星美控股

SMI HOLDINGS GROUP LIMITED
星美控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

Annual Report **2016**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. CHENG Chi Chung *(Chairman)*
Mr. YANG Rongbing *(Chief Executive Officer)*
Mr. ZHOU Lin (Retired at 2 June 2016)
Mr. KONG Dalu (Appointed on 6 April 2017)

Non-Executive Directors

Dr. YAP Allan (Appointed on 26 April 2016)
Mr. LI Xuan (Resigned on 26 April 2016)
Mr. ZHANG Yongdong (Retired at 2 June 2016)
Mr. HUNG Ka Hai Clement (Appointed on 16 January 2017 as independent non-executive director and re-designated on 15 March 2017)

Independent Non-Executive Directors

Mr. PANG Hong
Mr. LI Fusheng
Mr. KAM Chi Sing (Resigned on 2 June 2016)
Mr. LI Wing Yin (Appointed on 2 June 2016 and resigned on 16 January 2017)
Mr. Wong Shui Yeung (Appointed on 13 April 2017)

AUDIT COMMITTEE

Mr. KAM Chi Sing (Resigned on 2 June 2016)
Mr. PANG Hong
Mr. LI Fusheng
Mr. LI Wing Yin (Appointed on 2 June 2016 and resigned on 16 January 2017)
Mr. HUNG Ka Hai Clement
Mr. Wong Shui Yeung *(Chairman)* (Appointed on 13 April 2017)

REMUNERATION COMMITTEE

Mr. LI Fusheng *(Chairman)*
Mr. PANG Hong
Mr. KAM Chi Sing (Resigned on 2 June 2016)
Mr. LI Wing Yin (Appointed on 2 June 2016 and resigned on 16 January 2017)
Mr. HUNG Ka Hai Clement (Appointed on 16 January 2017)

NOMINATION COMMITTEE

Mr. PANG Hong *(Chairman)*
Mr. LI Fusheng
Mr. KAM Chi Sing (Resigned on 2 June 2016)
Mr. LI Wing Yin (Appointed on 2 June 2016 and resigned on 16 January 2017)
Mr. HUNG Ka Hai Clement (Appointed on 16 January 2017)

COMPANY SECRETARY

Mr. Tsang Chun Yiu

AUTHORIZED REPRESENTATIVES

Mr. CHENG Chi Chung
Mr. YANG Rongbing

AUDITOR

Deloitte Touche Tohmatsu

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

Chairman's Statement

To all Shareholders:

I am pleased to present the annual report for the year ended 31 December 2016 (the "Reporting Period") of SMI Holdings Group Limited (the "Company") and its subsidiary companies (collectively, the "Group").

According to statistics of the Film Division of the State Administration of Press, Publication, Radio, Film and Television, for the year ended 31 December 2016, China's total box office's receipts reached RMB45.712 billion, representing a year-on-year growth of 3.7%. The urban cinema admission was 1.372 billion, representing a year-on-year growth of 8.89%. Since 2011, the domestic film market has been developing rapidly and forcefully. Today, China has become the world's second largest movie market, next to the USA.

MOVIE THEATRE BUSINESS

During the Reporting Period, benefiting from the thriving development of the China's film market, the Group's movie theatre business enjoyed steady growth. As at the end of 2016, the Group operated 260 movie theatres in major cities with a total of approximately 1,820 screens. The growth was significant as compared to 200 movie theatres and approximately 1,400 movie screens as at 31 December 2015. At present, the Group's movie theatre network covers all first tier and most of the non tier-one cities. The Group will further develop business footprint to maintain its leading position among China's movie theatre operators. It is estimated that by end 2017, the Group will be operating up to 500 theatres in China.

SMI LIVING

During the Reporting Period, the Group continued to focus on its core business (the movie theatre business), and at the same time, increased its investment in areas other than the box office business. Leveraged on the foundation of the movie theatre business, a business model was developed by aggregating tens of thousands of daily consumer products to serve a consumer community reaching 100 million. It is anticipated that the Group's profit scale and core competitiveness will be greatly enhanced.

Since 2012, the Group has carried out a brand new deployment of business on mobile internet, the Group's internet platform "SMI Living". Through a centralized management of tens of millions of movie audience and consumers of consumer products, the Group successfully implemented the brand new O2O business model of "internet + theatre users + lifestyle services + free delivery within two kilometers". Currently SMI Living is cooperating with numerous domestic and overseas name brands. SMI Living's online platform features 15,000 items, with over 300 selected business merchants, completely covering a full collection of consumer products including film and television, food and delicacies, household and daily consumables, maternal and infant products, cosmetics, 3C Digital and others.

During the Reporting Period, the Group actively developed financing channels and strengthen the financial condition of the Group, including the establishment of the "SMI International Cinemas Trust Benefit Rights Phase Two Asset Back Project Plan" (星美國際影院信託受益權二期資產支持專項計劃), which received participating funds of RMB1,500,000,000. Bonds in an aggregate principal amount of US$50,000,000 were issued to a wholly-owned subsidiary of Zhongrong International Trust Company Limited and to zhongrong International Wealth Management Limited, an offshore investment entity. Bonds in an aggregate amount of not exceeding HK$400,000,000 were issued to Cheer Hope Holdings Limited, an indirect wholly-owned subsidiary of CCB International (Holdings) Limited. Bonds in an aggregate amount of not exceeding US$43,600,000 were issued to Abundant Ally Limited, an indirect wholly-owned subsidiary of Huarong International Financial Holdings Limited, in order to support the Group's speedy expansion strategy.

Meanwhile, Chengdu Runyun, a subsidiary of the Group, entered into capital agreements with CCBI, Dongzheng Guiding, Hesheng Shenzhen and Zhongtai SF, pursuant to which the investors agreed to make an aggregate capital contribution of RMB 2,500,000,000. The proceeds will be used for the construction and acquisition of new movie theatres, and to repay part of the interest-bearing debts. As these four companies have had capital transactions with the Company, this increase in capital is not a short term capital investment, but a long term strategic cooperation in capital. CCBI, Dongzheng Guiding, Hesheng Shenzhen and Zhongtai SF have agreed to cooperate with Chengdu Runyun and fully support its development in the future.

CONCLUSION

In recent years, China's film market has been rapidly growing, bringing impetus to steady growth of the Group's business. Today, SMI has established extensive theatre coverage domestically. We will continue to seize the opportunity, by fully leveraging on our own market share and our competitive edge to not only develop the core business in movie theatre, but also to actively explore into various non-box office businesses so as to expand the source of income.

Looking into the future, we will continue to apply more resources, concentrate our effort to promote the business development of SMI Living, build an integrated service platform which incorporates movie watching, lifestyle, consumer products and wealth management. We will consolidate, and further enhance the Group's leading position in the industry, and strive to optimize the shareholders benefits.

Chairman
Mr. CHENG Chi Chung

Hong Kong, 31 March 2017

Management Discussion and Analysis

INDUSTRY REVIEW

According to statistics of the Film Division of the State Administration of Press, Publication, Radio, Film and Television, for the year ended 31 December 2016, China's total box office's receipts reached RMB45.712 billion, representing a year-on-year growth of 3.7%. The urban cinema admission was 1.372 billion, representing a year-on-year growth of 8.89%. Since 2011, the domestic film market has been developing rapidly and forcefully. China remains to be the world's second largest movie market, next to the USA.

China's movie market has enjoyed a strong growth in recent years. The State Administration of Press, Publication, Radio, Film and Television statistics pointed out that in 2016, the number of newly added movie theatres nation-wide was 1,612, and number of newly added screens was 9,552. The total number of screens in China reached 41,179 and has become the country with the highest number of screens, representing an amazing growth rate of 30.2% or 9,552 screens, as compared with 2015.

In fact, with the rise of the middle class, the increase of per capita income and other favorable factors, China's cultural industry is gaining strong momentum, and the movie industry is developing full steam ahead. The gross box office's receipts have been sustaining a rapid growth for the past decade, and movie watching has become a common type of entertainment. The large number of movie admissions has also triggered the non-box office business opportunities. The derived businesses include sales of food and beverages, advertising, related products and services, which will become a hot spot inviting competitions in the industry.

BUSINESS REVIEW

Benefiting from the burgeoning of the China movie market, the Group's profit for the year ended 31 December 2016 was approximately HK$407 million, representing an increased 10.5%, or HK$39 million as compared with HK$368 million for the same period ended 31 December 2015. During the Reporting Period, the Group's operating revenue was approximately HK$3,351 million, representing an increase of 14.6%, or HK$427 million as compared with approximately HK$2,924 million for the period in 2015.

Movie theatre business

According to statistics of the Film Division of the State Administration of Press, Publication, Radio, Film and Television, for the year ended 31 December 2016, the number of newly added movie theatres nation-wide was 1,612, the total number of screens in China reached 41,179 and has become the country with the highest number of screens, representing an amazing growth rate of 30.2% or 9,552 screens, as compared with 2015. China's total box office's receipts reached RMB45.712 billion, representing a year-on-year growth of 3.7%. Benefiting from the favorable trend of the industry, the Group's movie theatre business also achieved excellent development. During the year ended 31 December 2016, the segment of movie theater business generated revenue of approximately HK$2,951 million, (corresponding period in 2015: HK$2,559 million), representing an increase of 15.3% as compared with the corresponding period in 2015.

As at 31 December 2016, the Group operated 260 movie theatres in major cities with a total of approximately 1,820 screens, as compared with 200 movie theatres and approximately 1,400 screens as at 31 December 2015. The Group will continue to maintain its competitiveness in the first and second tier cities, and extend its coverage to the other cities through investment by acquisition and self-operation in movie theatres.

SMI Living

Retail business

During the year ended 31 December 2016, the segment of retailed sales business generated revenue of approximately HK$383 million, (corresponding period in 2015: HK$364 million), representing a mild increase of 5.2% as compared with the corresponding period in 2015. Profit approximately HK$23.9 million was recorded in this segment (corresponding period in 2015: HK$29.3 million).

During the Reporting Period, as the Group increased its theatre operations, it continuously return benefits to its members through innovation and sincerity. As at the end of 2016, under the new membership scheme, number of members accumulated to 25 million. To ensure members enjoy extraordinary and prestigious benefits and movie watching experience, the Group will tailor-make member-exclusive theme sales packages, movie themed packages and other SMI Living gift packages to satisfy customers' buying needs.

In addition, current customers who make purchases through the Group's online or offline platforms enjoy free of charge, convenient and speedy home delivery service within a 2 kilometer perimeter from the theatres. The Group established the O2O electronic mall, "SMI Living", on the foundation of theatre channels, and is now conducting the precise market positioning, and formulating a clear development strategy. The objective is to provide the customers with high quality and diverse products. As product lines are successively in place, the Group's non-box office business development has become more complete and mature. SMI Living will deeply integrate various industry chains under SMI Holdings Group Limited, with an objective to comprehensively satisfying the customers' needs in lifestyle and entertainment. The users will be provided with a super service platform with content-rich, unique consumer products and lifestyle services, to cover five major daily life areas including movies, consumer products, communications, tourism, and finance. The members are able to enjoy safe, convenient, fashionable and entertaining one-stop service.

At the same time, SMI Living's offline shops are all over the Group's cinema across the country, driving offline businesses and consumer experiences.

PROSPECTS

In recent years, with the rapid and forceful growth of the domestic film market, the sustained growth of box office's receipts, and the enormous amount of funds entering the film and television industry, the development of the film and television industry will accelerate and face a breakthrough. Regarding government policies, the Shenzhen-Hong Kong Stock Connect officially launched on 5 December last year. For three months, cross-border funds showed a net inflow, which represents a long-term positive trend for the Shenzhen-Hong Kong Stock Connect concept stocks. The Group as a domestic leading listed film and TV company, has been developing this market for a long time, and its core resource advantage in the industry is obvious. Under the circumstances of the rapidly and forcefully growth of China's movie market, the Group will achieve rapid growth. The Group will continue to rely on its advantage in the industry to actively develop its movie business, and strive to meet the target of operating 500 movie theatres by the end of 2017. The Group aims to implement the strategy of "one cinema in every county", that is, in every county in China, the Group plans to seize the business opportunity to at least operate one movie theatre.

Currently, the Group is striving to implement the comprehensive service chain by developing non-box office businesses to increase revenue. In addition to the traditional food and beverages, advertising and promotion businesses, the Group launched the "Two Kilometers Ecosystem" strategy, and established the SMI Logistics Delivery Company. In future the Group will continue to develop resident designer product cooperation, and increase online financial services, personal wealth management and insurance, as well as a series of products, such as film premieres, red wine tasting events, fashion shows, and fans-tailored movies, while providing one-stop service such as delivery and personal after-sales services so as to satisfy movie watching members' strong need for products.

SMI Living will be one of the Group's key areas of concern. The previous concept of channel-based development strategy has now changed to the core philosophy of "customer orientation". A two kilometer commercial ecosystem will be built by integrating a mature O2O business model, with an extensive network of channels, guided by the members living necessities, and centering around the movie theatres. An advanced internet of things platform, focused on the area of daily-life services, will be constructed with internet as its path. It serves to provide the member users with customised solutions for their daily consumption, and helps to realise the customised C2B feedback services model.

FINANCIAL REVIEW

Turnover, Revenue and Profit for the year

During the year ended 31 December 2016, total revenue amounted to approximately HK$3,351 million (2015: approximately HK$2,924 million), an increase of 14.6% as compared with 2015. The profit after tax was approximately HK$407 million (2015: approximately HK$368 million), an increase of 10.5% as compared with 2015.

During the Reporting Period, the Group continuously expanded through acquisition and self construction. The number of the theatres and the screens owned by the Group increased significantly. The revenue of the Group's core business recorded a substantial growth. In addition to the Group's prudent and reasonable spending plan, the Group recorded an increase in profit in the 2016 financial year.

During the year ended 31 December 2016, the segment revenue and profit were mainly contributed by theatre operation.

The revenue of theatre operation for the year ended 31 December 2016 increased by approximately HK$392 million compared to 2015 while and the profit increased by 33.6% from approximately HK$553 million in 2015 to approximately HK$739 million in 2016.

Furthermore, retail business segment recorded revenue of approximately HK$383 million. Segment profit of approximately HK$23.9 million (2015: profit HK$29.3 million) was recorded during the Reporting Period.

Selling, Marketing and Administrative Expenses

The selling, marketing and administrative expenses increased by 42.3%, which were mainly attributable to the increase in number of theatres acquired and completed during the year ended 31 December 2016.

Financial Costs

Financial costs were mainly represented by the interest of approximately HK$201 million from bank and other loans, interest of approximately HK$68 million from bonds, interest of approximately HK$103 million from convertible notes, interest of approximately HK$28 million from securities margin facilities and finance lease charges of approximately HK$15 million.

Financial Resources and Liquidity

As at 31 December 2016, the Group had net current liabilities of approximately HK$1,732 million. The Group has been operating in profit and positive operating cash inflow is recorded since 2011. In addition to the successful fund raising activities organised at past, the Directors believe that the Group will have sufficient cash resources to satisfy its future working capital requirement.

As at 31 December 2016, the gearing ratio (total borrowings (including convertible notes) to total assets of the Company) rose to 46.1% from 26.0% in 2015, which was mainly due to increase in other borrowings of approximately HK$1,881 million and bonds of approximately of HK$1,640 million in 2016.

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

Capital expenditures

During the Reporting Period, the expenditures on leasehold land and buildings, leasehold improvements and theatre equipment of the Group increased approximately HK$1,754 million. The Group also acquired a number of subsidiaries for an aggregated consideration of approximately HK$2,402 million. The above expenditures were mainly related to the construction and acquisition of movie theatres by the Group all over China.

Contingent liabilities

As at the date of this report, there are certain disputes which arise from time to time in the ordinary course of the operation of theatres. The Group is in the course of processing these matters. The Directors are of the view that these disputes will not have a material adverse impact on the financial results of the Group.

As at 31 December 2016, the Group and the Company did not have any other significant contingent liabilities.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's monetary assets and transactions are mainly denominated in Hong Kong dollars and Renminbi. The exchange rates of Renminbi against Hong Kong dollars were relatively stable during the year. During the year, the Group did not use financial instruments for hedging purposes. The Group continues to monitor the exposures to Renminbi and will take necessary procedures to reduce the fluctuations in exchange rates at reasonable costs.

Pledge of Assets

At the end of the Reporting Period, the Group has the following pledge of assets:

(a) The Group's building situated in the PRC amounted to approximately HK$24,456,000 (2015: HK$28,224,000) was pledged to secure for certain bank borrowings granted to the Group.

(b) the Group assigned the box office's receipts and receivables from the movie theatres operated by certain subsidiaries in the PRC to the financial institutions for securing the repayments of FY 2015 and FY 2016 Trust Loans in the next five year.

(c) the Group pledged its subordinated Securities as stipulated in the ABS Arrangement as a collateral for the Trust Loans.

(d) As at 31 December 2016, all equity interests in a subsidiary and held-for-trading investments were used as contingent collaterals for the margin account facilities granted to the Group. As at 31 December 2015, interests in an associate of HK$149,911,000 (2016: nil) were pledged to secure margin account facilities granted to the Group.

Employees

Excluding the staff of associates, the Group had approximately 7,000 full-time staff as at 31 December 2016 (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.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. CHENG Chi Chung, aged 50, was appointed as an executive Director on 22 November 2011 and the Chairman of the Company on 6 April 2017. He holds an EMBA degree from Tsinghua University of Beijing and a bachelor degree from Taiwan University, and obtained Special Awards and honor of the 44th National Culture and Arts in China. He served as the chief executive officer of Beijing Gome Online Co., Ltd. (北京國美在線有限公司), the director of Eastern Broadcasting Co., Ltd. (東森集團), the general manager of Eastern Broadcasting and Eastern Shopping (America) (東森電視及東森購物(美洲)), the general manager of Eastern Public Relations Company (東森公關公司) and the director of Eastern Broadcasting News Channel (東森電視新聞台). Mr. Cheng has extensive management experience in culture, media and retail areas.

Mr. YANG Rongbing, aged 37, was appointed as an executive Director on 3 May 2013 and the CEO of the Company on 6 April 2017. He holds a MBA from Central University of Finance and Economics. Mr. Yang joined the Group in 2010 and is an executive Director and the vice president of the Company. Mr. Yang is mainly responsible for corporate strategy whilst oversees a list of key operational departments including finance, investment, human resources and legal. Mr. Yang has extensive experience in investment and finance, and familiar with relevant areas with regard to the media industry, including financial markets and tax planning. Mr Yang is also an expert in adopting a wide range of innovative financial vehicles to support rapid growth and continuously improving capital structure. Mr. Yang has acquired extensive experience in financial management, capital planning, internal control, investment and financing and capital financial strategy from serving various financial and investment roles in state-owned enterprises and institutions such as Beijing Golden Tide Group Co., Ltd., Foreign Economic Cooperation Office under Ministry of Environmental Protection, Center for Development of Trade and Control of Investment in Europe, etc.

Mr. Yang is an independent non-executive director of China Leon Inspection Holding Limited (Stock code: 1586), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. KONG Dalu, aged 44, was appointed as an executive director on 6 April 2017. He has approximately 20 years' working experience and extensive knowledge in the field of banking, corporate finance and investment in Hong Kong and Mainland China. Mr. Kong obtained a bachelor's degree in Economics (major in International Finance) at Wuhan University in the PRC in 1994.

Mr. Kong was a foreign exchange manager and foreign exchange trader in the international business department in the headquarters of Hua Xia Bank Co., Limited from 1994 to 1997. From 1997 to 2007, Mr. Kong also served at senior management level respectively at China Minsheng Bank Corp., Ltd. and Bank of Communications Co., Ltd. Since 2007, Mr. Kong has acted as a director of Xince (Hong Kong) Investment Development Co. Limited, being an equity investment company incorporated in Hong Kong. During the period from 2008 to 2011, Mr. Kong also acted as a director of Haitong Securities Company Limited (Shanghai Stock Code: 600837), being a company listed on the Shanghai Stock Exchange. Currently, Mr. Kong is an executive director of SMI Culture & Travel Group Holdings Limited (Stock code: 2366), the shares of which are listed on the Main Board of the Stock Exchange.

