joint Issuers, the date falling at the end of the second financial year from the date of issue of the SMEs Private Placement Bonds, will be taken as the maturity date of the entire outstanding SMEs Private Placement Bonds. On the other hand, the holders of the SMEs Private Placement Bonds may, at their own option, on the date of the interest payment for the second year, sell the whole or part of their SMEs Private Placement Bonds back to the Joint Issuers. The SMEs Private Placement Bonds carry interest at a rate of 9.5% per annum payable at the end of each financial year of the date of issue of the SMEs Private Placement Bonds. The effective interest rate of the SMEs Private Placement Bonds is 10.37%.

At 30 June 2014, the fair value of the SMEs Private Placement Bonds is estimated to be approximately RMB218,381,000 (At 31 December 2013: RMB210,896,000) (equivalent to approximately HK\$272,430,000 (At 31 December 2013: HK\$269,715,000)). The fair value is derived from discounted future cash flows using bond interest rate with similar terms of 8% per annum (level 2 fair value measurement).

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 SMEs Private Placement Bonds.

The Directors consider raising fund by issuing the SMEs Private Placement Bonds will enhance the Group’s working capital and strengthen its capital base and financial position for expending the Group’s channel chain and brand building, enhancing new complementary businesses and improving the operation standard of the Group with an aim to becoming a leading integrated entertainment and media company.

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

- (b) At 30 June 2014, the Company has issued three (At 31 December 2013: two) 7-year 5% bonds with principal amount of HK\$10,000,000 each to certain independent third party investors. The effective interest rate of the bonds is 5%.
- (c) At 30 June 2014, the Company has issued two 7-year 5% bonds (At 31 December 2013: Nil) with principal amount of HK\$10,000,000 each to certain independent third party investors. The effective interest rates of the bonds are 9.12% and 8.10% respectively.

* For identification purposes only

25. SHARE CAPITAL

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Authorised:		
20,000,000,000 ordinary shares of HK\$0.1 each	2,000,000	2,000,000
Issued and fully paid:		
9,394,300,905 (At 31 December 2013: 8,451,606,688) ordinary shares of HK\$0.1 each	939,430	845,161

A summary of the movements in the issued share capital of the Company is as follows:

	Note	Number of shares issued	Nominal value of shares issued HK\$'000
At 1 January 2013		8,101,606,688	810,161
Issue of shares by placement	(a)	<u>350,000,000</u>	<u>35,000</u>
At 31 December 2013 and 1 January 2014		8,451,606,688	845,161
Shares issued by subscription	(b)	550,000,000	55,000
Allotment of shares for acquisition of a subsidiary	(c)	122,423,947	12,242
Issue of conversion shares	(d)	<u>270,270,270</u>	<u>27,027</u>
At 30 June 2014		<u>9,394,300,905</u>	<u>939,430</u>



25. SHARE CAPITAL *(Continued)*

- (a) On 13 September 2013, the Company and Placing Agent, Emperor Securities Limited, entered into a placing agreement in respect of the placement of 350,000,000 ordinary shares of HK\$0.1 each to independent investors at a price of HK\$0.18 per share. The placement was completed on 16 October 2013 and the premium on the issue of shares, amounting to HK\$26,110,000, net of share issue expenses of HK\$1,890,000, was credited to the Company's share premium account.
- (b) On 17 January 2014, the Company entered into a subscription agreement with Wise Vanguard Holdings Limited for the subscription of 550,000,000 ordinary shares of HK\$0.1 each to the subscriber at a price of HK\$0.21 per share. The subscription was completed on 7 February 2014 and the premium on the issue of shares amounting to HK\$57,035,000, net of share issue expense of HK\$3,465,000, was credit to the Company's share premium account.
- (c) On 11 April 2014, the subsidiary of the Company, Best Fame Holdings Limited entered into 5 subscription agreements with vendors, to acquire in total 55% equity interest in TicketChina Holdings Limited, and among the total consideration, it comprised a partial consideration shares in issuance of 122,423,947 ordinary shares of the Company of HK\$0.1 each to vendors at a price of HK\$0.28 per share. The acquisition was completed on 17 April 2014 and the partial consideration shares were issued on the same date, and the premium on the issue of shares amounting to approximately HK\$22,037,000 was credited to the Company's share premium account.
- (d) On 18 June 2014, a convertible note holder, Mr. QIN Hui elected to exercise the conversion rights to the extent of the principal amount of HK\$100,000,000 of the convertible note, for the conversion of 270,270,270 ordinary shares of HK\$0.1 each at a conversion price of HK\$0.37 per share. The conversion was completed on 20 June 2014 and the premium on issue of shares amounted to approximately HK\$72,973,000 was credited to the Company's share premium account.
- (e) Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the current period (six months ended 30 June 2013: Nil).