NON-EXECUTIVE DIRECTORS

Dr. YAP Allan, aged 60, was appointed as an non-executive director on 27 April 2016 and Honorary Chairman on 6 April 2017. He holds an Honorary degree of Doctor of Laws and has over 30 years' experience in finance, investment and banking. Dr. Yap is the chairman and executive director of Master Glory Group Limited (stock Code: 275), the chairman and executive director of Rosedale Hotel Holdings Limited (Stock code: 1189), whose shares are listed in the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Dr. Yap is also the chairman and chief executive officer of China Enterprises Limited, a company whose shares are traded on the OTC Securities Market in the United States of America, as well as the chairman and chief executive officer of Burcon NutraScience Corporation, a company whose shares are listed on the Toronto Stock Exchange in Canada, the Frankfurt Stock Exchange in Germany and NASDAQ Stock Exchange in the United States of America. He also is the executive chairman of Hanwell Holdings Limited and Tat Seng Packaging Group Ltd., whose shares are listed on the Singapore Exchange Limited., Dr. Yap was an alternate director of Television Broadcasts Limited (Stock code: 511) from 10 June 2011 to 29 December 2015, and was a director of Shaw Brothers Holdings Limited (Stock code: 953) from 11 June 2015 to 25 October 2016, whose shares are listed on the main board of the Stock Exchange.

Mr. HUNG Ka Hai Clement, aged 61, was appointed as an independent non-executive director on 16 January 2017 and re-designated as an non-executive director on 15 March 2017. He retired from the Chairman role of Deloitte in June 2016. He also represented Deloitte China in the Deloitte Global Board and Governance Committee as a member during at that time.

Mr. Hung has served Deloitte China firm for 38 years. He has extensive experience in the areas of initial public offerings, mergers and strategic acquisitions and corporate finance, and advising multinational corporations, public companies and enterprises in Hong Kong and the People's Republic of China and is an expert in listings in Main Board and GEM in the Hong Kong Stock Exchange. Recently the Ministry of Finance of People's Republic of China appointed him as an expert Consultant under his extensive experience as a Hong Kong accounting professionals.

Mr. Hung had also assumed various leadership roles in Deloitte before he took up the appointment as Chairman. He was the Audit group leader and the Office Managing Partner of Deloitte Shenzhen Office and Guangzhou Office. He was also a member of the China Management Team. Later on Mr. Hung assumed the role of the Southern Audit Leader and the Deputy Managing Partner of the Southern Region.

Mr. Hung has become an honorary member of the Shenzhen Institute of Certified Public Accountants in 2004; He has served as the Guangzhou Institute of Chartered Accountants consultant from 2009; During 2006-2012 he also served as member of the Political Consultative Committee of Luohu District, Shenzhen.

Mr. Hung is the independent non-executive director of Sino Credit Holdings Limited (Stock Code: 0628), and an non-executive director of LT Commercial Real Estate Limited (Stock Code:112), whose shares are listed on the main board of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. PANG Hong, aged 62, was appointed as an independent non-executive director of the Company on 28 September 2004. Mr. PANG had worked for various enterprises and government departments in China for over 20 years. He has substantial knowledge of the investment environment in China and has extensive experience in the management of Chinese companies. After studying in the United States for 3 years, he came to Hong Kong to further his career development. He is currently engaged in providing private management consultancy services. Mr. PANG is the independent non-executive director of Meike International Holdings Limited (Stock Code: 953) and Sino Haijing Holdings Limited (Stock Code: 1106), both shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Mr. LI Fusheng, aged 55, was appointed as an independent non-executive director of the Company on 10 October 2013. Mr. LI is the manager of Beijing Office of Hong Kong Ta Kung Pao. Since joining Ta Kung Pao in 1994, Mr. LI has reported many breaking news and important events. He has reported many significant events in Mainland China, such as reporting the news about the National People's Congress and Chinese People's Political Consultative Conference for 20 consecutive years, and the Beijing Olympic Games. Mr. LI has extensive experience and network in the media industry.

Mr. WONG Shui Yeung, aged 46, was appointed as an independent non-executive director of the Company on 13 April 2017. He is currently the financial controller and company secretary of LT Commercial Real Estate Limited (Stock code: 112), the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is a practising member and fellow of Hong Kong Institute of Certified Public Accountants and a member of Hong Kong Securities and Investment Institute, and holds a bachelor degree in business administration majoring in accounting from the Hong Kong Baptist University. From 2001 to 2016, Mr. Wong was the chief financial officer of ZH International Holdings Limited (Stock code: 185), the shares of which are listed on the Main Board of the Stock Exchange. Between 2009 and 2013, Mr. Wong was also the chief financial officer of SingHaiyi Group Limited (Stock code: 5H0), the shares of which are listed on the Catalist of the Singapore Exchange Securities Trading Limited.

Directors' Report

The board (the "Board") of directors (the "Directors") presents its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are operating theatres in PRC. Details of the Company's principal subsidiaries and associates as at 31 December 2016 are set out in notes 48 and 20 to the consolidated financial statements on pages 110 and 81 respectively. There were no significant changes in the nature of the principal activities of the Company and of the Group during the year ended 31 December 2016.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2016 are provided in the section headed "Chairman's Statement" on pages 3 to 4, the section headed "Management Discussion and Analysis" on pages 5 to 8 of this annual report and the paragraph headed "Principal Risks and Uncertainties" of this section of this annual report. An analysis of the Group's performance during the year ended 31 December 2016 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 5 to 8 of this annual report. An account of the Company's relationships with its employees, suppliers and customers is included in the paragraph headed "Relationship with Employees, Suppliers, Customers and Other Stakeholders" of this section of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk and uncertainties will affect the Group in the aspect of financial and operational. The followings are part of the key risks factors and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The number of movie theatres in tier one cities in China is tended to be saturated, while the pace of development in other cities are different. Since the Group is still under expansion, if new movie theatres cannot be established in superior locations during the booming development of the movie theatre market at this moment, the market sharing of the Group may not be increased as expected. Moreover, if the reputation of the movies broadcasted were not satisfactory and cannot attract audience to watch, the revenue of box office may reduce and thus affect the Group's performance. Moreover, retail business, both online and offline, are under fierce competition. Our performance of the value-added business, SMI Living, may be affected by the pricing and marketing strategies applied by our competitors.

Liquidity Risk

This referred to the potential threat that the Group may be unable to meet the financial obligations when they fall due. The Company will keep monitoring the cashflow of the Group to ensure there are sufficient fundings for any financial liabilities are fall due.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35. The Directors recommended the payment of a final dividend of HK1.32 cents per ordinary share totalling approximately HK$179,668,000 (2015: HK1.09 cents per ordinary share).

SHARE CAPITAL AND RESERVES

As at 31 December 2016 the total number of shares issued by the Company was 13,611,209,583 shares. Movements in the Company's authorized and issued share capital are set out in note 39 to the consolidated financial statements on page 102.

Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 38 to 39 and those of the Company are set out in note 49 to the consolidated financial statements on page 116.

PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment during the year ended 31 December 2016 are set out in note 16 to the consolidated financial statements on pages 77 to 78.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors:

Mr. CHENG Chi Chung	*(Chairman)*
Mr. YANG Rongbing	*(Chief Executive Officer)*
Mr. ZHOU Lin	(Retired on 2 June 2016)
Mr. KONG Dalu	(Appointed on 6 April 2017)

Non-executive Directors:

Mr. LI Xuan	(Appointed on 1 July 2015) (Resigned on 26 April 2016)
Mr. ZHANG Yongdong	(Appointed on 1 July 2015) (Retired on 2 June 2016)
Dr. YAP Allan	*(Honorary Chairman)* (Appointed on 26 April 2016)
Mr. HUNG Ka Hai Clement	(Appointed on 16 January 2017 as an independent non-executive Director and re-designated as a non-executive Director on 15 March 2017)

Independent non-executive Directors:

Mr. PANG Hong	
Mr. LI Fusheng	
Mr. KAM Chi Sing	(Resigned on 2 June 2016)
Mr. LI Wing Yin	(Appointed on 2 June 2016 and resigned on 16 January 2017)
Mr. Wong Shui Yeung	(Appointed on 13 April 2017)

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Company's bye-laws (the "Bye-laws"), Mr. Hung Ka Hai Clement, Mr. Wong Shui Yeung and Mr. KONG Dalu were appointed by the Board as Directors of the Company after the last annual general meeting dated 2 June 2016. They shall retire from office, and being eligible, have offered themselves for re-election at the forthcoming 2017 annual general meeting of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers Mr. LI Fusheng and Mr. Wong Shui Yeung are independent. The Board considers that Mr. PANG Hong meets the independence criteria set out under Rule 3.13 of the Listing Rules even though he has served as an independent non-executive Director for more than nine years, as the Board is of the view that his duration of service will not interfere with his exercise of independent judgment in carrying out the duties and responsibilities as an independent non-executive Director. The Board considers him to be independent and believes he will continue to contribute to the Board because of his familiarity and experience with the Group's businesses and affairs. 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 contracts can be terminated by either party by giving three months' notice to the other party.

All annual remuneration packages of the Directors were determined on arm's length negotiations between the parties based on their respective contributions to and responsibilities in the Company. No Director proposed for re-election at the forthcoming 2016 annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation. Details of the Director's emoluments are set out in note 12 to the consolidated financial statements.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2016, the interests and short positions of the Directors and chief executive in the shares of the Company and their associates or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise 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 Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Registered Shareholders	Underlying Interest	Total	Approximate % of shareholdings
YANG Rongbing	Beneficial Owner	8,425,332	–	8,425,332	0.06%

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive 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 40 to the consolidated financial statements.

During the year ended 31 December 2016, 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:

	Date of Grant	Exercise periods	Balance as at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2016	Exercise price per share (HK$)
Directors								
CHENG Chi Chung	19 July 2013	Note 2	13,333,333	–	13,333,333	–	–	0.18
YANG Rongbing	19 July 2013	Note 2	6,666,666	–	6,666,666	–	–	0.18
PANG Hong	19 July 2013	Note 2	1,666,666	–	1,666,666	–	–	0.18
Other Eligible Participants								
Consultants (Note 1)	19 July 2013	Note 2	46,666,666	–	20,000,000	26,666,666	–	0.18
QIN Hong	19 July 2013	Note 2	26,666,666	–	26,666,666	–	–	0.18
HU Yidong	19 July 2013	Note 2	13,333,333	–	–	13,333,333	–	0.18

Notes:

(1) From 19 July 2013 to 18 July 2016 (both days inclusive) provided that the maximum number of share options granted on 19 July 2013 which may be exercisable of by each of the Grantee in each one year of the exercise period shall not exceed on third of the options granted to that Grantee.

(2) Share options are exercisable during 19 July 2013 to 18 July 2016 (both days inclusive).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2016, so far as it is known to the Directors, the following parties (other than the Directors and chief executive 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 Shareholder	Beneficial Owner	Corporate Interest	Family Interest	Long Position	Short Position	% of total issued share
Mr. QIN Hui (Notes 1 and 2)	8,296,256,041	6,429,143	–	8,302,685,184	–	61.00%

Notes:

1. Mr. QIN Hui is beneficially interested in 8,296,256,041 shares.

2. Mr. QIN Hui owns the entire interest in Strategic Media International Limited ("SMIL") and was accordingly deemed to be interested in 6,429,143 shares which are held by SMIL.

Save as disclosed herein, the Company has not been notified by any of other person (other than a Director of the Company) who had an interest or a short position in the shares and underlying shares as recorded in the register to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director of the Company had a material interest in any business apart from the business of the Group which directly or indirectly completed or likely to compete with the business of the Group at the end of the year or at any time during the year ended 31 December 2016 which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company, was a party, and in which a Director of the Company had a material interest whether directly or indirectly, subsisted at the end of the year or at any time during the year.

1. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

2. PERMITTED INDEMNITY PROVISION

Subject to the applicable laws, every Director and other officers of the Company shall be entitled to be indemnified by the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur in the execution and discharge of his or her duties or in relation thereto pursuant to the Bye-laws. Such provisions were in force during the course of the financial year ended 31 December 2016 and remained in force as of the date of this report. The Group has also taken out and maintained liability insurance for Directors and officers throughout the year.

MAJOR CUSTOMERS AND SUPPLIERS

There are no major customer contributing over 10% of the Group's revenue during the year ended 31 December 2016 and 2015.

CONTRACTUAL ARRANGEMENTS

Structured Contracts

A series of structured contracts (the "Structured Contracts") that were designed to provide Beijing Xingmeihui Catering Management Co., Ltd. (北京星美匯餐飲管理有限公司) ("Xingmeihui"), an indirect wholly-owned subsidiary of the Company, with effective control over the financial and operational policies of the PRC Subsidiaries (as defined in note 1 below) and (to the extent permitted by PRC laws and regulations) the right to acquire the equity interests in the PRC Subsidiaries were entered into between or amongst Xingmeihui, the PRC Equity Owners (as defined in note 2 below) and the PRC Entities (as defined in note 3 below).

(a) Exclusive Business Cooperation Agreement

An exclusive business cooperation agreement dated 30 June 2016 (the "Exclusive Business Cooperation Agreement") was entered into between Xingmeihui and the PRC Entities, pursuant to which the PRC Entities shall engage Xingmeihui on an exclusive basis to provide comprehensive theatre management and support, technical services and consultation services to the PRC Entities including but not limited to:

(i) corporate operation management;

(ii) business support;

(iii) business-related technical services;

(iv) internet support;

(v) business consultation;

(vi) intellectual property permission;

(vii) equipment or lease;

(viii) market consultation;

(ix) system integration;

(x) product research and development;

(xi) system maintenance; and

(xii) other management consultation services in relation to the business of the PRC Entities.

(b) ***Exclusive right to purchase agreement***

An exclusive right to purchase agreement dated 30 June 2016 (the "Exclusive Right to Purchase Agreement") was entered into between Xingmeihui, the PRC Equity Owners and the PRC Entities, pursuant to which the PRC Equity Owners will irrevocably, and jointly and individually grant Xingmeihui the exclusive right to purchase the equity interests of the PRC Entities at the minimum price permitted by the relevant laws and regulations of the PRC at any time, by one or more times.

(c) ***Equity pledge agreement***

An equity pledge agreement dated 30 June 2016 (the "Equity Pledge Agreement") was entered into between Xingmeihui, the PRC Equity Owners and the PRC Entities, pursuant to which the PRC Equity Owner agreed to pledge their equity interest in the PRC Entities to Xingmeihui as security. Xingmeihui shall have the rights to dispose the pledged equity interest upon occurrence of any event of default, which includes: (i) any breach of terms or conditions, or any substantial incorrectness or misrepresentation in the representations and warranties of the Exclusive Right to Purchase Agreement, the Shareholders' Voting Right Entrustment Agreement or the Equity Pledge Agreement by the PRC Equity Owners; and (ii) any breach of terms or conditions, or any substantial incorrectness or misrepresentation in the representations and warranties of the Exclusive Business Cooperation Agreement, the Exclusive Right to Purchase Agreement, the Shareholders' Voting Right Entrustment Agreement or the Equity Pledge Agreement by the PRC Entities.

(d) ***Shareholders' voting right entrustment agreement***

A shareholders' voting right entrustment agreement dated 30 June 2016 (the "Shareholders' Voting Right Entrustment Agreement") was entered into between Xingmeihui, the PRC Equity Owners and the PRC Entities, pursuant to which the PRC Equity Owners irrevocably and unconditionally agreed to entrust to the director(s), successor(s) or receiver(s) of Xingmeihui all their voting rights in the PRC Entities to the followings:

Note 1:

The following PRC entities shall be collectively known as the "PRC Subsidiaries":

1. 成都潤運文化傳播有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and 星美國際影院有限公司, respectively;

2. 北京望京星美國際影城管理有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and the Group, respectively;

3. 北京回龍觀星美國際影城管理有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and the Group, respectively;

4. 北京名翔國際影院管理有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and the Group, respectively;

5. 天津星美影城管理有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and the Group, respectively;

6. 上海星美樂莫影院管理有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and the Group, respectively;

7. 上海金山星美百倍影院管理有限公司, a company established in the PRC with limited liability and is held as to 51% and 49% by 深圳星美聖典文化傳媒集團有限公司 and the Group, respectively;

Note 2:

The following PRC individuals/entities shall be collectively known as the "PRC Equity Owners":

1. Mr. Qin Hui, a PRC citizen who holds the entire equity interest in the深圳星美聖典文化傳媒集團有限公司 and a controlling shareholder of the Company;

Note 3:

The following PRC entities shall be collectively known as the "PRC Entities":

1. 深圳星美聖典文化傳媒集團有限公司;

Reasons for using contractual arrangements

Pursuant to外商投資產業指導目錄(2015修訂) (Guidance Catalogue of Industries for Foreign Investment (revised in 2015)), 外商投資電影院暫行規定(2015年修訂) (Interim Regulations on Investment in Cinemas by Foreign Investors) and its supplementary provisions, foreign investors are not permitted to establish any solely-owned cinemas or form any film network companies. As regards Sino-foreign equity joint cinemas, the share of the investment in registered capital made by the foreign investor may not exceed 49%, and for Sino-foreign equity joint cinemas established in pilot cities including Beijing, Shanghai, Guangzhou, Chengdu, Xi'an, Wuhan and Nanjing, the share of the investment in registered capital made by the foreign party may not be more than 75%.

In light of the above PRC laws and regulations and in order to enable control to be exercised over the entities engaged in theatre operation business invested by the Group, the contractual arrangements are necessary, which enable the Company to exercise effective financial and operational control over the theatre operation companies and receive substantially all of the economic interest returns generated by the theatre operation companies.

Significance of business of the PRC Subsidiaries to the Group

The Group is engaged in the movie theatre operation through the Structured Contracts. For the year ended 31 December 2016, the revenue and assets from this segment account for approximately 88.1% and 77.3% of the total revenue and total assets of the Group, respectively.

The risk associated with the contractual arrangements

(a) The PRC government may determine that Structure Contracts do not comply with applicable PRC laws or regulations in the future

The Directors confirm that the Structured Contracts are legal and valid. The Auditor had carried out procedures on the Contractual arrangements and understand that the group has rights to variable returns from its involvement with the relevant entities and has the ability to affect those returns through its power over the relevant entities and is considered to control the Relevant Entities.

There can be no assurance that the PRC governmental authorities will not in future interpret or issue laws or regulations that will result in the Structured Contracts being deemed to be in violation of the then prevailing PRC laws.

(b) The Structured Contracts may not provide control as effective as direct ownership

The PRC Legal Adviser has advised that the Structured Contracts are in compliance with the PRC laws currently in force, are enforceable under the current PRC laws, and that in the event of any breach or default by the PRC Equity Owners or the PRC Entities, Xingmeihui may take legal action against any one of them. However, the Structured Contracts do not give the Company the extent of control and security that direct legal and beneficial ownership over the PRC Subsidiaries provides. The Company relies on the PRC legal system to enforce these arrangements.

Actions taken by the Company to mitigate the risks

The Company have engaged PRC legal advisers to review the Structured Contracts in order to mitigate the risk of any non-compliance of the Structured Contracts with all applicable laws and regulations of the PRC. In the view of the Company's PRC legal advisers, the arrangement of the Structure Contracts does not violate applicable existing PRC laws and regulations.

No Material Change

Save as disclosed in note 54 to the financial statements, there has been no material change in the Structured Contracts and/or the circumstances under which they were adopted up to the date of this report.

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

During the year ended 31 December 2016, the Company purchased 81,000,000 shares of its own ordinary shares of the Company at the highest and lowest prices of HK$0.74 and HK$0.66 per share respectively ("Shares Repurchase"). The Company conducted the Shares Repurchase because the Board considered that the then value of the Company's shares was consistently undervalued, and the Board believed that the then financial resources of the Company would enable it to conduct the Shares Repurchase while maintaining a solid financial position for the continuation of the Company's business in the financial year.

Detail information of the purchase, sales or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2016 were disclosed in note 39 of the consolidated financial statements.

PUBLIC FLOAT

As at 31 December 2016, 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 Bye-laws, or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. As a responsible corporation, to the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection during the year ended 31 December 2016. Further details about the environmental and social responsibility will be published in separate report to be uploaded on the websites of the Company and the Stock Exchange within three months after the publication of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. To the best knowledge of the Directors, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2016.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the success of the Group's business depends on the support from its key stakeholders including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefit schemes are set out in note 13 to the consolidated financial statements on page 75.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group and the Company did not have any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the date of statement of financial position are set out in note 54 to the consolidated financial statements on page 123.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last four financial years and for the year ended 31 December 2016 is set out on page 124 of the annual report.

AUDITOR

Messrs Deloitte Touche Tohmatsu ("Deloitte") was being appointed as the auditor of the Company at 22 February 2016. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Deloitte as the auditor of the Company.

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.

On behalf of the Board
CHENG Chi Chung
Chairman

Hong Kong, 31 March 2017

Corporate Governance Report

OVERVIEW OF CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believed that effective internal control and corporate governance practices are essential for the sustainable growth for the Group and for safeguarding and maximizing the interest of 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 Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules.

THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2016, the Company compiled with the code provisions (the "Code Provisions") of the Corporate Governance Code (the "CG Code"), except for the deviations from Code Provisions A.2.1, A.6.7 and E.1.2 as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which are explained below:

1. Code Provision A.2.1 – This Code Provision stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

   Prior to appointment of Dr. YAP Allan as a non-executive Director and the Chairman in April 2016, the responsibilities of the Chairman were performed collectively by all executive directors. With effect from 27 April 2016, Dr. YAP Allan assumed the role of the Chairman and the Company is in compliance with this Code Provision.