26. 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.

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 of the Company 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.

Share Option I

During the year ended 31 December 2010, total numbers of share options 546,126,507 were granted to directors, senior management and consultants 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 May 2010 – 2 May 2011	HK\$0.57	209,975,500
June 2010 (Lot A)	11 June 2010	11 June 2010 – 10 June 2013	HK\$0.51	139,075,507
June 2010 (Lot B)	11 June 2010	11 June 2010 – 10 June 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.

The numbers of share options of 139,075,507 granted on 11 June 2010 were lapsed during the year ended 31 December 2013. The corresponding equity-settled share-based expenses previously recognised in share-based payment reserve were transferred to retained profits.



26. **SHARE-BASED PAYMENT (Continued)**

Equity-settled share option scheme (Continued)

Share Option II

During the year ended 31 December 2013, a total number of 535,000,000 share options 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
July 2013 (Lot A)	19 July 2013	19 July 2013 – 18 July 2016	HK\$0.18	311,666,666
July 2013 (Lot B)	19 July 2013	19 July 2014 – 18 July 2016	HK\$0.18	111,666,667
July 2013 (Lot C)	19 July 2013	19 July 2015 – 18 July 2016	HK\$0.18	111,666,667

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 the share options granted.

No share option was exercised or lapsed during the period (Year ended 31 December 2013: Nil).

The fair value of the options granted is estimated at the date of grant using binomial 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 2013 was estimated on the date of grant using the following assumptions:

	July 2013 (Lot A)	July 2013 (Lot B)	July 2013 (Lot C)
Date of grant	19 July 2013	19 July 2013	19 July 2013
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	53.554	53.554	53.554
Risk-free interest rate (%)	0.517	0.517	0.517
Expected life (years)	3	2	1
Weighted average share price	0.165	0.165	0.165

27. ACQUISITION OF A SUBSIDIARY

On 17 April 2014, the Group acquired 55% equity interest in TicketChina Holdings Limited and its subsidiaries ("TicketChina Group") at a consideration of approximately HK\$35,787,000. TicketChina Group is a limited liability company incorporated in British Virgin Islands and is principally engaged in digital products and related software development, wholesale, trading business (involving quota licensing management, handling of specific managed products in accordance with national regulations), provision of relevant technical consulting services of the above mentioned services, provision of online-to-offline integrated marketing platform as well as online ticketing services through www.ipiao.com ("Ipiao").

The acquisition is for the purpose of expanding the Group's core business in online ticketing services. The online network of Ipiao can be integrated with the businesses of the Group and will bring along synergy effect to the Group's business integration and membership promotion. It will also help the Group to further penetrate into different cities in PRC, thus enlarging the number of members of the Group. It can also provide more diversified and convenient online value-added services to the customers and members of the Group.

The fair value of the identifiable assets and liabilities of TicketChina Group acquired as at its date of acquisition is as follows:

Net assets acquired:	HK\$'000
Intangible asset	44,000
Trade and other receivables	285
Prepayments and deposits	5,133
Bank and cash balances	2,432
Trade and other payables	(3,812)
Other loans	(14,042)
	<hr/>
Total identifiable net assets	33,996
Non-controlling interests	(7,919)
Goodwill (note 12)	9,710
	<hr/>
	35,787
	<hr/>
Satisfied by:	
122,423,947 ordinary shares of the Company issued	34,279
Contingent consideration	1,508
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Total consideration	35,787
	<hr/>
Net cash inflow on acquisition of a subsidiary	
Bank and cash balances acquired from the subsidiary	2,432
	<hr/>



27. ACQUISITION OF A SUBSIDIARY *(Continued)*

The fair value of the acquired identifiable assets and liabilities were valued by Roma Appraisals Limited, an independent qualified professional valuer. The valuation of intangible assets was arrived at using the income-based approach by applying an excess earnings method. The expected earnings of the intangible assets which are based on management's estimates were discounted by the weighted average cost of capital (Level 3 fair value measurement).