2. Code Provision A.6.7 – This Code Provision stipulates that independent non-executive directors and other non-executive directors, as equal Board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

   All Directors have given the Board and the committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation.

   Mr. CHENG Chi Chung (executive Director), Mr. YANG Rongbing (executive Director), Mr. ZHANG Yongdong (ex non-executive Director), Mr. LI Xuan (ex non-executive Director), Mr. LI Fusheng (independent non-executive Director) and Mr. PANG Hong (independent non-executive Director) were unable to attend the extraordinary general meeting of the Company held on 6 January 2016 due to their other business engagements.

   Mr. CHENG Chi Chung (executive Director), Dr. YAP Allan (non-executive Director), Mr. ZHANG Yongdong (ex non-executive Director), Mr. LI Fusheng (independent non-executive Director) and Mr. PANG Hong (independent non-executive Director) were unable to attend the annual general meeting of the Company held on 2 June 2016 (the "2016 AGM") due to their other business engagements.

3. Code Provision E.1.2 – This Code Provision requires the Chairman to attend the annual general meeting and he/she should also invite the chairmen of the audit, remuneration and nomination committees to attend the annual general meeting.

   Dr. YAP Allan (non-executive Director and the ex Chairman), Mr. LI Fusheng (independent non-executive Director and the chairman of the remuneration committee) and Mr. PANG Hong (independent non-executive Director and the chairman of the nomination committee) were unable to attend the 2016 AGM due to their other business engagements. Mr. YANG Rongbing, an executive Director and who took the chair at the 2016 AGM, was of sufficient calibre and knowledge for answering questions at the 2016 AGM.

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

BOARD OF DIRECTORS

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

As at the date of this report, the Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors which provide the Board with a balanced composition of skills and experience appropriate for the requirements of the business of the Company. Biographies of all the Directors and the relationships (if any) among them are set out on pages 9 to 10 of this annual report.

The Company has received annual confirmations of independence from all the independent non-executive Directors that, save as disclosed in the annual report, they did not have any business or financial interest with the Company or its subsidiaries and were independent as at 31 December 2016 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non-executive Directors are independent.

Notice convening each regular Board meeting is sent at least 14 days in advance, and reasonable notice is given for other Board meetings. The Company Secretary circulated meeting agenda and supporting papers to the Directors at least 3 days in advance of a Board meeting to enable the Directors to make informed decisions on the matters to be discussed, except where a Board meeting is convened on a very urgent basis to consider any urgent ad hoc matter.

Minutes are recorded in sufficient detail which the matters considered by the board at the meeting and decisions reached, including any concerns raised by Directors who dissenting view expressed.

Updated list of Directors identify their roles and functions is available on the websites of the Stock Exchange: www.hkexnews.hk and the Company website: www.smi198.com whenever there is any change.

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

The Board shall be responsible for:

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

The management shall be responsible for:

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

The newly appointed Directors will offer themselves for re-election at the forthcoming special general meeting or the forthcoming annual general meeting, whichever is earlier in accordance with the Bye-laws.

Details of the rotation and re-election of Directors are set in pages 12 and 13 of this annual report.

NON-EXECUTIVE DIRECTORS

There are currently five non-executive Directors, of which three of them are 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.

The company has 3 independent non-executive Directors representing over one-third of the total number of the Board members and it is in compliance with the requirement of Rule 3.10 of the Listing Rules. Each of them 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 that all independent non-executive Directors are to be independent.

One of three independent non-executive Directors is a professional accountant and two of them possess the related extensive management experience. Mr. WONG Shui Yeung, chairman of the Audit Committee, has the appropriate accounting and financial management expertise requirement under Rule 3.10(2) of the Listing Rules.

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

TRAINING AND CONTINUOUS SUPPORT

Every newly appointed director will receive an induction upon his appointment. Such induction may include briefing of a director's obligation in the Listing Rules and other regulatory requirements, and/or visits to the business site of the Company and meetings with the management of the Company. This enables the Directors to have a more comprehensive understanding of the Company's business and operation as well as to be aware of his responsibilities as a director in a listed company. All directors appointed to fill a casual vacancy would be subject to election by shareholders at the first general meeting of the Company at the appointment.

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

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

The participation by the Directors for the year ended 31 December 2016 is as follows:–

Name of Directors	Reading Regulatory Updates	Visit/Meeting Key Management
Executive Directors		
CHENG Chi Chung *(Chief Executive Officer)*	✓	✓
YANG Rongbing	✓	✓
Non-Executive Directors		
YAP Allan	✓	✓
Independent Non-Executive Directors		
PANG Hong	✓	✓
LI Fusheng	✓	✓
KAM Chi Sing (Resigned on 2 June 2016)	✓	✓
LI Wing Yin (Appointed on 2 June 2016 and resigned on 16 January 2017)	✓	✓

Company Secretary

Mr. Tsang Chun Yiu ("Mr. Tsang") was appointed as the Company Secretary on 13 April 2017.

Mr. Tsang Chun Yiu, aged 47, has more than 20 years of extensive experience in finance and accounting, direct investment and equity capital markets operations. Mr. Tsang also has company secretarial services experience. Mr. Tsang is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales. Mr. Tsang graduated with a Master of Arts Degree from Macquarie University, Australia and a Master of Science Degree in Project Management from Curtin University of Technology, Australia.

The Company Secretary is responsible for facilitating the Board process, as well as communications among Board members. For the financial year ended 31 December 2016, the Company Secretary has complied with paragraph 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance cover for protect the Directors and officers of the Group from potential legal actions against them.

ATTENDANCE RECORDS AND MEETINGS

The attendance records of each Director of various meeting of the Company during the year ended 31 December 2016 are set out as below:

	Annual General Meeting	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings	1	8	2	2	2
Executive Directors					
CHENG Chi Chung	0	7	0	0	0
YANG Rongbing	1	8	0	0	0
ZHOU Lin (Retired on 2 June 2016)	0	2	0	0	0
Non-Executive Directors					
Li Xuan (Resigned on 26 April 2016)	0	0	0	0	0
ZHANG Yongdong (Retired on 2 June 2016)	0	0	0	0	0
YAP Allan (Appointed on 27 April 2016)	0	1	0	0	0
Independent Non-Executive Directors					
PANG Hong	0	5	2	2	2
LI Fusheng	0	2	2	2	2
KAM Chi Sing (Resigned on 2 June 2016)	0	2	1	1	1
LI Wing Yin (Appointed on 2 June 2016 and resigned on 16 January 2017)	0	2	1	1	1

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "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 fully complied with the Model Code.

BOARD COMMITTEES

Audit Committee

Since 14 July 2009, the Company has established an audit committee (the "Audit Committee") with written terms of reference aligned with the Code Provisions of the CG Code. The Audit Committee currently comprises two independent non-executive directors, namely, Mr. PANG Hong (as Chairman) and Mr. LI Fusheng and one non-executive director, Mr. HUNG Ka Hai Clement.

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

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2016 and has discussed with the Company's auditors auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

The Audit Committee held 2 meetings during the year ended 31 December 2016 to consider the full year audit report for financial year ended 31 December 2015 and interim report of six months ended 30 June 2016. The attendance records of the meetings are as follows:

Name	Attendance
LI Wing Yin *(Chairman)* (appointed on 2 June 2016 and resigned on 17 January 2017)	1
KAM Chi Sing *(Chairman)* (resigned on 2 June 2016)	1
PANG Hong	2
LI Fusheng	2

Remuneration Committee

Since 14 July 2009, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference. Currently the Remuneration Committee comprises two independent non-executive directors, namely, Mr. LI Fusheng (as chairman), Mr. PANG Hong and one non-executive director, Mr. HUNG Ka Hai, Clement.

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

The terms of reference of the Remuneration Committee were adopted in March 2012 and are in line with the Code Provisions of the CG Code, a copy of which is posted on the websites of the Company and the Stock Exchange.

The Remuneration Committee held 2 meetings during the year ended 31 December 2016 to review the remuneration of Directors and senior management for the financial year ended 31 December 2016 and to make recommendations on the remuneration package of the newly appointed Directors. The attendance records of the meeting are as follows:

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of Directors and the members of the senior management by band for the year ended 31 December 2016 is set out as below:

Remuneration Band	Number of individuals
Nil to HK$1,000,000	–
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	1

Further particulars regarding to Directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the listing rules are set out in note 12 to the consolidated financial statements.

Name	Attendance
LI Fusheng *(Chairman)*	2/2
PANG Hong	2/2
KAM Chi Sing	1/1
LI Wing Yin	1/1

Nomination Committee

Since 14 July 2009, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference. Currently the Nomination Committee comprised two independent non-executive directors, namely, Mr. PANG Hong (as Chairman), Mr. LI Fusheng and one non-executive director, Mr. HUNG Ka Hai, Clement.

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 adopted the "Board Diversity Policy" in relation to the nomination and appointment of new directors. The Nomination Committee selects board candidates based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The terms of reference of the Nomination Committee were adopted in March 2012 and are in line with the Code Provisions of the CG Code, a copy of which is posted on the websites of the Company and the Stock Exchange.

The Nomination Committee held 2 meetings during the year ended 31 December 2016. The attendance records of the meetings are as follows:

Name	Attendance
PANG Hong *(Chairman)*	2/2
LI Fusheng	2/2
KAM Chi Sing	1/1
LI Wing Yin	1/1

ACCOUNTABILITY AND AUDIT

Remuneration of the Auditor

The remuneration in respect of audit and other services provided by auditor of the Group for the year ended 31 December 2016 are as follows:

	2016 **HK$'000**
Annual audit service	**10,475**
Other non-audit services	**2,100**

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The Company adopted a bottom-up approach for identify, assess and mitigate the risk on all the business levels and function of the Company.

Below is the framework of risk management of the Company:

Board and Audit Committee	Overall management of risk
Finance Team	Assisting the Board and Audit Committee to review and monitor key risks
Operation Team	Identifying and management of risks in operation level

Below is the procedure of the risk management of the Company:

Risk Identification:	Risk is identified according to a series of internal and external factors, including but not limited to: economic, political, social, technical, environmental, laws and regulation, business objective and expectation of stakeholders
Risk Assessment:	The risk identified would be assessed and rated based on the likelihood and impact to the achievement of the Group's objectives The risk assessment based on the probability and the level of the consequence. Level of consequence is divided into 3 levels: mild (1) middle (2) and severe(3) ; while the probability of occurrence is divided into impossible (0), improbable (1) likely (2) and most likely(3)
Control Activities:	The internal control procedures have been designed and implemented to mitigate the risks
Risk Monitoring:	Risk information has been maintained and updated regularly to monitor risks on an ongoing basis
Risk Management Review:	The Board and Audit Committee would perform review on any change of significant risks of the Group

During the year, under review, the Board has conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budgets and the Board considers them effective and adequate.

CONSTITUTIONAL DOCUMENTS

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Investor Relations and Communication with Shareholders

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

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

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

Shareholder's Rights

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

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

According to the Bye-laws, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Act.

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

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

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

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

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

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

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

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

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

The Nomination Documents includes:

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

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

(3) Biography of the nominated candidate; and

(4) Any other relevant information of the proposal.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF SMI HOLDINGS GROUP LIMITED
星美控股集團有限公司
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of SMI Holdings Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 35 to 123, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters	How our audit addressed the key audit matters
Accounting judgment on the consolidation of entities engaged in theatre operation in the Mainland China (the "PRC")	
We identified the accounting judgment on consolidation of entities engaged in theatre operation in the PRC as a key audit matter due to critical judgment required by management in determining that the Group, under certain contractual arrangements, has rights to variable returns from its involvement with the Group's entities engaged in theatre operation in the PRC (the "Relevant Entities") and has the ability to affect those returns through its power over the Relevant Entities and is considered to control the Relevant Entities. In determining the extent of the Group's involvement and control over the Relevant Entities, the management considers a number of factors including whether the Group has: 1) exercised effective financial and operational control over the Relevant Entities; 2) exercised equity holders' voting rights of the Relevant Entities; 3) received substantially all of the economic interest returns generated by the Relevant Entities; 4) obtained an irrevocable and exclusive right to purchase the remaining entire equity interest in the Relevant Entities from the respective equity holders; and 5) obtained a pledge over the entire equity interest of the Relevant Entities from their respective equity holders as collateral security to secure performance of the obligations of the Relevant Entities and their respective equity holders under the Contractual Arrangements. Please refer to note 4 to the consolidated financial statements for more details.	Our procedures in relation to the accounting judgment on the consolidation of entities engaged in theatre operation in the PRC included: • Conducting review on the contractual agreements in connection with the Group's control over the Relevant Entities; • Understanding how the Group controls the daily business operation of the Relevant Entities; • Understanding the management judgment in relation to the control over the Relevant Entities according to International Financial Reporting Standard 10 "Consolidated Financial Statements"; and • Obtaining and conducting review of the legal opinion obtained from the Company's PRC external legal counsel, regarding whether the contractual arrangements are in compliance with relevant current PRC laws and regulations and are legally binding and enforceable.

Key audit matters – Continued	How our audit addressed the key audit matters
Management's determination on impairment of goodwill – theatre operation segment	
We identified the management's determination on impairment of goodwill - theatre operation segment as a key audit matter due to judgment and estimation involved in the discounted future cash flow model which was prepared and used by management in considering impairment of goodwill. Impairment of goodwill is assessed by management by comparing the recoverable amount and carrying amount of the relevant cash generating units engaged in theatre operation at the end of the reporting period. Significant judgment and assumptions were required by management of the Group in assessing the recoverable amounts of those cash generating units. The recoverable amounts are determined with reference to the value in use of the relevant cash generating units, which required significant assumptions on discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period in order to derive the net present value of the discounted future cash flow analysis. As disclosed in notes 4 and 17 to the consolidated financial statements, the Group reported goodwill amounted to HK$5,536,125,000 as at 31 December 2016, net of impairment losses of HK$46,556,000.	Our procedures in relation to management's evaluation of impairment assessment of goodwill - theatre operation segment included: • Understanding the Group's key control for the impairment assessment on goodwill; • Obtaining the discounted future cash flow analysis prepared by the management and checking its mathematical accuracy; • Evaluating the reasonableness of the key assumptions adopted by the management, including discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period; • Testing the accuracy and evaluating the relevance of key inputs adopted in the discounted future cash flow model against historical performance of the Group, including revenues, cost of sales and operating expenses, and with reference to the future strategic plans of the Group in respect of each cash generating units; and • Reviewing the sensitivity analysis performed by management on growth rates and discount rates to evaluate the potential impact on the recoverable amount and impairment.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Chung Chin Cheung.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	5	**3,351,186**	2,924,086
Cost of theatre operation and sales		**(2,143,541)**	(2,070,094)
Gross profit		**1,207,645**	853,992
Other gains and income	7	**163,581**	101,682
Selling and marketing expenses		**(64,747)**	(105,813)
Administrative expenses		**(278,829)**	(135,625)
Other losses and expenses	8	**(105,510)**	(54,619)
Finance costs	9	**(422,916)**	(213,375)
Share of results of associates		**11,246**	6,628
Unrealised losses on change in fair value of held-for-trading securities		**(17,373)**	(6,011)
Profit before taxation		**493,097**	446,859
Income tax expense	10	**(85,993)**	(78,498)
Profit for the year	11	**407,104**	368,361
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**(254,137)**	(37,169)
Share of other comprehensive income of associates		**66**	–
Reserve released upon disposal of subsidiaries		**2,055**	–
Other comprehensive expense for the year		**(252,016)**	(37,169)
Total comprehensive income for the year		**155,088**	331,192
Profit for the year attributable to:			
Owners of the Company		**403,724**	359,964
Non-controlling interests		**3,380**	8,397
		407,104	368,361
Total comprehensive income attributable to:			
Owners of the Company		**152,105**	322,753
Non-controlling interests		**2,983**	8,439
		155,088	331,192
Earnings per share (HK cents)	15		
– Basic		**2.98 cents**	3.06 cents
– Diluted		**2.97 cents**	2.96 cents

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**3,638,211**	2,265,974
Goodwill	17	**5,536,125**	3,369,166
Intangible assets	18	**123,303**	56,773
Prepaid lease payments	19	**39,855**	42,854
Interests in associates	20	**64,724**	168,414
Rental deposits		**59,845**	145,067
Other financial assets	21	**243,120**	88,089
Progress payments for construction of property, plant and equipment and other deposits	22	**127,771**	376,830
Deposits paid for acquisitions of entities	23	**154,289**	914,068
		9,987,243	7,427,235
CURRENT ASSETS			
Prepaid lease payments	19	**2,999**	3,074
Inventories	24	**360,055**	96,871
Film rights investment	25	**397,643**	–
Trade and other receivables	26	**973,758**	544,643
Held-for-trading investments	27	**304,217**	196,017
Loan to an associate	28	**–**	50,000
Other loan	28	**150,000**	–
Amounts due from related parties	31	**–**	13,788
Pledged bank deposits	29	**121,642**	121,180
Bank balances and cash	29	**625,081**	1,007,629
		2,935,395	2,033,202
Assets classified as held for sale	41	**–**	25,180
		2,935,395	2,058,382
CURRENT LIABILITIES			
Trade and other payables	30	**1,047,294**	1,506,677
Amounts due to related parties	31	**20,967**	18,536
Finance lease payables	32	**88,662**	29,556
Bank borrowings	33	**38,906**	193,427
Other borrowings	34	**824,900**	214,963
Convertible notes	35	**1,007,572**	39,938
Derivative financial instruments	35	**55,686**	–
Bonds	36	**1,225,711**	–
Taxation payable		**357,853**	145,566
		4,667,551	2,148,663
Liabilities directly associated with assets classified as held for sale	41	**–**	3,635
		4,667,551	2,152,298
NET CURRENT LIABILITIES		**(1,732,156)**	(93,916)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,255,087**	7,333,319

	NOTES	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Deferred income	30	–	100,896
Finance lease payables	32	**96,279**	50,721
Bank borrowings	33	–	212,066
Other borrowings	34	**1,986,044**	715,404
Convertible notes	35	–	783,269
Bonds	36	**639,886**	225,131
Deferred tax liabilities	38	**14,025**	18,498
		2,736,234	2,105,985
NET ASSETS		**5,518,853**	5,227,334
CAPITAL AND RESERVES			
Share capital	39	**1,361,121**	1,350,743
Reserves		**3,910,003**	3,880,559
Equity attributable to owners of the Company		**5,271,124**	5,231,302
Non-controlling interests		**247,729**	(3,968)
Total equity		**5,518,853**	5,227,334

The consolidated financial statements on pages 35 to 123 were approved and authorised for issue by the Board of Directors on 31 March 2017 and are signed on its behalf by:

CHENG Chi Chung
Director

YANG Rongbing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (note 49(i))	Other reserve HK$'000 (note 49(ii))	Contributed surplus HK$'000 (note 49(iii))	Translation reserve HK$'000 (note 49(iv))	Convertible notes reserve HK$'000	Warrants reserve HK$'000	Statutory reserve HK$'000 (note 49(v))	Share-based payment reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015	1,017,597	295,366	(121,745)	1,463,670	16,105	16,820	3,095	54,546	24,937	–	542,025	3,312,416	52,761	3,365,177
Profit for the year	–	–	–	–	–	–	–	–	–	–	359,964	359,964	8,397	368,361
Other comprehensive expense	–	–	–	–	(37,211)	–	–	–	–	–	–	(37,211)	42	(37,169)
Total comprehensive income for the year	–	–	–	–	(37,211)	–	–	–	–	–	359,964	322,753	8,439	331,192
Approved final dividend for the year ended 31 December 2014	–	–	–	–	–	–	–	–	–	–	(42,017)	(42,017)	–	(42,017)
Issue of shares by subscription	73,958	414,774	–	–	–	–	–	–	–	–	–	488,732	–	488,732
Issue of shares upon conversion	132,936	303,531	–	–	–	(23,453)	–	–	–	–	23,453	436,467	–	436,467
Issue of shares on exercise of share options	25,667	20,533	–	–	–	–	–	–	(13,819)	–	13,819	46,200	–	46,200
Issue of shares by placement	60,000	377,230	–	–	–	–	–	–	–	–	–	437,230	–	437,230
Recognition of equity component of convertible notes	–	–	–	–	–	42,014	–	–	–	–	–	42,014	–	42,014
Lapse of warrants	–	–	–	–	–	–	(2,071)	–	–	–	2,071	–	–	–
Issue of shares on exercise of warrants	45,000	108,000	–	–	–	–	(1,024)	–	–	–	1,024	153,000	–	153,000
Shares repurchased	(4,415)	(31,936)	–	–	–	–	–	–	–	4,415	–	(31,936)	–	(31,936)
Recognition of share-based payments	–	–	–	–	–	–	–	–	1,275	–	–	1,275	–	1,275
Transfer	–	–	–	–	–	–	–	195	–	–	(195)	–	–	–
Acquisition of additional interests in subsidiaries (Note)	–	–	50,507	–	14,661	–	–	–	–	–	–	65,168	(65,168)	–
Changes in equity for the year	333,146	1,192,132	50,507	–	(22,550)	18,561	(3,095)	195	(12,544)	4,415	358,119	1,918,886	(56,729)	1,862,157
At 31 December 2015	1,350,743	1,487,498	(71,238)	1,463,670	(6,445)	35,381	–	54,741	12,393	4,415	900,144	5,231,302	(3,968)	5,227,334

Note: On 1 January 2015, the non-controlling shareholders of certain subsidiaries assigned all their economic interests in those subsidiaries to the Group under a contractual arrangement (the "Arrangement") at nil consideration. The Group's effective interests in those subsidiaries increased to 100% after the Arrangement. An amount of HK$50,507,000 (being the non-controlling interests' proportionate share of the carry amount of those subsidiaries' net assets, net of the effect on accumulated translation of HK$14,661,000) has been transferred from non-controlling interest to other reserve.

	Share capital HK$'000	Share premium HK$'000 (note 49(i))	Other reserve HK$'000 (note 49(ii))	Contributed surplus HK$'000 (note 49(iii))	Translation reserve HK$'000 (note 49(iv))	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (note 49(v))	Share-based payment reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
	Attributable to owners of the Company												
At 1 January 2016	1,350,743	1,487,498	(71,238)	1,463,670	(6,445)	35,381	54,741	12,393	4,415	900,144	5,231,302	(3,968)	5,227,334
Profit for the year	-	-	-	-	-	-	-	-	-	403,724	403,724	3,380	407,104
Other comprehensive expense	-	-	-	-	(251,619)	-	-	-	-	-	(251,619)	(397)	(252,016)
Total comprehensive income for the year	-	-	-	-	(251,619)	-	-	-	-	403,724	152,105	2,983	155,088
Approved final dividend for the year ended 31 December 2015	-	-	-	-	-	-	-	-	-	(147,231)	(147,231)	-	(147,231)
Issue of shares upon conversion	11,645	30,005	-	-	-	(564)	-	-	-	564	41,650	-	41,650
Issue of shares on exercise of share options	6,833	5,467	-	-	-	-	-	(7,508)	-	7,508	12,300	-	12,300
Lapse of share options	-	-	-	-	-	-	-	(4,885)	-	4,885	-	-	-
Shares repurchased	(8,100)	(57,187)	-	-	-	-	-	-	8,100	-	(57,187)	-	(57,187)
Transfer to statutory reserve	-	-	-	-	-	-	210,950	-	-	(210,950)	-	-	-
Acquisition of additional interests in SMI Culture & Travel Group Holdings Limited (Note (a))	-	-	(2,194)	-	-	-	-	-	-	-	(2,194)	(31,562)	(33,756)
Arising from conversion of a subsidiary's convertible notes (Note (b)	-	-	19,724	-	-	-	-	-	-	-	19,724	24,619	44,343
Acquisition of additional interests in TicketChina Holdings Limited (Note (c))	-	-	6,068	-	-	-	-	-	-	-	6,068	(6,468)	(400)
Deemed Capital contribution (Note (c))	-	-	14,587	-	-	-	-	-	-	-	14,587	-	14,587
Arising from acquisition of subsidiaries (note 42(ii))	-	-	-	-	-	-	-	-	-	-	-	260,903	260,903
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	1,222	1,222
Changes in equity for the year	10,378	(21,715)	38,185	-	(251,619)	(564)	210,950	(12,393)	8,100	58,500	39,822	251,697	291,519
At 31 December 2016	1,361,121	1,465,783	(33,053)	1,463,670	(258,064)	34,817	265,691	-	12,515	958,644	5,271,124	247,729	5,518,853

Notes:

(a) After obtaining the control of SMI Culture & Travel Group Holdings Limited ("SMI Culture & Travel Group") (see note 42(ii)), the Group acquired 1.08% additional interest in SMI Culture & Travel Group from non-controlling interests, increasing its controlling interest from 63.41% to 64.49%. The consideration on acquisition of HK$33,756,000 were paid in cash. The difference of HK$2,194,000 between the carrying amount of non-controlling interests being acquired of HK$31,562,000 and the consideration paid of HK$33,756,000 has been debited to other reserve.

(b) Save as disclosed in note 35(m), the Convertible Note XIII was converted into the ordinary share of SMI Culture & Travel Group, the subsidiary of the Company. The Group's interest in SMI Culture & Travel Group was diluted by 3.85%. The difference of HK$19,724,000 between the carrying amount of the Group's equity interests being disposed of HK$24,619,000 and the aggregate sum of liability component and embedded derivative of the Convertible Note XIII amount to HK44,343,000 has been credited to other reserve.

(c) In March 2016, the former shareholder of TicketChina Holdings Limited waived the shareholder's loan of HK$14,587,000 and treated as the deemed capital contribution to the Group and credited to other reserve. At the same date, the Group acquired 35.8% additional interest in TicketChina Holdings Limited, a subsidiary of the Company, from non-controlling interests. The consideration on acquisition of HK$400,000 were paid in cash. The difference of HK$6,068,000 between the carrying amount of non-controlling interests being acquired of HK$6,468,000 and the consideration paid of HK$400,000 has been credited to other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**493,097**	446,859
Adjustments for:		
Interest expenses on borrowings	**400,216**	205,293
Financial charges in respect of finance lease obligations	**15,110**	7,282
Bank interest income	**(2,456)**	(5,211)
Interest income from associates and other parties	**(17,232)**	(9,361)
Amortisation of prepaid lease payments	**3,074**	4,109
Amortisation of intangible assets	**13,033**	–
Depreciation on property, plant and equipment	**419,456**	243,005
Share of results of associates	**(11,246)**	(6,628)
Loss on disposal/write-off of property, plant and equipment	**34,221**	173
Gain on deemed disposal of interests in associates	**(27,810)**	(9,716)
Gain on disposal of available-for-sale financial assets in Photon Group classified as held-for-sale	**(1,158)**	–
Gain on disposal of a subsidiary	**(251)**	–
Gain on disposal of investment in film production	**–**	(1,446)
Fair value change of derivative financial instruments	**9,718**	–
Allowance for doubtful debts	**37**	21,693
Equity-settled share-based payments	**–**	1,275
Unrealised losses on change in fair value of held-for-trading securities	**17,373**	6,011
Allowance on inventories	**723**	–
Impairment loss on intangible assets	**3,326**	–
Impairment loss on goodwill	**46,556**	–
Operating cash flows before working capital changes	**1,395,787**	903,338
Increase in inventories	**(42,177)**	(7,911)
Decrease (increase) in rental deposits	**70,686**	(44,391)
Decrease in trade and other receivables	**619,344**	225,198
Decrease in amounts due from related parties	**13,788**	25,818
Increase in held-for-trading investment	**(125,573)**	(124,451)
(Decrease) increase in deferred income	**(90,786)**	97,501
Decrease in trade and other payables	**(689,213)**	(79,371)
Increase in film rights investment	**(188,108)**	–
Cash generated from operations	**963,748**	995,731
Income taxes paid	**(5,443)**	(19,137)
Finance lease interests paid	**(15,110)**	(7,282)
Net cash generated from operating activities	**943,195**	969,312

	NOTES	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Repayment of loan from an associate		**50,000**	–
Repayment of loans from other parties		**–**	250,000
Bank interest received		**2,456**	5,211
Other interest received		**17,232**	2,533
Proceeds from disposal of property, plant and equipment		**–**	1,514
Proceeds from disposal of subsidiaries	51	**52,785**	–
Acquisition of interests in an associate		**(50,000)**	(48,190)
Placement of pledged bank balances		**(12,604)**	(97,179)
Acquisition of subordinated asset-backed securities		**(116,390)**	(123,519)
Deposits paid for acquisitions of property, plant and equipment		**(298,580)**	(185,829)
Purchase of property, plant and equipment		**(1,252,923)**	(246,944)
Advance of loans to other parties		**(150,000)**	(250,000)
Deposits paid for acquisitions of entities		**(215,349)**	(944,414)
Acquisition of subsidiaries, net of cash acquired	42(i)	**(1,464,566)**	(1,040,916)
Acquisition of SMI Culture & Travel Group	42(ii)	**(120,517)**	–
Acquisition of additions interests in SMI Culture & Travel Group, a subsidiary of the Company		**(33,756)**	–
Acquisition of additions interests in TicketChina Group, subsidiaries of the Company		**(400)**	–
Investment in available-for-sales investments		**(65,396)**	–
Net cash used in investing activities		**(3,658,008)**	(2,677,733)
FINANCING ACTIVITIES			
Proceeds from other borrowings		**1,915,231**	1,641,426
Proceeds from issue of shares from placement and subscription		**–**	925,962
Proceeds from issue of convertible notes		**65,000**	892,051
Proceeds from bank borrowings raised		**38,906**	411,434
Proceeds from disposal of own-debt securities		**407,365**	373,201
Proceeds from issue of bonds		**1,184,804**	77,460
Proceeds from issue of shares upon exercise of share options		**12,300**	46,200
Advance from related parties		**2,431**	17,155
Advance from lease financing		**122,051**	–
Repayment to associates		**–**	(1,016)
Repayment of finance lease payables		**(16,055)**	(16,362)
Repurchase of shares		**(57,187)**	(31,936)
Dividend paid		**(147,231)**	(42,017)
Interest paid		**(323,927)**	(161,515)
Repayments of bonds		**(64,431)**	(246,962)
Repayments of other borrowings		**(399,264)**	(224,052)
Repayments of bank borrowings		**(364,863)**	(283,766)
Repurchase of own-debt securities		**–**	(796,522)
Net cash generated from financing activities		**2,375,130**	2,580,741
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(339,683)**	872,320
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,007,689**	130,281
EFFECT OF FOREIGN EXCHANGE RATES CHANGES		**(42,925)**	5,088
		625,081	1,007,689
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**625,081**	1,007,629
Bank balances and cash under assets classified as held for sale	41	**–**	60
		625,081	1,007,689

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

SMI Holdings Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. In the opinion of the directors of the Company (the "Directors"), the immediate and ultimate controlling party of the Company is Mr. Qin Hui ("Mr. Qin"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 48 to the consolidated financial statements.

In preparing the consolidated financial statements, the Directors of the Company have given careful consideration of the future liquidity of the Group in light of the fact that the Group incurred a net current liabilities of HK$1,732,156,000 (2015: HK$93,916,000) as at 31 December 2016. The consolidated financial statements have been prepared on a going concern basis because:

(i) Mr. Qin has agreed to provide adequate funds for the Company to meet in full its financial obligations as they fall due for the foreseeable future;

(ii) pursuant to the Company's announcement on 15 March 2017, Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"), a subsidiary of the Company, entered into the agreements with the independent investors (the "Investors"), which the Investors have agreed to make an aggregate capital contribution of RMB2,500,000,000 (the "Proceeds"), in exchange of a total of 15.63% of the enlarged equity interest of Chengdu Runyun (the "Transaction"). The Directors of the Company expected that the Transaction will be completed by May 2017 after the completion of the Chengdu Runyun's change of business registration and capital contribution verification.

Chengdu Runyun is a subsidiary of the Company and is principally engaged in operation and management of movie theatre business. Following the completion, the ownership interests of the Group in Chengdu Runyun will be diluted from 100% to 84.37%; and

(iii) In respect of the bonds with a carrying amount of HK$780,180,000 including in current liabilities as at 31 December 2016, the Group did not fulfill certain covenant terms of such bonds, which are primarily related to the leverage ratio of the Group. The Directors had informed the lenders of the bonds and sought for the waiver from the relevant lenders. As at the date of this report, the lenders have provided their written consents to waive the relevant covenant terms of bonds.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. The management believes that the Group's operations involved HK$ and Renminbi ("RMB") while the financing is mainly in HK$. Taking into account of all the factors, the management exercised their judgment in determining the functional currency which is HK$ after considering that the adoption of HK$ as the functional currency is the most faithful reflection of the economic effects of the underlying transactions, events and conditions that are relevant to the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRS that are mandatory effective for the current year

The Group has applied the following amendments to IFRSs and the International Accounting Standards ("IASs") issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendments to IFRSs	Annual improvements to IFRSs 2012 – 2014 cycle

Except as described below, the application of amendments to IFRS in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The Group has applied the amendments to IAS 1 *Disclosure Initiative* for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information relating to financial instruments was reordered to note 53. Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 9	Financial instruments[1]
IFRS 15 and amendments to IFRS 15	Revenue from contracts with customers and the related amendments[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to IAS 7	Disclosure initiative[4]
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to IFRSs	Annual improvements to IFRS standards 2014-2016 cycle[5]
IFRIC 22	Foreign currency transactions and advance consideration[1]

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

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

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

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

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

IFRS 9 Financial instruments

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

Key requirements of IFRS 9:

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 9 Financial instruments (Continued)

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

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investment, including those currently stated at cost less impairment loss, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

IFRS 15 Revenue from contracts with customers

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

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

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

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

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

IFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$4,784,711,000 (2015: HK$4,219,355,000) as disclosed in note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the management complete a detailed review.

Amendments to IAS 7 Disclosure initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

Amendments to IAS 7 Disclosure initiative (Continued)

The Directors of the Company do not anticipate that the application of the amendments to IAS 7 will have a material effect on the Group's financial performance and positions and/or the disclosures set out in these consolidated financial statements.

The Directors of the Company do not anticipate that the application of some of these amendments to IFRSs may have a material effect on the Group's financial performance and positions and/or the disclosures set out in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

Changes in the Company's ownership interests in existing subsidiaries

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

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

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

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise in the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of IAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable future. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Income from box office ticketing is recognised when the services are rendered.

Revenue from the sale of scripts, synopsis and editing/publishing rights is recognised when the items are delivered and the titles of those items have passed to the customers, as evidenced by the signing of the contract with the customers.

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

Film investment income represents the Group's share of box office sales from films exhibited in movie theatres, after the payment by the movie theatres of taxes and other governmental charges and deductions by movie theatres. The Group's share of profit is determined in accordance with the profit sharing ratio set out in the respective film investment agreements.

Revenue from film investment is recognised when (i) the films are exhibited in movie theatres, (ii) the amount of revenue can be measured reliably and (iii) the collectability of the entitled proceeds is reasonably assured.

Income from advertising, events and field marketing and other related services is recognised when the services are rendered.

Sales of goods that result in award credits for customers, under the Group's customer loyalty scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Management fee/promotional service income is recognised upon the provision of the services.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. For purchased license rights in periods where revenue is generated from a purchased license right, amortisation is recognised at rate calculated to write off the costs in proportion to the expected revenue from the licensing of the right. In the periods where no revenue is generated from the license right and other intangible assets, amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

The costs of inventories are recognised as an expense in cost of sales once the title of the inventories has been passed.

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

Film rights investment

Film rights investment represent films invested by the Group.

Film rights investment are stated at cost less any identified impairment loss. The costs of film rights are recognised as an expense based on the proportion of actual income earned from a film during the year to the total estimated income from the exhibition of the film attributable to the Group, according to the profit sharing ration specified in the film investment agreements.

The Group reviews and revises estimates of total projected revenue and total production costs of film rights at the end of each reporting period. If estimates are revised, the Group adjusts the amount of total projected revenue (denominator) from the period when such changes in estimates take place and re-calculated the ratio for amortisation of film rights. The effect from changes in estimates is recognised on a prospective basis.

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations in the PRC are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at FVTPL, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

AFS financial assets

Debt securities held by the Group that are classified as AFS financial assets are non-derivatives that are either designated or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

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

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets and is included in the "other gains and income" or "other losses and expenses" line item. Fair value is determined in the manner described in note 52.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other financial assets, trade and other receivables, other loan, loan to an associate, amounts due from related parties, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to related parties, bank borrowings, other borrowings, bonds and convertible notes – liability component) are subsequently measured at amortised cost, using the effective interest method.

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

Financial instruments (Continued)

Convertible notes

The component parts of certain convertible loan notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivative features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

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

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

Convertible notes contain debt and derivative components

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

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity share-based payment reserve.

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

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

When share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained profits.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policy

The followings are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policy (Continued)

Consolidation of entities engaged in theatre operation in the PRC

The theatre operations of the Group are carried out mainly through domestic operating companies incorporated in the PRC. Certain of the Company's wholly-owned subsidiaries hold equity interest in certain of these theatre operating companies. The remaining equity interests of these theatre operating companies are held by certain PRC entities controlled by Mr. Qin, the controlling shareholder of the Company ("Mr. Qin's Affiliates"). The Group's entities engaged in theatre operation are collectively defined as the "Relevant Entities" hereinafter.

Pursuant to applicable PRC laws and regulations, foreign investors are restricted from owning more than 49% of equity interest of any theatre operation entities, except that: i) in certain cities (including Beijing, Shanghai, Guangzhou, Chengdu, Xian, Wuhan and Nanjing in the PRC under pilot plan whereby foreign investors are allowed to own up to 75% of equity interest in any theatre operation entities; and ii) theatre operator from Hong Kong or Macau could invest by the way of holding not more than 75% of equity interest in any theatre operation entities commencing 1 January 2015. In order to enable control to be exercised over the entities engaged in theatre operation business invested by the Group, certain wholly-owned subsidiaries of the Company entered into certain contractual arrangements (the "Contractual Arrangements") with the Relevant Entities and their respective equity holders, who are being Mr. Qin's Affiliates, which enable those wholly-owned subsidiaries and the Company to:

- exercise effective financial and operational control over the Relevant Entities;
- exercise equity holders' voting rights of the Relevant Entities;
- receive substantially all of the economic interest returns generated by the Relevant Entities;
- obtain an irrevocable and exclusive right to purchase the remaining entire equity interest in the Relevant Entities from the respective equity holders; and
- obtain a pledge over the entire equity interest of the Relevant Entities from their respective equity holders as collateral security to secure performance of the obligations of the Relevant Entities and their respective equity holders under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the Relevant Entities and has the ability to affect those returns through its power over the Relevant Entities and is considered to control the Relevant Entities. Consequently, the Company regards the Relevant Entities as consolidated structured entities under IFRSs and all existing ownership interests of these Relevant Entities are held by the Group. The Group has included the assets and liabilities and results of the Relevant Entities in the consolidated financial statements. The revenue generated from the Relevant Entities during the year ended 31 December 2016 and total assets and total liabilities attributable to the Relevant Entities as at 31 December 2016 amounted to approximately HK$2,951,319,000 (2015: HK$2,558,740,000), approximately HK$9,984,349,000 (2015: HK$7,904,668,000) and approximately HK$3,793,985,000 (2015: HK$2,825,951,000), respectively.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Relevant Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Relevant Entities. However, the Company believes that, based on the legal opinion obtained from the Company's PRC external legal counsel, the Contractual Arrangements are in compliance with relevant current PRC laws and regulations and are legally binding and enforceable.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates.

Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2016, the carrying amount of trade receivables and prepayments and other receivables were approximately HK$623,592,000 and HK$335,629,000, respectively (2015: HK$277,289,000 and HK$259,615,000, respectively), net of allowance for doubtful debts.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. Significant judgment and assumptions were required by management of the Group in assessing the impairment recoverable amounts of cash generating units. The recoverable amounts are determined with reference to the value in use of the relevant cash generating units, which required significant assumptions on discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period in order to derive the net present value of the discounted future cash flow analysis. Where there is a downward revision of discounted future cash flow analysis or when the actual cash flows are less than expected, there will be a change of recoverable amount, a material impairment loss may arise.

The carrying amount of goodwill at the end of the reporting period was approximately HK$5,536,125,000 (2015: HK$3,369,166,000). Details of the impairment loss assessment are set out in note 17 to the consolidated financial statements.

Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different from those previously estimated, or it will write-off or write-down technically obsolete assets. The carrying amount of property, plant and equipment as at 31 December 2016 was approximately HK$3,638,211,000 (2015: HK$2,265,974,000).

Estimated useful lives of intangible assets

The directors of the Company estimate the useful lives of intangible assets in order to determine the amount of amortisation expenses to be recorded in accordance with the accounting policy set out in note 3. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, as well as market obsolescence arising from changes in market demands. The directors of the Company also perform annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account market changes, prospective utilisation, market popularity and public acceptance of the assets concerned.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Provision of scripts, synopses, publication rights, publishing rights and editing rights

The directors of the Company carry out a review on scripts, synopses, publication rights, publishing rights and editing rights (the "Rights") at each of the reporting period and provision is made when net realisable value of inventories is estimated to be less than their carrying amount. The directors of the Company estimate the net realisable value of inventories based on estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale according to the accounting policy set out in note 3. The Group engaged the professional valuer to carry out the estimation of selling prices of the Rights on an individual basis for each script, synopsis and editing/publishing rights with details as set out in note 24. As at 31 December 2016, the aggregate such scripts, synopses, publication rights, publishing rights and editing rights' carrying amount of inventories is approximately HK$226,849,000.