The fair value of the trade and other receivables and prepayments and deposits acquired is HK\$5,418,000. The gross contractual amount due is HK\$5,418,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The contingent consideration will be satisfied by issuing of 5,385,950 ordinary shares of the Company and is subject to the achievement of certain conditions which included but not limited to the completion of certain technical developments by one of the vendors of the acquired equity interest in the subsidiary. The details of the conditions are disclosed in the announcement of the Company dated 11 April 2014.

The goodwill arising on the acquisition of TicketChina Group is attributable to the synergy effect to the Group's business integration and membership promotion by the online network of Ipio and the economic benefits attributable to the Group as a result of further penetration into different cities in PRC.

Since the acquisition, TicketChina Group made no significant contribution to the revenue and result of the Group.

If the acquisition had been completed on 1 January 2014, total Group's revenue and profit for the six months ended 30 June 2014 would have been approximately HK\$874,759,000 and HK\$117,092,000 respectively. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is intended to be a projection of future results.

28. PLEDGE OF ASSETS

- (a) At 30 June 2014, the Group's investments in associates amounted to approximately HK\$161,800,000 (At 31 December 2013: HK\$167,070,000) were pledged to secure margin account facilities granted to the Group.
- (b) At 30 June 2014, the Group's building situated outside Hong Kong amounted to approximately HK\$31,444,000 (At 31 December 2013: HK\$33,069,000) was pledged to secure a bank loan granted to the Group.
- (c) At 30 June 2014 and 31 December 2013, the equity interests of certain subsidiaries held by the Group were pledged to secured bank loans granted to the Group.

29. LEASE COMMITMENTS

At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	340,000	334,000
In the second to fifth years inclusive	1,598,000	1,492,000
After five years	4,269,000	3,558,000
	6,207,000	5,384,000

Operating lease payments represent rental payables by the Group for its office and warehouses in Hong Kong and the office, a residential club house and certain cinema premises in the PRC.

The leases 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 to calculate the amount of such additional rental.



30. OTHER COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
(a) Amount contracted but not provided for in the condensed consolidated financial statements in respect of:		
Investments in film production and distribution	3,045	7,843
Construction of cinema premises	491,726	490,989
Consultancy fee expenses	3,588	4,485
	<u>498,359</u>	<u>503,317</u>
(b) Capital expenditure authorised but not contracted for in respect of:		
Construction of cinema premises	1,914,987	1,886,730

31. 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 condensed consolidated financial statements of the Group.

At 30 June 2014, the Group did not have any other significant contingent liabilities.

32. RELATED PARTY TRANSACTIONS

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

(b) **Compensation to key management**

The remuneration of directors during the six months ended 30 June 2014 and 2013 was as follows:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	1,926	1,856
Director's fees	83	–
Equity-settled share-based payments	942	–
Retirement benefit scheme contributions	7	8
	<u>2,958</u>	<u>1,864</u>

33. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The Directors consider that the carrying amounts of the financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their fair values.



34. EVENTS AFTER THE REPORTING PERIOD

(a) *Issue of Convertible Notes*

On 7 August 2014, an agreement was entered for issuance of 9% convertible notes of HK\$200,000,000 due year 2017 at initial conversion price of HK\$0.34 to two independent third parties, CCB International Overseas Limited and Harvest Progress International Limited.

(b) *Discloseable and Connected Transaction in respect of subscription of the SMI Culture rights shares comprising the full acceptance of provisional entitlement under the undertaking*

On 8 August 2014, SMI Investment (HK) Limited (“SMI Investment”), a wholly-owned subsidiary of the Company gave an undertaking in favour of SMI Culture Group Holdings Limited (“SMI Culture”) (Stock Code: 2366), of which shares are listed on the main board of the Stock Exchange to subscribe for a total of 674,389,120 the SMI Culture rights shares, whereas SMI Investment holds approximately 29.97% of the existing issued share capital of SMI Culture as at 8 August 2014.

(c) *Placing of new share under General Mandate*

On 20 August 2014, the Company entered into a placing agreement with Get Nice Securities Limited (“Get Nice”). Pursuant to the Placing Agreement, Get Nice agreed to act as a placing agent, on a best effort basis, for the purposes of placing to one Placee for the issue of 780,000,000 shares of the Company at a placing price of HK\$0.285 per placing share.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 August 2014.