Amortisation of film rights investment

The Group is required to estimate the projected revenue of the film rights based on their economic lives in order to ascertain the amount of amortisation charges for each reporting period. The appropriateness of the amortisation estimate requires the use of judgment and assumptions with reference to the prevailing and future market conditions to estimate total projected revenue over their economic lives. Changes in these estimates and assumptions could have a material effect on the amortisation expenses. The carrying amount of the film rights investment as at 31 December 2016 is approximately HK$397,643,000.

Impairment assessment of purchased license rights

The Group carried out a review on the purchased license rights at the end of each reporting period and impairment is made when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves the directors of the Company's estimate of the recoverable amount, which is the lower of carrying amount and the value in use. The Group engaged the professional valuer to carry out the valuation. The value in use calculation requires the management to estimate the future cash flow generated by the purchased license rights discounted to its present value by using a suitable discount rate. The projected cash flow is prepared for each individual film or work based on the forecast income and gross margin from the license rights, with reference to the marketability of the license rights as well as the general market condition for media industry. As at 31 December 2016, the carrying value of the purchased license rights is approximately HK$82,372,000.

5. REVENUE

The Group's revenue which represents the amounts received and receivable during the year, net of sales related taxes is as follows:

	2016	2015
	HK$'000	HK$'000
Theatre operation	**2,951,319**	2,558,740
Retail business	**383,123**	363,813
Others	**16,744**	1,533
	3,351,186	2,924,086

Revenue derived from theatre operation comprises of income from box office ticketing, income from advertising, events & field marketing services and other related services, and income from sales of food & beverages and film products.

6. SEGMENT INFORMATION

The Group's operating and reportable segments are analysed as follows:

(a)	Theatre operation	–	box office ticketing, advertising, events & field marketing services and other related services and sales of food & beverages and film products.
(b)	Retail business	–	in-theatre counter sales and online shopping under "SMI Living" brand and related business.
(c)	Others	–	sales of editing and licensing income from purchased license rights from television program related business, investments in production and distribution of film rights and trading of marketable securities.

These operating and reportable segments have been identified on the basis of internal management reports prepared in accordance with accounting policies that conform to IFRSs, that are regularly reviewed by the chief operating decision makers (the "CODM"), who are the members of executive directors of the Company for the purposes of resource allocation and performance assessment. The CODM regularly reviews revenue analysis by theatre operation and retail business.

Segment results represents the profit earned by each segment without allocation of corporate-level income and expenses including certain interest income, certain interest expenses, certain other gains and income, certain other expenses and loses, share of results of associates and unrealised losses on change in fair value of held-for-trading securities. Segment assets do not include assets of headquarters and other receivables of the headquarters. Segment liabilities do not include amounts due to related parties, other payables of headquarters, certain other borrowings, bonds and convertible notes.

6. SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2016

	Theatre operation HK$'000	Retail business HK$'000	Others HK$'000	Total HK$'000
REVENUE				
External and segment revenue	**2,951,319**	**383,123**	**16,744**	**3,351,186**
Segment results	**739,265**	**23,884**	**(53,818)**	**709,331**
Unallocated corporate income				**6,575**
Unallocated corporate expense				**(222,809)**
Profit before tax				**493,097**

For the year ended 31 December 2015

	Theatre operation HK$'000	Retail business HK$'000	Others HK$'000	Total HK$'000
REVENUE				
External and segment revenue	2,558,740	363,813	1,533	2,924,086
Segment results	552,840	29,312	(47,810)	534,342
Unallocated corporate income				27,443
Unallocated corporate expense				(114,926)
Profit before tax				446,859

Notes:

(a) Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2016 and 2015.

(b) Segment results of "Theatre operation" and "Others" includes share of results of associates from related theatre operation, television program related business and film investment and distribution and equity investment in associates, respectively.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

Segment assets

	2016 HK$'000	2015 HK$'000
Theatre operation	**9,984,349**	7,904,668
Retail business	**589,375**	529,403
Others	**2,065,975**	940,766
Total segment assets	**12,639,699**	9,374,837
Unallocated corporate assets	**282,939**	110,780
Consolidated assets	**12,922,638**	9,485,617

Segment liabilities

	2016 HK$'000	2015 HK$'000
Theatre operation	**3,793,985**	2,825,951
Retail business	**22,599**	225,516
Others	**1,144,122**	129,756
Total segment liabilities	**4,960,706**	3,181,223
Amounts due to related parties – corporate	**20,967**	18,536
Convertible notes – corporate	**847,999**	823,207
Bonds – corporate	**1,420,066**	225,131
Other borrowings – corporate	**100,000**	–
Corporate liabilities	**54,047**	10,186
Consolidated liabilities	**7,403,785**	4,258,283

Other segment information

For the year ended 31 December 2016

	Theatre operation HK$'000	Retail business HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	**2,882,228**	**382,063**	**55,496**	**3,319,787**
Depreciation and amortisation	**427,839**	**5,217**	**2,507**	**435,563**
Interests in associates	**17,202**	**–**	**47,522**	**64,724**
Share of (losses) profits of associates	**(486)**	**–**	**11,732**	**11,246**
Finance costs	**174,840**	**3,534**	**244,542**	**422,916**
Other gains and income	**103,094**	**4,146**	**56,341**	**163,581**

6. **SEGMENT INFORMATION (Continued)**

Other segment information (Continued)

For the year ended 31 December 2015

	Theatre operation HK$'000	Retail business HK$'000	Others HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	2,732,284	1,205	766	2,734,255
Depreciation and amortisation	245,867	589	658	247,114
Allowance for doubtful debts	21,693	–	–	21,693
Interests in associates	18,503	–	149,911	168,414
Share of profits of associates	1,032	–	5,596	6,628
Finance costs	111,521	4,254	97,600	213,375
Other gains and income	84,134	5,784	11,764	101,682

Note: Non-current assets excluded deposits paid for acquisition of entities.

The Group operates in Hong Kong, Taiwan and the PRC with revenue and profit derived from its operations in these geographical location.

Substantially most of the Group's revenue from external customers by geographical locations of the customers and over 90% its non-current assets by geographical location of assets are located in the PRC.

There are no major customers contributing over 10% of the Group's revenue for the year ended 31 December 2016 (2015: nil).

7. **OTHER GAINS AND INCOME**

	2016 HK$'000	2015 HK$'000
Interest income from banks	**2,456**	5,211
Interest income from associates	**2,038**	2,996
Interest income from other parties	**15,194**	6,365
Government grants (Note (a))	**72,271**	24,829
Gain on disposal of investment in film production	**–**	1,446
Gain on deemed disposal of interest in associates (Note (b))	**27,810**	9,716
Sponsorship fee	**–**	17,676
Handling fee arising from loan to a third party	**–**	15,000
Dividend income from held-for-trading securities	**3,249**	602
Realised gain on disposal of held-for-trading investment	**25,988**	–
Gain on disposal of subsidiaries (Note 51)	**1,409**	–
Sundry income	**13,166**	17,841
	163,581	101,682

7. OTHER GAINS AND INCOME (Continued)

Notes:

(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). The amounts were received in full in the current year.

(b) **For the year ended 31 December 2016**

As disclosed in note 42(ii), the Group acquired the controlling equity interests of SMI Culture & Travel Group, the former associate of the Group, from the stock market in October 2016. Immediately after the acquisition, the carrying amount of equity interest in the associate of approximately HK$164,188,000 at that date was treated as deemed disposal of the associate. A gain on deemed disposal of interest in the associate of approximately HK$27,810,000 was recognised in profit or loss during the year ended 31 December 2016.

For the year ended 31 December 2015

On 24 March 2015 and 23 June 2015, an associate entered into the agreements with independent counterparties for placing and subscription of 112,500,000 ordinary shares with unit price of HK$0.64 and 135,000,000 ordinary shares with unit price of HK$0.93 respectively (the "Transactions"). Immediately after the Transactions, the shareholding of the Company in the associate was decreased from approximately 29.97% to 24.97%. A gain on deemed disposal of interest in the associate of HK$9,716,000 was recognised in profit or loss during the year ended 31 December 2015.

8. OTHER LOSSES AND EXPENSES

	2016 **HK$'000**	2015 HK$'000
Allowance for doubtful debts	**37**	21,693
Allowance for inventories	**723**	–
Net exchange losses	**7,875**	32,616
Loss on disposal/write off of property, plant and equipment	**34,221**	173
Loss on disposal of held-for-trading investments	**–**	137
Impairment loss on intangible assets	**3,326**	–
Impairment loss on goodwill	**46,556**	–
Fair value change on derivative financial instruments	**9,718**	–
Fortified deposits	**2,947**	–
Sundry expenses	**107**	–
	105,510	54,619

9. FINANCE COSTS

	2016 **HK$'000**	2015 HK$'000
Interest on borrowings:		
– bonds	**67,996**	53,766
– convertible notes	**103,072**	38,181
– bank borrowings	**5,213**	32,646
– other borrowings	**195,546**	67,422
– securities margin facilities	**28,389**	13,278
Finance charges	**7,590**	800
Finance lease charges	**15,110**	7,282
Total borrowing costs	**422,916**	213,375

10. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	–	–
Current tax		
– PRC Enterprise Income Tax ("EIT")	94,418	79,024
– Overprovision in prior years	(5,354)	(13)
	89,064	79,011
Deferred tax (note 38)		
– Current year	(3,071)	(513)
	85,993	78,498

As stipulated in Cai Shui [2011] No. 112 and Xin Cai Fa Shui [2012] No. 1, enterprises newly established in Xin Jiang Ka Shi/Huoerguosi special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from its first profit-making year. The enterprises engaged in the encouraged industries as defined under the《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》. The subsidiaries entitled to such EIT exemption derived more than 70% of the Group's revenue during the year ended 31 December 2016 from the encouraged projects. According to《企業所得稅優惠事項備案表》, the Group obtained the approval from the PRC tax bureau on 14 July 2015 for entitlement of EIT exemption from 1 June 2015 to 31 December 2019.

For the other PRC subsidiaries of the Company, the provision for PRC EIT is based on a statutory rate of 25% (2015: 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.

No provision for taxation in Hong Kong is made as the Group's operation in Hong Kong have no assessable taxable profits arising from Hong Kong.

Tax charges on estimated assessable profits derived 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.

The income tax expense for the year can be reconciled to the profit before taxation in the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK$'000	2015 HK$'000
Profit before taxation	493,097	446,859
Tax at the applicable income tax rate of 25% (2015: 25%)	123,274	111,715
Effect of share of results of associates	(2,811)	(1,656)
Tax effect of expenses not deductible for tax purpose	85,159	93,483
Tax effect of income not taxable for tax purpose	(19,483)	(16,620)
Tax effect of tax exemption granted to a subsidiary	(255,508)	(141,739)
Tax effect of tax losses not recognised	189,890	36,732
Utilisation of tax losses previously not recognised	(2,051)	(2,140)
Overprovision in prior years	(5,354)	(13)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(27,325)	(1,264)
Others	202	–
Tax charge for the year	85,993	78,498

11. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	2016 HK$'000	2015 HK$'000
Amortisation of prepaid lease payments	**3,074**	4,109
Amortisation of intangible assets	**13,033**	–
Auditor's remuneration	**10,475**	7,348
Film exhibition and related costs	**712,914**	841,394
Cost of inventories sold	**296,528**	398,526
Directors' emoluments (note 12)	**3,089**	4,011
Depreciation on property, plant and equipment	**419,456**	243,005
Promotion and advertising expenses	**42,963**	73,156
Operating lease payments of premises		
– minimum lease payments	**300,724**	323,682
– contingent rent	**34,215**	32,996
	334,939	356,678
Other staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**315,376**	217,664
– equity-settled share-based payments	**–**	306
– retirement benefit scheme contributions	**60,143**	45,868
	375,519	263,838
Share-based payments paid to consultants	**–**	646

12. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

The emoluments of each director and chief executive were as follows:

Name of director	Director fees	Salaries and allowances	Equity-settled share-based payments	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. CHENG Chi Chung	**120**	**818**	**–**	**–**	**938**
Mr. YANG Rongbing	**240**	**1,260**	**–**	**–**	**1,500**
Mr. ZHOU Lin (note (b) and (f))	**165**	**–**	**–**	**–**	**165**
Non-executive directors					
Mr. ZHANG Yongdong (note (b) and (f))	**56**	**–**	**–**	**–**	**56**
Mr. LI Xuan (note (b) and (e))	**33**	**–**	**–**	**–**	**33**
Mr. Allan Yap (note (c))	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors					
Mr. KAM Chi Sing (note (f))	**56**	**–**	**–**	**–**	**56**
Mr. PANG Hong	**132**	**–**	**–**	**–**	**132**
Mr. LI Fusheng	**132**	**–**	**–**	**–**	**132**
Mr. Li Wing Yin (note (d))	**77**	**–**	**–**	**–**	**77**
For the year ended 31 December 2016	**1,011**	**2,078**	**–**	**–**	**3,089**
Executive directors					
Mr. CHENG Chi Chung	240	737	199	–	1,176
Mr. YANG Rongbing	240	634	99	–	973
Mr. NG Kam Tsun (notes (a))	120	440	–	9	569
Mr. XI Qing (notes (a))	120	–	–	–	120
Mr. LI Yige (notes (a))	120	–	–	–	120
Mr. ZHOU Lin (note (b))	500	–	–	–	500
Non-executive directors					
Mr. ZHANG Yongdong (note (b))	66	–	–	–	66
Mr. LI Xuan (note (b))	66	–	–	–	66
Independent non-executive directors					
Mr. KAM Chi Sing (note (f))	132	–	–	–	132
Mr. PANG Hong	132	–	25	–	157
Mr. LI Fusheng	132	–	–	–	132
For the year ended 31 December 2015	1,868	1,811	323	9	4,011

12. DIRECTORS', CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

Notes:

(a) resigned on 30 June 2015

(b) appointed on 1 July 2015

(c) appointed on 26 April 2016

(d) appointed on 2 June 2016 and resigned on 16 January 2017

(e) resigned on 26 April 2016

(f) retired/resigned on 2 June 2016

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were for their services as directors of the Company.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During both reporting periods, there was no arrangement under which a director waived or agreed to waive any emoluments.

The five highest paid individuals in the Group during the year included two (2015: two) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2015: three) individuals are set out below:

	2016 HK$'000	2015 HK$'000
Salaries and allowances	4,082	2,701
Retirement benefit scheme contributions	53	9
	4,135	2,710

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

	Number of individuals	
	2016	2015
Nil to HK$1,000,000	–	2
HK$1,000,001 to HK$1,500,000	2	1
HK$1,500,001 to HK$2,000,000	1	–

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: Nil).

13. RETIREMENT BENEFIT SCHEMES

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefit schemes operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC.

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF Scheme") in compliance with the applicable regulations in Hong Kong for its staff for the year ended 31 December 2016 and 31 December 2015. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

14. DIVIDENDS

	2016	2015
	HK$'000	HK$'000
Final dividend recognised as distribution during the year – HK$1.09 cents per ordinary share for the year ended 31 December 2015 (2015: HK$0.37 cents per ordinary share for the year ended 31 December 2014)	**147,231**	42,017

A final dividend of HK$1.32 cents per ordinary share, approximately HK$179,668,000, is proposed by the Directors of the Company at a board meeting held on 31 March 2017, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting and is calculated on the basis of 13,611,209,583 ordinary shares in issue at the date of approval of these consolidated financial statements.

15. EARNINGS PER SHARE

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

	2016 HK$'000	2015 HK$'000
Earnings for the purposes of calculating basic earnings per share:		
Profit for the year attributable to owners of the Company	**403,724**	359,964
Effect of dilutive potential ordinary shares:		
Interest on certain convertible notes	**–**	36
Earnings for the purpose of calculating diluted earnings per share	**403,724**	360,000

Number of shares

	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	**13,536,154,705**	11,760,922,457
Effect of dilutive potential ordinary shares:		
Share options	**45,179,133**	174,471,326
Warrants	**–**	171,086,783
Convertible notes	**–**	44,627,916
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**13,581,333,838**	12,151,108,482

For the year ended 31 December 2016, the effects of potential ordinary shares arising from all convertible notes are not included in calculating the diluted earnings per share as they had an anti-dilutive effect on the earnings per share for the year.

For the year ended 31 December 2015, the effects of potential ordinary shares arising from certain convertible notes and certain warrants are not included in calculating the diluted earnings per share as they had an anti-dilutive effect on the earnings per share for the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Theatre equipment HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2015	34,155	1,506,113	609,256	13,736	6,132	2,169,392
Acquisition of subsidiaries (note 42)	–	91,403	153,181	6,472	99	251,155
Additions	28,492	454,033	87,607	2,092	938	573,162
Disposals/write-off	–	(9,849)	(1,819)	–	–	(11,668)
Exchange differences	(1,241)	(63,683)	(27,701)	(444)	(24)	(93,093)
At 31 December 2015	61,406	1,978,017	820,524	21,856	7,145	2,888,948
Acquisition of subsidiaries (note 42)	803	198,277	103,494	5,583	2,510	310,667
Additions	1,117,143	529,091	107,942	5,094	3,534	1,762,804
Disposals/write-off	–	(34,801)	(2,226)	–	–	(37,027)
Exchange differences	(53,389)	(185,806)	(79,941)	(2,036)	(750)	(321,922)
At 31 December 2016	1,125,963	2,484,778	949,793	30,497	12,439	4,603,470
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2015	3,274	227,354	167,641	8,622	4,424	411,315
Charge for the year	1,559	176,382	62,839	1,543	682	243,005
Disposals/write-off	–	(9,848)	(133)	–	–	(9,981)
Exchange differences	(143)	(11,607)	(9,344)	(265)	(6)	(21,365)
At 31 December 2015	4,690	382,281	221,003	9,900	5,100	622,974
Charge for the year	2,221	264,312	145,171	7,550	202	419,456
Disposals/write-off	–	(179)	(340)	–	–	(519)
Exchange differences	(480)	(43,253)	(31,331)	(1,157)	(431)	(76,652)
At 31 December 2016	6,431	603,161	334,503	16,293	4,871	965,259
CARRYING AMOUNTS						
At 31 December 2016	1,119,532	1,881,617	615,290	14,204	7,568	3,638,211
At 31 December 2015	56,716	1,595,736	599,521	11,956	2,045	2,265,974

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and building	5% or shorter of the lease term
Leasehold improvements	over the shorter of 3 to 20 years or the relevant lease term
Theatre equipment	10% to 33.33%
Office equipment	10% to 33.33%
Motor vehicles	20%

At 31 December 2016, the Group is in the process of obtaining the relevant property ownership certificates with respect to the buildings with carrying values of approximately HK$961,956,000. The Directors of the Company are in the opinion that the Group is entitled the relevant property ownership lawfully and validly occupy, or use relevant properties.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying amount of property, plant and equipment includes an amount of approximately HK$188,614,000 (2015: HK$113,100,000) in respect of assets held under finance lease obligations.

As at 31 December 2016, approximately HK$24,456,000 (2015: HK$28,224,000) of the building situated in the PRC was pledged as security for certain of the Group's bank borrowings.

17. GOODWILL

	HK$'000
COST	
At 1 January 2015	1,460,020
Acquisition of subsidiaries (note 42)	1,915,058
At 31 December 2015	3,375,078
Acquisition of subsidiaries - 79 individually immaterial group entities (note 42 (i))	2,286,012
Acquisition of a subsidiary of SMI Culture & Travel Group	120,559
Disposal of a subsidiary (note 51)	(36,804)
Exchange realignment	(156,252)
At 31 December 2016	5,588,593
IMPAIRMENT	
At 1 January 2015 and at 31 December 2015	5,912
Impairment loss	46,556
At 31 December 2016	52,468
CARRYING AMOUNTS	
At 31 December 2016	5,536,125
At 31 December 2015	3,369,166

For the purposes of impairment testing, goodwill has been allocated to 34 groups of cash generating units (CGUs), grouped by physical location and timing of their acquisition by the Group, operating in the theatre operation and others segments. The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these groups of CGUs are as follows:

	2016 **HK$'000**	2015 HK$'000
Theatre operation segment:		
Beijing Stellar Group	**15,431**	15,431
Stellar China Line Group	**1,406,275**	1,406,275
TicketChina Group	**32,402**	32,402
62 individually immaterial group entities (comprising 12 groups of CGUs)	**1,675,446**	1,915,058
79 individually immaterial group entities (comprising 18 groups of CGUs)	**2,286,012**	–
Other segment:		
SMI Culture & Travel Group (provisional)	**120,559**	–
	5,536,125	3,369,166

17. **GOODWILL (Continued)**

Theatre operation segment

During the year ended 31 December 2016, impairment loss of HK$46,556,000 (2015: nil) of 2 out of 12 groups of CGUs of 62 individually immaterial group entities' goodwill has been recognised.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period of respective CGUs. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. The estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price of respective CGUs are based on the Group and industry historical data and expectations on market development of the PRC movie market in the foreseeable future.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management and Board of Directors for the next five years with the remaining period's cash flows forecasted using a growth rate of 3% (2015: 3%). The rates used to discount the cash flows forecast from the subsidiaries of: (i) Beijing Stellar Group, Stellar China Line Group and 62 and 79 individually immaterial group entities, and (ii) TicketChina Group are ranging from 13.40% to 13.85% and 19.05%, respectively (2015: 13.37% and 18.15%, respectively).

In addition to impairment testing using the base case assumptions, a separate sensitivity analysis was performed for 2 out of 12 CGUs of 62 individually immaterial group entities by increasing the discount rate of 1% from the base case. The sensitive test using a higher discount rate of plus 1% indicated that the impairment loss of those CGUs would have been increased by approximately HK$36,664,000.

For remaining CGUs, the management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of those CGUs to exceed their individual recoverable amount.

Other segment

The recoverable amounts of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, estimated revenue growth during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGU operate. The estimated revenue growth are based on the Group and industry historical data and expectations on market development of the licensed films and television drama series in the foreseeable future.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management and Board of Directors for the next five years with the remaining period's cash flows forecasted using a growth rate of 3%. The rates used to discount the cash flows forecast is 18.02%.

Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of these CGUs to exceed their individual recoverable amount.

18. INTANGIBLE ASSETS

	Cinema operating know-how HK$'000	Purchased license rights HK$'000	Total HK$'000
Cost			
At 1 January 2015	–	13,155	13,155
Arising from acquisition of subsidiaries (note 42)	56,773	–	56,773
Disposals	–	(13,155)	(13,155)
At 31 December 2015	56,773	–	56,773
Arising from acquisition of a subsidiary (note 42 (ii))	–	88,017	88,017
Arising from disposal of a subsidiary (note 51(i))	(915)	–	(915)
Exchange realignment	(4,213)	–	(4,213)
At 31 December 2016	51,645	88,017	139,662
Amortisation and impairment			
At 1 January 2015 and 31 December 2015	–	–	–
Amortisation expense	10,714	2,319	13,033
Impairment loss	–	3,326	3,326
At 31 December 2016	10,714	5,645	16,359
Carrying amounts			
At 31 December 2016	40,931	82,372	123,303
At 31 December 2015	56,773	–	56,773

Purchased license rights represent purchased broadcasting rights over films, TV series, documentaries, etc. These rights have finite useful lives and are expected to generate economic benefits in the long term through leasing out arrangements, whereby the Group would license out these broadcasting rights to TV stations and other broadcasting and media channels for broadcasting in particular location for a finite period.

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

Cinema operating knowhow	5 years
Purchased license rights	9 years – 15 years

The Directors of the Company have reviewed the recoverable amount of the purchased licence rights with reference to their value in use on 31 December 2016. The value in use has been arrived at with reference to the valuation carried out on 31 December 2016. Having regard to the results of the valuation, an impairment loss of approximately HK$3,326,000 is recognised accordingly.

19. PREPAID LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
The Group's prepaid lease payments comprise:		
Leases in the PRC	**42,854**	45,928
Analysed for reporting purposes as:		
Current assets	**2,999**	3,074
Non-current assets	**39,855**	42,854
	42,854	45,928

20. INTERESTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Listed investment:		
Cost of investment	**301,860**	301,860
Share of post-acquisition results and accumulated impairment losses	**(137,672)**	(151,949)
Deemed disposal of associate (Note)	**(164,188)**	–
	–	149,911
Unlisted investments:		
Cost of investments	**55,026**	5,025
Goodwill	**9,705**	9,705
Share of post-acquisition results	**442**	3,906
Exchange realignment	**(449)**	(133)
	64,724	18,503
	64,724	168,414
Fair value of listed investment	**–**	165,208

Details of the Group's associates as at 31 December 2016 and 31 December 2015 are as follows:

Name	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Group/ profit sharing 2016	2015	Principal activities
星美文化旅遊集團 SMI Culture & Travel Group	Cayman Islands	861,909,535 ordinary shares of HK$0.01 each	**(Note)**	29.99%	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%	Operation of cinema
北京世紀東都國際影城有限公司	PRC	Registered capital of RMB1,000,000	**40.85%**	40.85%	Operation of cinema
國匯證券(集團)有限公司 Goldwe Securities (Group) Limited	Hong Kong	Registered capital of HK$200,000,000	**25%**	–	Investment activities

Note: As disclosed in note 42(ii), the Group acquired the controlling equity interests of SMI Culture & Travel Group, the former associate of the Group, from the open stock market in October 2016. Immediately after the acquisition, the carrying amount of equity interest in the associate of approximately HK$164,188,000 at that date was treated as deemed disposal of the associate which a gain on deemed disposal of interest in the associate of approximately HK$27,810,000 was recognised in profit or loss during the year ended 31 December 2016.

20. INTERESTS IN ASSOCIATES (Continued)

The following table shows information of the former associate, SMI Culture & Travel Group, that was material to the Group and was accounted for in the consolidated financial statements using the equity method. The summarised financial information presented was based on the consolidated financial statements of SMI Culture & Travel Group prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

	2015 HK$'000
At 31 December 2015	
Non-current assets	114,898
Current assets	612,758
Current liabilities	(233,868)
Net assets	493,788
Net assets attributable to owners of SMI Culture & Travel Group	499,870
Non-controlling interests	(6,082)
	493,788

	2015 HK$'000
Year ended 31 December 2015	
Revenue	191,390
Profit for the year	49,519
Total comprehensive income	18,660

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised on the consolidation financial statements:

	2015 HK$'000
Net assets attributable to owners of SMI Culture & Travel Group	499,870
Proportion of the Group's ownership interest in SMI Culture & Travel Group	29.99%
Carrying amount of the Group's interest in SMI Culture & Travel Group	149,911

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2016 HK$'000	2015 HK$'000
The Group's share of total comprehensive (loss) income	**(3,464)**	1,032
Aggregate carrying amount of the Group's interest on these associates	**64,724**	18,503

21. OTHER FINANCIAL ASSETS

At the end of the reporting period, the amount comprises of:

(a) RMB100,000,000 (equivalent to HK$121,180,000) 5-year non-tradable zero coupon subordinated Securities as stipulated in the FY 2015 ABS Arrangement (see note 34(a) for details) as a collateral for having the FY 2015 Trust Loans made available to the Group under the FY 2015 Trust Loans Arrangement. The subordinated Securities will mature in December 2019.

At initial recognition, HK$37,117,000 loss arising from fair value adjustment has been recognised based on the principal amount of RMB100,000,000 (equivalent to HK$121,180,000) at an effective interest rate of 8.3% per annum. The amount was recognised against the carrying amount of the FY 2015 Trust Loans on initial recognition as part of transaction costs.

(b) RMB100,000,000 (equivalent to HK$111,160,000) 5-year non-tradable zero coupon subordinated Securities as stipulated in the FY 2016 ABS Arrangement (see note 34(b) for details) as a collateral for having the FY 2016 Trust Loans made available to the Group under the FY 2016 Trust Loans Arrangement. The subordinated Securities will mature in December 2020.

At initial recognition, HK$23,000,000 loss arising from fair value adjustment has been recognised based on the principal amount of RMB100,000,000 (equivalent to HK$111,160,000) at an effective interest rate of 6% per annum. The amount was recognised against the carrying amount of the FY 2016 Trust Loans on initial recognition as part of transaction costs.

(c) Available-for-sale investments comprise:

	2016	2015
	HK$'000	HK$'000
Unlisted investments:		
– Private fund	**65,396**	–

The above unlisted investments represents investments in a private fund incorporated in Singapore which invested in oversea listed companies. The investment are carried at fair value. The management estimated the fair value of the available-for-sale investment in equity securities with reference to the quoted bid price in an active market and the market condition based on the investment portfolio of the private fund at the end of the reporting period.

22. PROGRESS PAYMENTS FOR CONSTRUCTION OF PROPERTY, PLANT AND EQUIPMENT AND OTHER DEPOSITS

At the end of the reporting period, the amounts comprise of:

(i) The progress payments of HK$50,022,000 (2015: HK$328,684,000) paid to contractors. The Group has entered into agreements with these contractors for the interior renovation construction of leasehold improvement and theater equipment in the theatres leased by the Group.

During the year ended 31 December 2016, HK$328,684,000 paid as at 31 December 2015 (2015: HK$241,421,000 paid as at 31 December 2014) was utilised as the additions of property, plant and equipment for the year.

(ii) At 31 December 2016, HK$77,749,000 (2015: HK$48,146,000) was paid for acquisition of other property, plant and equipment.

23. DEPOSITS PAID FOR ACQUISITIONS OF ENTITIES

The amounts represent the deposits paid to the agent, which has been entrusted by the Group to enter into sales and purchase agreements with certain vendors in the PRC for the proposed acquisitions of 6 entities (2015: 47) engaged in theatre operations in the PRC. At the end of the reporting period, the Group has entered into arrangement with the agent, which in turn has entered into various agreements with these vendors under which the vendors have conditionally agreed to sell to the agent (who in turn would then sell to the Group) the equity interests of those entities but the completion of the acquisitions are mainly subject to the completion of the due diligence and the approval from the relevant PRC government authorities.

At the end of the reporting period, the amounts are non-interest bearing and refundable from the vendors through the agent if the proposed transactions do not proceed.

During the year ended 31 December 2016, the entire amount of deposits paid of approximately HK$914,068,000 as at 31 December 2015 was utilised for the acquisition of subsidiaries in the current year (see note 42 (i) for details).

24. INVENTORIES

	2016 HK$'000	2015 HK$'000
Scripts, synopses, publication rights, publishing rights and editing rights	**226,849**	–
Food and beverages (excluding wine)	**41,512**	30,954
Wine	**76,151**	42,774
Electronic products	**4,526**	3,340
Others	**11,017**	19,803
	360,055	96,871

The cost of scripts, synopses, publication rights, publishing rights and editing rights purchased by the Group, which are held by the Group for re-sale in the ordinary course of business.

The directors of the Company have reviewed the net realisable value of scripts, synopses, publication rights, publishing rights and editing rights with reference to a valuation carried out on 31 December 2016 by an independent qualified professional valuer, Ascent Partners Valuation Service Limited. The valuation was performed on an individual basis for each script, synopsis and editing/publishing rights, taking into account market information on estimated selling prices adjusted for factors such as authorship, length of the works, historical trends on marketability of the work.

25. FILM RIGHTS INVESTMENT

	HK$'000
As at 1 January 2016	–
Addition arose from acquisition of subsidiaries	209,535
Addition during the year	188,108
As at 31 December 2016	397,643

The costs of film rights are recognised as an expense in cost of sales based on the proportion of actual income earned from a film during the year to the total estimated income from exhibition of the film attributable to the Group, according to the profit sharing ratio specified in the film investment agreements.

26. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables, net of allowance for doubtful debts	**623,592**	277,289
Rental and other deposits	**14,537**	7,739
Prepayments and other receivables, net of allowance for doubtful debts	**335,629**	259,615
	973,758	544,643

Prepayments and other receivables mainly comprise of prepaid operating and administrative expenses, other receivables on staff loans for business activities and prepayment for the acquisition of film rights investments.

The Group allows an average credit period of 90 days to its box office sales agents, advertising agents and wholesale customers.

The Group allows an average credit period of 90 to 180 days to its trade customers for contract sales of editing rights.

Trade receivables from the licensing income are usually received within 180 days from the date of signing of the contracts.

Trade receivables from film investment income are usually received within 90 days after receipt of box office certificate and profit-sharing confirmation.

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

	2016 HK$'000	2015 HK$'000
0 to 30 days	**222,392**	131,589
31 to 90 days	**127,153**	105,168
91 to 180 days	**263,420**	9,539
181 days to 365 days	**4,289**	8,919
Over 1 year	**6,338**	22,074
	623,592	277,289

At 31 December 2016, trade receivables of approximately HK$274,047,000 (2015: HK$40,532,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2016 HK$'000	2015 HK$'000
Overdue less than 90 days	**263,420**	9,539
Overdue 91 to 180 days	**4,289**	8,919
Overdue over 181 days	**6,338**	22,074
	274,047	40,532

26. TRADE AND OTHER RECEIVABLES (Continued)

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

Impairment loss on trade and other receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balance directly. The Group does not hold any collateral over trade and other receivables.

The movement in the allowance for doubtful debts of trade and other receivables is as follows:

	2016 **HK$'000**	2015 HK$'000
Balance at the beginning of the year	**–**	14,419
Allowance for doubtful debts	**–**	21,693
Write-off as uncollectable	**–**	(36,112)
Balance at the end of the year	**–**	–

27. HELD FOR TRADING INVESTMENTS

	2016 **HK$'000**	2015 HK$'000
Listed equity securities in Hong Kong	**304,217**	196,017

The fair value of the listed equity securities held for trading were determined based on the quoted market bid prices available on the Stock Exchange.

28. LOAN TO AN ASSOCIATE/OTHER LOAN

As at 31 December 2016, the amount comprises a revolving loan to an independent third party of HK$150,000,000 which is unsecured and interest-bearing at 8% per annum with repayment on demand clause.

As at 31 December 2015, the amount comprises a revolving loan to an associate of HK$50,000,000 which is unsecured and interest-bearing at 10% per annum with repayment on demand clause. The amount was fully repaid in the current year.

29. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

As at 31 December 2015, the Group's pledged bank deposits HK$121,180,000 represented deposits to a bank to secure certain banking facilities granted to the Group as set out in note 33 to the financial statements.

As at 31 December 2016, the Groups' pledged bank deposits of approximately HK$121,642,000 which is denominated in RMB to secure FY 2016 Trust Loan as set out in note 34(b).

As at 31 December 2016, the bank balances and cash of the Group denominated in RMB amounted to approximately HK$142,743,000 (2015: HK$574,358,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances carry interest at 0.01% to 0.2% (2015: 0.01% to 0.2%) per annum.

30. TRADE AND OTHER PAYABLES/DEFERRED INCOME

	2016 HK$'000	2015 HK$'000
Trade payables	**405,325**	467,699
Customers' deposits and receipts in advance (Note (a))	**214,074**	259,579
Other tax payables	**178,065**	82,551
Amounts due to non-controlling interests of subsidiaries (Note (b))	**590**	14,933
Margin payables due to financial institutions (Note (c))	**66,258**	117,689
Accrued charges and sundry payables (Note (d))	**182,982**	415,175
Short-term advances (Note (e))	**–**	149,051
Deferred income (Note (f))	**–**	100,896
	1,047,294	1,607,573
Less: Current portion	**(1,047,294)**	(1,506,677)
Non-current portion	**–**	100,896

Notes:

(a) Customers' deposits and receipts in advance represent prepayments from advertising agents for advertising services, prepaid card deposits from cinema customers and prepayments from customers for goods.

(b) The amounts of approximately HK$590,000 (2015: HK$14,933,000) are unsecured, interest-bearing at 7% per annum and repayable on demand.

(c) The margin payables due to financial institutions are secured by the Group's equity interest in SMI Culture & Travel Group and repayable on demand. The interests are charged at a rate ranging from 11% to 12% per annum.

(d) Accrued charges and sundry payables mainly comprise of interest payables, accrued operating costs and payables for acquisition of property, plant and equipment.

(e) At 31 December 2015, the amounts represent the short-term advances from independent third parties for the Group's operating fund use, which are unsecured, carrying interests at 18.3% per annum and have no fixed repayment terms.

(f) During the year ended 31 December 2015, the Group received contributions from non-profit making organisations in the PRC for the social welfare programme joined by the Group to provide membership cards to the organisations for onward distribution to qualifying elderly people in the PRC to enjoy movies in the Group's theatres in a calendar year subsequent to activating the membership cards. At the end of the reporting period, all membership cards acquired were activated by the end users before the year-end date and expired at 31 December 2016. Accordingly, the Group recognised the relevant receipts as revenue during the year ended 31 December 2016

The average credit period on purchases of goods and services is 30 to 60 days. Meanwhile, the average credit period on purchase of film rights investment is 90 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:

	2016 HK$'000	2015 HK$'000
0 to 30 days	**317,857**	228,370
31 to 60 days	**56,840**	185,730
61 days to 1 year	**10,366**	23,216
Over 1 year	**20,262**	30,383
	405,325	467,699

31. AMOUNTS DUE FROM (TO) RELATED PARTIES

	2016 HK$'000	2015 HK$'000	Maximum amount outstanding during the year 2016 HK$'000	 2015 HK$'000
Strategic Media International Limited ("SMIL") (Note (a))	**–**	13,619	**13,619**	13,619
Mr. Qin (Note (b))	**–**	169	**169**	169
	–	13,788	**13,788**	13,788
深圳星美聯合通訊有限公司 (Note (c))	**(7,871)**	(5,003)		
深圳星美聖典文化傳媒集團有限公司(「星美聖典」) (Note (c))	**(13,096)**	(13,533)		
	(20,967)	(18,536)		

Notes:

(a) Mr. Qin has significant influence over SMIL. The amount was unsecured, interest-free and has no fixed repayment term.

(b) The amount represents certain settlements from debtors received by Mr. Qin on behalf of the Group.

(c) Mr. Qin has significant influence over these entities. The amounts are unsecured, interest-free and have no fixed repayment terms.

32. FINANCE LEASE PAYABLES

	Minimum lease payments 2016 HK$'000	 2015 HK$'000	Present value of minimum lease payments 2016 HK$'000	 2015 HK$'000
Amounts payable under finance leases:				
Within one year	**99,294**	34,911	**88,662**	29,556
In the second to fifth years, inclusive	**104,345**	55,380	**96,279**	50,721
	203,639	90,291	**184,941**	80,277
Less: Future finance charges	**(18,698)**	(10,014)	**–**	–
Present value of finance lease obligations	**184,941**	80,277	**184,941**	80,277
Less: Amounts due for settlement within one year (shown under current liabilities)			**(88,662)**	(29,556)
Amounts due for settlement after one year			**96,279**	50,721

It is the Group's practice to lease certain of its theatre equipment under finance leases. The common lease term is 10 years. As at 31 December 2016, the average effective borrowing rate was 6.9% (2015: 6.9%) per annum. Interest rates are fixed at the contract date and thus expose the Group to fair value interest rate risk. The above lease obligations only include basic lease payments, and do not include the contingent rental amounts, 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.

32. FINANCE LEASE PAYABLES (Continued)

All finance lease payables are denominated in RMB.

The Group's finance lease obligations are secured by the lessor's title to the leased assets.

33. BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loans:		
– secured	**38,906**	175,251
– unsecured	**–**	230,242
	38,906	405,493

The bank loans are repayable based on scheduled repayment dates as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**38,906**	193,427
Between one to two years	**–**	212,066
	38,906	405,493
Less: amount due for settlement within one year	**(38,906)**	(193,427)
Amount due for settlement after one year	**–**	212,066

All bank loans are denominated in RMB and carrying interest at People's Bank of China Base Interest Rate with effective interest rates at 6.5% (2015: ranging from 5.1% to 8.4%).

At 31 December 2015, bank loans of approximately HK$245,212,000 (2016: nil) were secured by bank balances set out in note 29.

34. OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Other loans		
– secured	**2,509,644**	930,367
– unsecured	**301,300**	–
	2,810,944	930,367

The other loans are repayable based on scheduled repayment dates as follows:

	2016	2015
Within one year	**824,900**	214,963
Between one to two years	**1,192,916**	276,327
Between two to five years	**793,128**	439,077
	2,810,944	930,367
Less: Amount due for settlement within one year	**(824,900)**	(214,963)
Amount due for settlement after one year	**1,986,044**	715,404

34. OTHER BORROWINGS (Continued)

At the end of the reporting period, the amounts comprise of:

(a) Pursuant to the Company's announcement on 29 April 2015, certain subsidiaries of the Company entered into a trust loan agreement (the "FY 2015 Trust Loans") with a trust in the PRC, pursuant to which the trust has agreed to make available the FY 2015 Trust Loans in an aggregate principal amount of RMB1,350,000,000 to the Company for a five-year term at a fixed effective interest rate ranging from 9.6% to 11.8% per annum (the "FY 2015 Trust Loans Arrangement"). The FY 2015 Trust Loans are secured by the box office's receipts and receivables from the movie theatres operated by certain subsidiaries of the Company in the PRC for certain calendar months from 2015 to 2019. The FY 2015 Trust Loans are further secured by cross guarantees provided by the Company, a subsidiary of the Company and Mr. Qin. Subsequently, a financial institution in the PRC (the "Financial Institution A") pooled the FY 2015 Trust Loans drawn down by the Company under the FY 2015 Trust Loans Arrangement as asset-backed securities (the "Securities") secured against the box office's receipts and receivables from the movie theatres operated by certain subsidiaries of the Group in the PRC (the " FY 2015 ABS Arrangement"). Pursuant to the FY 2015 ABS Arrangement, the Group is required to invest in one tranche of the Securities products being RMB100,000,000 (equivalent to HK$123,519,000) investment in a 5-year non-tradable zero coupon subordinated Securities as stipulated in the FY 2015 ABS Arrangement for having the FY 2015 Trust Loans made available to the Group under the FY 2015 Trust Loans Arrangement (see note 21(a) for details). The Securities have been listed on the Shenzhen Stock Exchange since 4 August 2015.

Two tranches of the Securities issued under the FY 2015 ABS Arrangement, with an aggregate principal amounts of RMB647,000,000 (equivalent to HK$796,522,000), was acquired by another financial institution in the PRC (the "Financial Institution B"), at their aggregate principal amounts, who then repackaged the two tranches of the Securities into an unlisted asset-backed security (the "Synthetic Instrument"). The Synthetic Instrument has the same terms and conditions as the underlying two tranches of the Securities carrying fixed effective interest rates of 7.7% and 8.3% per annum. The Synthetic Instrument will mature in 2018 and 2019 based on the terms of the underlying securities.

Pursuant to the subscription agreement entered into between Financial Institution B and the Group, Financial Institution B has passed on all risks and rewards of the two tranches of the Securities to the Group as subscriber through the Synthetic Instrument. Accordingly, the Group has effectively repurchased the two tranches of the Securities via this arrangement and RMB647,000,000 (equivalent to HK$796,522,000) paid for the acquisition of the Synthetic Instrument is initially recognised as deduction against the Trust Loans liability.

In December 2015 and March 2016, the Group disposed all Synthetic Instrument to Financial Institution B of aggregate principal amount of RMB297,000,000 (equivalent to HK$365,637,000) and RMB350,000,000 (equivalent to HK$389,060,000) for a proceed of RMB303,144,000 (equivalent to HK$373,201,000) and RMB353,467,000 (equivalent to HK$407,365,000), respectively and simultaneously, Financial Institution B disposed the two tranches of the Securities in the Shenzhen Stock Exchange to the market at the same aggregate principal amount for the same amount of proceed. The disposal of the Synthetic Instrument by the Group is accounted for as disposal of own debt instrument previously repurchased. Hence, the proceeds from the disposal is accounted for as part of the proceeds from the deemed issuance of the liabilities instruments.

34. OTHER BORROWINGS (Continued)

(b) Pursuant to the Company's announcement on 9 August 2016, certain subsidiaries of the Company entered into a trust loan agreement (the "FY 2016 Trust Loans") with a trust in the PRC, pursuant to which the trust has agreed to make available the Trust Loans in an aggregate principal amount of RMB1,500,000,000 to the Group for a five-year term at a fixed effective interest rate of 6.67% per annum (the "FY 2016 Trust Loans Arrangement"). The FY 2016 Trust Loans are secured by the box office's receipts and receivables from the movie theatres operated by certain subsidiaries of the Company in the PRC for certain calendar months from 2016 to 2020. The FY 2016 Trust Loans are further secured by cross guarantees provided by the Company. Subsequently, a financial institution in the PRC pooled the Trust Loans drawn down by the Group under the Trust Loans Arrangement as asset-backed securities (the "Securities") secured against the box office's receipts and receivables from the movie theatres operated by certain subsidiaries of the Company in the PRC (the "FY 2016 ABS Arrangement"). Pursuant to the FY 2016 ABS Arrangement, the Group is required to invest in one tranche of the Securities products being RMB100,000,000 (equivalent to HK$123,519,000) investment in a 5-year non-tradable zero coupon subordinated Securities as stipulated in the FY 2016 ABS Arrangement for having the FY 2016 Trust Loans made available to the Group under the FY 2016 Trust Loans Arrangement (see note 21(b) for details). The Securities have been listed on the Shenzhen Stock Exchange since 9 August 2016.

(c) During the year ended 31 December 2016, the Group obtained: 1) a short-term credit loan facility from a financial institution of maximum amount up to HK$680,000,000 for the purpose of acquisition of SMI Culture & Travel Group's equity interests. As at 31 December 2016, approximately HK$75,724,000 of the loan is drawdown by the Group which is unsecured, carrying interest rate of 24% per annum and repayable within 6 months; and 2) a short-term credit loan facility from a financial institution of HK$100,000,000 for the general business. As at 31 December 2016, HK$100,000,000 of the loan is drawdown by the Group which is unsecured, carrying interest rate of 24% per annum and repayable within 2 months.

(d) As at 31 December 2016, other borrowing also included amount of approximately HK$125,576,000 borrowed by SMI Culture & Travel Group from a financial institution, which was repayable within one year, unsecured and borne interest at fixed rate of 17.5% per annum.

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS

Shown in the consolidated statement of financial position as:

	2016	2015
	HK$'000	HK$'000
Current liabilities	**1,007,572**	39,938
Non-current liabilities	**–**	783,269
	1,007,572	823,207

The movement of the liability component of the convertible notes for the year is set out below:

	2016	2015
	HK$'000	HK$'000
Carrying amount at the beginning of year	**823,207**	394,174
Arising from acquisition of subsidiaries (note 42(ii))	**130,128**	–
Issued during the year (note 35 (k))	**64,190**	850,037
Interest charged (note 9)	**103,072**	38,181
Conversion of the shares of the Company (note 35(d) & (e))	**(41,650)**	(436,467)
Conversion of the shares of SMI Culture & Travel Group (note 35 (m))	**(34,049)**	–
Interest paid/payable	**(37,326)**	(22,482)
Exchange realignment	**–**	(236)
	1,007,572	823,207

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At the end of the reporting period, the amounts comprised of:

(a) The Company issued a 2-year 0.25% convertible note ("Convertible Note I") with principal amount of HK$141,000,000 on 27 May 2011 to Mr. Qin. The Convertible Note I is denominated in Hong Kong dollars and entitles the holder to convert it into ordinary shares of the Company at any business day after the date of issue of the Convertible Note I 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, subject to anti-dilutive adjustments. If the Convertible Note I 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 semi-annually.

On 25 June 2013, a special general meeting was passed for the approval of the extension of the maturity date of Convertible Note I from 27 May 2013 to 27 May 2015. The conversion price and all the other terms and conditions of Convertible Note I remain unchanged. No early redemption is allowed. As the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the original financial liability, the directors of the Company do not consider the terms are substantially different and the costs or fees incurred the carrying amount of the liability which was amortised over the remaining term of the modified liability.

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 I 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, subject to anti-dilutive adjustments. All the other terms and conditions of the Convertible Note I remain unchanged. No early redemption is allowed. As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was more than 10% different from the discounted present value of the remaining cash flows of the financial liability as revised on 25 June 2013, the directors of the Company consider the terms are substantially different and the modification was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Convertible Note I contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 11.39% for the new Convertible Note I recognised on 6 June 2014.

On 20 June 2014, the Convertible Note I holder, Mr. Qin exercised the conversion rights to the extent of principal amount of HK$100,000,000 of the Convertible Note I, to convert the Convertible Note I at a conversion price of HK$0.37 per ordinary share, and total of 270,270,270 conversion ordinary shares were then issued.

On 12 May 2015, the Convertible Note I holder, Mr. Qin exercised the conversion rights to the remaining outstanding principal amount of HK$41,000,000 of the Convertible Note I, to convert the Convertible Note I at a conversion price of HK$0.37 per ordinary share, and total of 110,810,810 conversion ordinary shares were then issued. As at 31 December 2015, no Convertible Note I was outstanding.

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(b) The Company issued several 5-year 5% convertible notes ("Convertible Note II") with principal amount totalling of HK$10,250,000 on 11 September 2012 to certain independent third party investors. The Convertible Note 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 Note 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, subject to anti-dilutive adjustments. If the Convertible Note II have not been converted, they will be redeemed at 100% of their 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 Note II contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 5.94%.

As at 31 December 2016 and 2015, Convertible Note II with principal amount of HK$10,250,000 was outstanding.

(c) The Company issued a 5-year 8% convertible note ("Convertible Note III") with principal amount of HK$77,643,990 on 26 March 2014 to an independent third party investor, KTB China Platform Fund ("KTB"). 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 25 March 2019 at a conversion price of HK$0.30, subject to anti-dilutive adjustments. If the Convertible Note III has not been converted, it will be redeemed at 120% of its principal amount on the maturity date. KTB 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, a liability component together with a closely related early redemption option and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. In the case of exercise of the early redemption option, since the redemption price approximately equals to the amortised cost of the issued instrument (prior to the equity conversion option being separated), the early redemption option, therefore, is closely related to the liability component and is not separately recognised. The effective interest rate of the liability component is 12.78%.

On 5 May 2015, the Convertible Note III holder, KTB exercised the conversion rights to the entire principal amount of HK$77,643,990 of the Convertible Note III, to convert the Convertible Note III at a conversion price of HK$0.30 per ordinary share, a total of 258,813,300 conversion ordinary shares were then issued. As at 31 December 2015, no Convertible Note III was outstanding.

(d) The Company issued several 3-year 9% convertible notes ("Convertible Note IV") with principal amount totalling of HK$200,000,000 on 15 August 2014 to certain independent third party investors. The Convertible Note IV 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 Note IV up to and including the maturity date on 14 August 2017 at a conversion price of HK$0.34 per share, subject to anti-dilutive adjustments. If the Convertible Note IV have not been converted, they will be redeemed at an amount that would yield an annual return of 12% thereon calculated from the issue date to (and including) the maturity date. The subscriber may on the date falling 24 months from the issue date of Convertible Note IV require the Company to redeem the Convertible Note IV in whole or in part at an amount that would yield an annual return of 12% thereon calculated from the issue date to (and including) the early redemption date by serving at least 45 days written notice to the Company. Interest of 9% per annum will be payable quarterly.

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(d) (Continued)

The Convertible Note IV contains two components, a liability component together with a closely related early redemption option and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. In the case of exercise of the early redemption option, since the redemption price approximately equals to the amortised cost of the issued instrument (prior to the equity conversion option being separated), the early redemption option, therefore, is closely related to the liability component and is not separately recognised. The effective interest rate of the liability component is 13.62%.

On 14 May 2015, 5 June 2015, 6 July 2015 and 22 October 2015, the Convertible Note IV holders exercised the conversion rights to the extent of principal amount of HK$100,000,000, HK$30,000,000, HK$30,000,000 and HK$20,000,000, respectively, of the Convertible Note IV, to convert the Convertible Note IV at a conversion price of HK$0.34 per ordinary share, and a total of 529,411,764 conversion ordinary shares were then issued.

On 14 August 2016, the Convertible Note IV holders exercised the conversion rights to the extent of principal amount of HK$20,000,000 of the Convertible Note IV, to convert the Convertible Note IV at a conversion price of HK$0.34 per ordinary share, and a total of 58,823,529 conversion ordinary shares were then issued. As at 31 December 2016, no Convertible Note IV was outstanding.

(e) The Company issued a 3-year 7% convertible note ("Convertible Note V") with principal amount of US$5,160,000, equivalent to approximately HK$39,992,000, on 20 December 2014 to an independent third party investor. The Convertible Note V is denominated in US dollars, the exchange rate of which to HK$ is fixed at 7.7505 by the subscription agreement, and entitles the holder to convert it into ordinary shares of the Company at any business day after the date of issue of the Convertible Note V up to and including the maturity date on 19 December 2017 at a conversion price of HK$0.34 per share, subject to anti-dilutive adjustments. If the Convertible Note V has not been converted, it will be redeemed at an amount that would yield an annual return of 10% thereon calculated from the issue date to (and including) the maturity date. The subscriber may on the date falling 24 months from the issue date of Convertible Note V require the Company to redeem the Convertible Note V in whole or in part at an amount that would yield an annual return of 10% thereon calculated from the issue date to (and including) the early redemption date by serving at least 45 days written notice to the Company. Interest of 7% per annum will be payable semi-annually.

The Convertible Note V contains two components, a liability component with a closely related early redemption option and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. In the case of exercise of the early redemption option, since the redemption price approximately equals to the amortised cost of the issued instrument (prior to the equity conversion option being separated), the early redemption option, therefore, is closely related to the liability component and is not separately recognised. The effective interest rate of the liability component is 11.50%.

On 13 May 2015, the Convertible Note V holders exercised the conversion rights to the extent of principal amount of US$2,632,000, equivalent to approximately HK$20,400,000, of the Convertible Note V, to convert the Convertible Note V at a conversion price of HK$0.34 per ordinary share, and a total of 60,000,000 conversion ordinary shares were then issued.

As at 31 December 2015, Convertible Note V with principal amount of US$2,528,000, equivalent to approximately HK$19,592,000 was outstanding. On 13 September 2016, the Convertible Note V holders exercised the remaining conversion rights to the extent of principal amount of US$2,528,000, equivalent to approximately HK$19,592,000, of the Convertible Note V, to convert the Convertible Note V at a conversion price of HK$0.34 per ordinary share, and a total of 57,625,235 conversion ordinary shares were then issued. As at 31 December 2016, no Convertible Note V was outstanding.

35. **CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

(f) The Company issued a 3-year 7% convertible note ("Convertible Note VI") with principal amount of RMB30,000,000, equivalent to approximately HK$38,028,000, on 22 December 2014 to an independent third party investor. The Convertible Note VI is denominated in RMB, the exchange rate of HK$ to which is fixed at 0.7889 by the subscription agreement, and entitles the holder to convert it into ordinary shares of the Company at any business day after the date of issue of the Convertible Note VI up to and including the maturity date on 21 December 2017 at a conversion price of HK$0.34 per share, subject to anti-dilutive adjustments. If the Convertible Note VI has not been converted, it will be redeemed at an amount that would yield an annual return of 10% thereon calculated from the issue date to (and including) the maturity date. The subscriber may on the date falling 24 months from the issue date of Convertible Note VI require the Company to redeem the Convertible Note VI in whole or in part at an amount that would yield an annual return of 10% thereon calculated from the issue date to (and including) the early redemption date by serving at least 45 days written notice to the Company. Interest of 7% per annum will be payable semi-annually.

The Convertible Note VI contains two components, a liability component with a closely related early redemption option and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. In the case of exercise of the early redemption option, since the redemption price approximately equals to the amortised cost of the issued instrument (prior to the equity conversion option being separated), the early redemption option, therefore, is closely related to the liability component and is not separately recognised. The effective interest rate of the liability component is 14.63%.

On 4 May 2015 and 18 June 2015, the Convertible Note VI holder exercised the conversion rights to the extent of principal amount of RMB16,094,000 and RMB13,906,000, or equivalent to approximately HK$20,400,000 and HK$17,628,000, respectively, of the Convertible Note VI, to convert the Convertible Note VI at a conversion price of HK$0.34 per ordinary share, and a total of 111,845,980 conversion ordinary shares were then issued.

As at 31 December 2016 and 2015, no Convertible Note VI was outstanding.

(g) The Company issued a 3-year 8.0% convertible note ("Convertible Note VII") with principal amount of HK$93,051,600 on 30 April 2015 to an independent third party investor. The Convertible Note VII are denominated in Hong Kong dollars and entitle the holder to convert them into ordinary shares of the Company at any business date from and including the date falling six months from the Issue date up to the close of business on the Maturity date on 30 April 2018 at a conversion price of HK$0.36 per share, subject to anti-dilutive adjustments. If the Convertible Note VII have not been converted, they will be redeemed at such amount that would yield an annual return of 8% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 8.0% per annum will be payable quarterly on the last business day of each calendar year.

The Convertible Note VII contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 12.24%.

On 26 October 2015, the Convertible Note VII holder exercised the conversion rights to entire principal amount of HK$93,051,600 of the Convertible Note VII, to convert the Convertible Note VII at a conversion price of HK$0.36 per ordinary share, and a total of 258,476,666 conversion ordinary shares were then issued. As at 31 December 2016 and 2015, no Convertible Note VII was outstanding.

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(h) The Company issued a 2-year 4.0% convertible note ("Convertible Note VIII") with principal amount totalling of HK$300,000,000 on 5 November 2015 to an independent third party investor. The Convertible Note VIII are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business date from the Issue date up to the close of business on the Maturity date on 5 November 2017 at a conversion price of HK$0.77 per share, subject to anti-dilutive adjustments. If the Convertible Note VIII have not been converted, they will be redeemed at such amount that would yield an annual return of 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 4.0% per annum will be payable semi-annually on the last business day of every half calendar year.

The Convertible Note VIII contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 11.71%.

As at 31 December 2016 and 2015, Convertible Note VIII with principal amount of HK$300,000,000 was outstanding.

(i) The Company issued several 2-year 4.0% convertible notes ("Convertible Note IX") with principal amount totalling of HK$275,000,000 on 12 November 2015 to an independent third party investor. The Convertible Note IX are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business date from and including the date falling six months from the issue date up to the close of business on the maturity date on 12 November 2017 at a conversion price of HK$0.77 per share, subject to anti-dilutive adjustments. If the Convertible Note IX have not been converted, they will be redeemed at such amount that would yield an annual return of 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 4.0% per annum will be payable semi-annually on the last business day of every half calendar year.

The Convertible Note IX contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 12.30%.

As at 31 December 2016 and 2015, Convertible Note IX with principal amount of HK$275,000,000 was outstanding.

(j) The Company issued several 2-year 4.0% convertible notes ("Convertible Note X") with principal amount totalling of HK$224,000,000 on 23 November 2015 to certain independent third party investors. The Convertible Note X are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business date from and including the date falling six months from the Issue date up to the close of business on the Maturity date on 23 November 2017 at a conversion price of HK$0.77 per share, subject to anti-dilutive adjustments. If the Convertible Note X have not been converted, they will be redeemed at such amount that would yield an annual return of 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 4.0% per annum will be payable semi-annually on the last business day of every half calendar year.

The Convertible Note X contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 12.45%.

As at 31 December 2016 and 2015, Convertible Note X with principal amount of HK$224,000,000 was outstanding.

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(k) SMI Culture & Travel Group, the subsidiary of the Company, issued 1-year 5% convertible note ("Convertible Note XI") with principal amount of HK$65,000,000 on 11 November 2016 to Cheer Hope Holdings Limited ("Cheer Hope"), an independent third party investor. The Convertible Note XI is denominated in Hong Kong dollars and entitle the holder to convert it into ordinary shares of SMI Culture & Travel Group at any business date from and including the date falling one year from the issue date up to the close of business on the maturity date on 8 August 2017 at a conversion price of HK$0.675 per share, subject to anti-dilutive adjustments. If the Convertible Note XI have not been converted, they will be redeemed at such amount that would yield an annual return of 5% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

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

The movement of the liability component and conversion option and other embedded derivatives of the Convertible Note XI for the year is set out as below:

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

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

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

	11 November 2016	**31 December 2016**
Stock price	HK$0.840	HK$0.860
Exercise price	HK$0.675	HK$0.675
Volatility	40.44%	37.73%
Option life	0.74 year	0.61 year
Risk-free interest rate	0.49%	0.82%

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(l) SMI Culture & Travel Group issued 1-year 5% convertible note ("Convertible Note XII") with principal amount of HK$100,000,000 on 26 October 2016 to Ever Ascend Investments Limited ("Ever Ascend"), an independent third party investor. The Convertible Note XII is denominated in Hong Kong dollars and entitle the holder to convert it into ordinary shares of SMI Culture & Travel Group at any business date from and including the date falling one year from the issue date up to the close of business on the maturity date on 25 October 2017 at a conversion price of HK$0.675 per share, subject to anti-dilutive adjustments. If the Convertible Note XII have not been converted, they will be redeemed at such amount that would yield an annual return of 5% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

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

The movement of the liability component and conversion option and other embedded derivatives of the Convertible Note XII for the year is set out as below:

	Liability component HK$'000	Conversion and other embedded derivatives HK$'000	Total HK$'000
Arising from the acquisition	96,152	41,769	137,921
Interest charged	1,605	–	1,605
Interest paid/payable	(2,522)	–	(2,522)
Gain arising on change in fair value	–	(6,847)	(6,847)
As at 31 December 2016	95,235	34,922	130,157

At the date of the Company acquired SMI Culture and Travel Group (see note 42(ii)), the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note XII is 9.11%.

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

	Date of Acquisition	31 December 2016
Stock price	HK$0.900	HK$0.860
Exercise price	HK$0.675	HK$0.675
Volatility	38.70%	36.04%
Option life	0.99 year	0.82 year
Risk-free interest rate	0.43%	0.86%

35. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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

The movement of the liability component and conversion option and other embedded derivatives of the Convertible Note XIII for the year is set out as below:

	Liability component HK$'000	Conversion and other embedded derivatives HK$'000	Total HK$'000
Arising from the acquisition	33,976	13,683	47,659
Interest charged	176	–	176
Interest paid/payable	(103)	–	(103)
Converted during the year	(34,049)	(10,294)	(44,343)
Gain arising on change in fair value	–	(3,389)	(3,389)
As at 31 December 2016	–	–	–

At the date of the Company acquired SMI Culture & Travel Group (see note 42(ii)), the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note XIII is 8.94%.

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

	Date of Acquisition	21 November 2016
Stock price	HK$0.900	HK$0.830
Exercise price	HK$0.675	HK$0.675
Volatility	37.00%	37.51%
Option life	0.78 year	0.72 year
Risk-free interest rate	0.42%	0.53%

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

36. BONDS

	2016	2015
	HK$'000	HK$'000
The bonds are repayable as follows:		
Within one year	**1,225,711**	–
In the second year	**330,533**	–
In the third to fifth years, inclusive	**309,353**	225,131
	1,865,597	225,131
Less: amount due for settlement within one year	**(1,225,711)**	–
Amount due for settlement after one year	**639,886**	225,131
Analysed as:		
Secured	**–**	–
Unsecured	**1,865,597**	225,131
	1,865,597	225,131

At the end of the reporting period, the amounts comprised of:

(a) In 2013 and 2014, the Company issued fifteen 7-year term private bonds to independent third parties with aggregate principal amounts of HK$170,000,000 with fixed coupon rate of 5% per annum each. The effective interest rates of the bonds range from 5.0% to 9.1%.

(b) In 2015, the Company issued two 3-year 5% bonds, one 4-year 6% bonds and thirteen 7-year 5% bonds to independent third parties with aggregate principal amounts of HK$95,900,000. The effective interest rates of the bonds range from 7.8% to 11.1%.

(c) In 2016, the Company issued one 3-year 5% bond, three 4-year 5% bonds, one 5-year 5% bond, ten 7-year 5% bonds and three 8-year 5% bonds to independent third parties with aggregate principal amounts of HK$96,000,000. The effective interest rates of the bonds range from 8.3% to 13.3%.

(d) In 2016, the Company issued three 2-year 8.5% bonds to independent third parties with aggregate principal amounts of HK$1,124,805,000. The effective interest rates of the bonds range from 8.79% to 10.25%.

(e) SMI Culture & Travel Group issued a 1-year bond to an independent third party with aggregate principal amount of HK$315,000,000 in August 2016 with fixed coupon rate of 5% per annum each, with the corporate guarantee by the Company. The bond will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the Bond is 6.22%. In November 2016, SMI Culture & Travel Group has early redeemed bond of HK$65,000,000.

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

37. PLEDGE OF ASSETS

At the end of the reporting period, the Group has the following pledge of assets:

(a) The Group's building situated in the PRC amounted to approximately HK$24,456,000 (2015: HK$28,224,000) was pledged to secure for certain bank borrowings granted to the Group.

(b) As described in notes 34(a) and 34(b), the Group assigned the box office's receipts and receivables from the movie theatres operated by certain subsidiaries in the PRC to the financial institutions for securing the repayments of FY 2015 and FY 2016 Trust Loans in the next five year.

(c) As described in notes 21 and 34, the Group pledged its subordinated Securities as stipulated in the ABS Arrangement as a collateral for the Trust Loans.

(d) As at 31 December 2016, all equity interests in a subsidiary and held-for-trading investments were used as contingent collaterals for the margin account facilities granted to the Group as required.

As at 31 December 2015, interests in an associate of approximately HK$149,911,000 (2016: nil) were pledged to secure margin account facilities granted to the Group.

38. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised by the Group:

	Intangible assets HK$'000	Fair value adjustments on lease contracts HK$'000	Total HK$'000
At 1 January 2015	–	4,305	4,305
Credit to profit or loss in the year (note 10)	–	(513)	(513)
Acquisition of subsidiaries (note 42)	14,190	–	14,190
Exchange realignment	516	–	516
At 31 December 2015 and 1 January 2016	14,706	3,792	18,498
Credit to profit or loss in the year (note 10)	(2,558)	(513)	(3,071)
Disposal	(229)	–	(229)
Exchange realignment	(1,173)	–	(1,173)
At 31 December 2016	10,746	3,279	14,025

At the end of the reporting period, the Group has unused tax losses of approximately HK$1,118,995,000 (2015: HK$367,639,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$938,571,000 (2015: HK$299,133,000) that will expire within 5 years. Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised is approximately HK$1,787,188,000 (2015: HK$480,162,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

39. SHARE CAPITAL

	Number of shares		Amount	
	2016	2015	**2016**	2015
			HK$'000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each				
At beginning of year and end of year	**20,000,000,000**	20,000,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each				
At beginning of year	**13,507,427,488**	10,175,967,571	**1,350,743**	1,017,597
Issue of shares by placement	**–**	600,000,000	**–**	60,000
Issue of shares by subscription	**–**	739,582,733	**–**	73,958
Issue of conversion shares	**116,448,764**	1,329,358,520	**11,645**	132,936
Share options exercised	**68,333,331**	256,666,664	**6,833**	25,667
Shares bought back (Note)	**(81,000,000)**	(44,148,000)	**(8,100)**	(4,415)
Warrants exercised	**–**	450,000,000	**–**	45,000
At end of the year	**13,611,209,583**	13,507,427,488	**1,361,121**	1,350,743

Note:

During the year ended 31 December 2016, the Company paid in aggregate HK$57,187,000 to bought back 33,000,000, 23,000,000, 20,000,000 and 5,000,000 ordinary shares of HK$0.1 each from the Stock Exchange on 27 May, 30 June, 29 July and 30 September respectively, at highest price of HK$0.77 and lowest price of HK$0.63 per share, and the excess paid over the par value of the shares was debited to the Company's share premium account. The share capital of HK$8,100,000 was transferred to capital redemption reserve for cancellation after the end of the reporting period.

During the year ended 31 December 2015, the Company paid in aggregate HK$31,936,000 to bought back 26,348,000, 4,700,000 and 13,100,000 ordinary shares of HK$0.1 each from the market on 6 July, 7 July and 8 July respectively, at highest price of HK$0.76 and lowest price of HK$0.68 per share, and the excess paid over the par value of the shares was debited to the Company's share premium account. The share capital of HK$4,415,000 was cancelled upon bought back.

40. 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 share option scheme ("Share Option Scheme") and termination of the operation of the old share option scheme. The resolution was approved by the shareholders and the Share Option Scheme became effective for a period of 10 years commencing on 30 September 2009.

Under the 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 Share Option Scheme were summarised and set out in a circular to shareholders dated 9 September 2009.

A summary of the movements of the outstanding options during the year ended 31 December 2016 under the Share Option Scheme is as follows:

Type of participants	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2015	Changes during the year: Exercised in 2015	Lapsed in 2015	Outstanding as at 31.12.2015	Exercised in 2016	Lapsed in 2016	Outstanding as at 31.12.2016
Directors	19 July.2013	19 July 2013 to 18 July 2016	0.18	76,666,664	(19,999,999)	(35,000,000)	21,666,665	(21,666,665)	-	-
Employees	19 July.2013	19 July 2013 to 18 July 2016	0.18	93,333,332	(36,666,666)	(10,000,000)	46,666,666	(20,000,000)	(26,666,666)	-
Others participants	19 July.2013	19 July 2013 to 18 July 2016	0.18	239,999,998	(199,999,999)	-	39,999,999	(26,666,666)	(13,333,333)	-
				409,999,994	(256,666,664)	(45,000,000)	108,333,330	(68,333,331)	(39,999,999)	-

41. ASSETS CLASSIFIED AS HELD FOR SALE

	2015 HK$'000
Intangible asset – Trademark	25,120
Bank balances and cash	60
Assets of Photon Group classified as held for sale	25,180
Other payables	3,635
Liabilities of Photon Group associated with assets classified as held for sale	3,635
Net assets of Photon Group classified as held for sale	21,545

On 1 December 2015, the Company entered into an unconditional share transfer agreement with an independent third party to dispose of all the equity interest in Photon Group. The disposal was completed during 2016 with gross proceeds of the disposal amounted to approximately HK$22,250,000.

42. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2016

(i) During the year ended 31 December 2016, the Group acquired the entire equity interests in seventy-nine entities which are engaged in operation of theatres from independent third parties for an aggregated cash consideration of RMB2,160,700,000 (equivalent to approximately HK$2,401,834,000). The information for these acquisitions is disclosed on an aggregated basis as they are individually immaterial to the Group.

Assets acquired and liabilities recognised at the date of acquisitions are as follows:

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment	310,223
Inventories	3,868
Trade and other receivables	100,906
Bank balances and cash	23,200
Trade and other payables	(315,663)
Finance lease payables	(6,712)
Fair value of total identifiable net assets	115,822
Goodwill (note 17)	2,286,012
	2,401,834
Satisfied by:	
Cash	2,401,834
Net cash outflow on acquisition of subsidiaries:	
Cash consideration paid	(2,401,834)
Utilising deposits paid for acquisition of entities in prior years	914,068
Bank balances and cash acquired from the subsidiaries	23,200
	(1,464,566)

Goodwill arose from the acquisition of these subsidiaries because the costs of the combinations included control premiums. In addition, the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of these subsidiaries. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit for the year is approximately HK$36,478,000 attributable to the additional business generated by these subsidiaries. Revenue for the year includes approximately HK$252,314,000 generated from subsidiaries.

Had the acquisition been completed on 1 January 2016, total group revenue for the year would have been HK$3,561,275,000, and profit for the year would have been HK$463,698,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had these subsidiaries been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment and amortisation of intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination.

42. **ACQUISITION OF SUBSIDIARIES (Continued)**

For the year ended 31 December 2016 (Continued)

(ii) On 28 October 2016, the Group acquired approximately 33.42% equity interests of SMI Culture & Travel Group at a cash consideration of HK$213,899,000 from the open stock market which is engaged in the provision of cross-media services including investment in the production and distribution of films and television programmes and related services. Following the acquisition, the Group's equity interest in SMI Culture & Travel Group increased from 29.99% to 63.41% and SMI Culture & Travel Group becomes a subsidiary of the Company.

Assets acquired and liabilities recognised at the date of acquisition are as follows (determined on a provisional basis):

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment	444
Intangible assets	88,017
Inventories	227,572
Trade and other receivables	992,131
Film rights investment	209,535
Bank balances and cash	93,382
Convertible notes	(130,128)
Derivative financial instrument	(55,452)
Other borrowings	(160,000)
Bonds	(509,550)
Trade and other payables	(209,710)
Provisional net assets	546,241
Goodwill arising on acquisition	
Consideration paid	213,899
Add:	
Non-controlling interests	260,903
Fair value of previously held interest	191,998
Less:	
Provisional net assets acquired	(546,241)
Goodwill arising on acquisition (provisional) (note 17)	120,559
Satisfied by:	
Cash	213,899
Net cash outflow on acquisition of subsidiaries:	
Cash consideration paid	(213,899)
Bank balances and cash acquired from the subsidiaries	93,382
	(120,517)

The non-controlling interests in SMI Culture & Travel Group recognised at the acquisition date was measured by reference to the fair value of the non-controlling interests and amounted to HK$260,903,000.

Goodwill arose from the acquisition of these subsidiaries because the costs of the combinations included control premiums. In addition, the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of these subsidiaries. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

42. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2016 (Continued)

Included in the profit for the year of the Group is a profit of HK$3,379,000 attributable to the additional business generated by these subsidiaries. Revenue for the year includes HK$16,744,000 generated from subsidiaries.

Had the acquisition been completed on 1 January 2016, total group revenue for the year would have been HK$3,894,675,000, and profit for the year would have been HK$430,176,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had these subsidiaries been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment and amortisation of intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination.

For the year ended 31 December 2015

During the year ended 31 December 2015, the Group acquired the entire equity interests in sixty-two entities which are engaged in operation of theatres from independent third parties for an aggregated cash consideration of RMB1,699,450,000 (equivalent to approximately HK$2,059,390,000). The information for these acquisitions is disclosed on an aggregated basis as they are individually immaterial to the Group.

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

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment	251,155
Deposits for renovation projects	10,361
Intangible assets	56,773
Inventories	2,800
Trade and other receivables	98,842
Bank balances and cash	22,427
Bank borrowings	(1,818)
Trade and other payables	(270,960)
Deferred income	(629)
Finance lease payables	(10,429)
Deferred tax liabilities	(14,190)
Fair value of total identifiable net assets	144,332
Goodwill (note 17)	1,915,058
	2,059,390
Satisfied by:	
Cash	2,059,390
Net cash outflow on acquisition of subsidiaries:	
Cash consideration paid	(2,059,390)
Utilising deposits paid for acquisition of entities in prior years	996,047
Bank balances and cash acquired from the subsidiaries	22,427
	(1,040,916)

42. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2015 (Continued)

Goodwill arose from the acquisition of these subsidiaries because the costs of the combinations included control premiums. In addition, the consideration paid for the combinations effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of these subsidiaries. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit for the year is HK$17,367,000 attributable to the additional business generated by these subsidiaries. Revenue for the year includes HK$59,057,000 generated from subsidiaries.

Had the acquisition been completed on 1 January 2015, total group revenue for the year would have been HK$3,108,206,000, and profit for the year would have been HK$387,911,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had these subsidiaries been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment and amortisation of intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination.

43. LEASE COMMITMENTS

As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**422,510**	359,098
In the second to fifth years inclusive	**1,659,832**	1,259,115
After five years	**2,702,369**	2,601,142
	4,784,711	4,219,355

Operating lease payments represent rentals payable by the Group for its office, staff quarters and warehouses in Hong Kong, the office in Taiwan 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 property management fee, 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.

44. CAPITAL COMMITMENTS

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

		2016 HK$'000	2015 HK$'000
(a)	Amount contracted but not provided for in the consolidated financial statements in respect of:		
	Renovation of cinema premises	**202,093**	711,850
	Capital contribution to an investment	**67,845**	–
(b)	Capital expenditure authorised but not contract for in respect of:		
	Renovation of cinema premises	**692,200**	2,292,592

As described in note 23, the management of the Group is engaged with various vendors to acquire 6 theatres (2015: 47) in the PRC with total deposits of approximately HK$154,289,000 (2015: HK$914,068,000) paid to individual vendors under the memorandum of understandings entered into between the vendors and the Group. In the opinion of the directors of the Company, the total amount of commitment on the acquisitions is subject to the results of due diligence works as at 31 December 2016 and not yet be conclusive.

45. CONTINGENT LIABILITIES

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

As at 31 December 2016 and 31 December 2015, the Group did not have any other significant contingent liabilities.

46. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group has below transactions with its related parties during the year:

(a) Save as disclosed in notes 31 and 34(a), Mr. Qin, the controlling shareholder of the Group, provided a personal financial guarantee to the lenders to secure the Group's borrowings.

(b) Save as disclosed in note 34(b), 星美聖典 provided a corporate financial guarantee to the lenders to secure the Group's FY 2016 Trust Loans.

(c) The compensation paid to key management personnel by the Group was disclosed in note 12 to the consolidated financial statements.

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
Non-current assets		
Investment in an associate	**50,000**	–
Available-for-sale investment	**65,396**	–
Investments in subsidiaries (note)	**5,819,354**	5,084,237
	5,934,750	5,084,237
Current assets		
Prepayments, deposits and other receivables	**78,448**	75,286
Loan to a third pary	**150,000**	–
Loan to an associate	**–**	50,000
Amounts due from related parties	**169**	169
Bank balances and cash	**37,340**	18,643
	265,957	144,098
Current liabilities		
Trade and other payables	**41,670**	7,668
Amounts due to related parties	**–**	1,381
Financial guarantee obligation	**103**	258
Other borrowings	**100,000**	–
Convertible notes	**847,999**	39,938
Bonds	**780,180**	–
Amount due to a subsidiary	**2,376**	–
	1,772,328	49,245
Net current (liabilities) assets	**(1,506,371)**	94,853
Total assets less current liabilities	**4,428,379**	5,179,090
Non-current liabilities		
Convertible notes	**–**	783,269
Bonds	**639,886**	225,131
	639,886	1,008,400
	3,788,493	4,170,690
Capital and reserves		
Share capital	**1,361,121**	1,350,743
Reserves (note 49)	**2,427,372**	2,819,947
Total equity	**3,788,493**	4,170,690

Note: During the year, the Company has waived the amounts due from subsidiaries, amounting to HK$735,117,000 (2015: HK$5,084,159,000). It was treated as the deemed capital contribution.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company Directly	Percentage of equity interest held by the Company Indirectly	Principal activities
Able Charm Limited	HK	10,000,000 ordinary shares of HK$1 each	–	100%	Investment holding
Admiral Team Limited	BVI	1 ordinary share of US$1 each	–	100%	Investment holding
*Beijing Huilongguan Stellar Cineplex Management Co., Ltd. (note) 北京回龍觀星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
*Beijing Mingxiang International Cinema Mgt Co., Ltd. (note) 北京名翔國際影院管理有限公司	PRC	Registered capital of RMB7,000,000	–	49%	Operation of cinema
*Beijing Shijiecheng Stellar Cineplex Management Co., Ltd. (note) 北京世界城星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
*Beijing Wangjing Stellar International Cinema Mgt Co., Ltd. (note) 北京望京星美國際影城管理有限公司	PRC	Registered capital of RMB7,500,000	–	49%	Operation of cinema
Bravissimi Films (International) Limited	BVI	1 ordinary share of US$1 each	100%	–	Investment in production of film
Campbell Hall Limited	BVI	3 ordinary shares of US$1 each	–	100%	Investment holding
Chengdu Stellar Cineplex Limited 成都星美影業發展有限公司	PRC	Registered capital of RMB10,000,000	–	60%	Investment holding

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
*Chongqing Stellar Cinema Management Co., Ltd. (note) 重慶星美影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
Color Asia Pacific Limited	HK	1 ordinary share of HK$1 each	–	100%	Investment holding
GDL Nominee Limited	HK	2 ordinary shares of HK$1 each	–	100%	Investment holding
*Lanzhou Stellar Cineplex Limited (note) 蘭州星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
Market Dynamics (Hong Kong) Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	Provision of advertising and public relation services
North Hollywood Limited	BVI	1 ordinary share of US$1 each	100%	–	Investment holding
*Shanghai Lemo Stellar Cineplex Management Co., Ltd. (note) 上海星美樂莫影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
*Shanghai Stellar Cineplex Management Co., Ltd. (note) 上海星美影院管理有限公司	PRC	Registered capital of RMB12,000,000	–	75%	Operation of cinema
*Shenyang Stellar Cineplex Management Co., Ltd. (note) 瀋陽星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
SMI Culture & Travel Group	Cayman Islands	861,910,000 ordinary shares of HK$0.01 each	64%	–	Provision of cross-media services including investment in the production and distribution of films and television ("TV") programmes and related related services

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
SMI International Cinemas Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	Investment holding
SMI Investment (HK) Limited	HK	1 ordinary share of HK$1 each	100%	–	Investment in securities
SMI Management (Beijing) Limited	HK	1 ordinary share of HK$1 each	–	100%	Provision of administrative services
SMI Management (HK) Limited	HK	1 ordinary share of HK$1 each	–	100%	Provision of administrative services
SMI Photon (HK) Limited	HK	1 ordinary share of HK$1 each	–	100%	Inactive
SMI Photon Pty Limited	Australia	100 ordinary shares of AUD55,000 each	–	80%	Provision of visual effect and post-production of film making
*Tianjin Stellar Cineplex Management Co., Ltd. (note) 天津星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
*Xuzhou Stellar Cineplex Management Co., Ltd. (note) 徐州星美影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
Beijing Xingmeihui Catering Mgt Co., Ltd. 北京星美滙餐飲管理有限公司	PRC	Registered capital of RMB8,800,000	–	100%	Operation of café and sale of food and beverage in cinema
*Beijing Zhong Xingmeihui Trading Co., Ltd. 北京中星美滙商貿有限公司	PRC	Registered capital of RMB10,000,000	–	90%	Operation of In-theatre counter sales and online shopping
*Beijing Stellar Jincheng International Advertising Co., Ltd. 北京星美今晟國際廣告有限公司	PRC	Registered capital of RMB10,000,000	–	80%	Provision of advertising and public relation services

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
#*Changshou Stellar Cineplex Mgt Co., Ltd. 常熟市星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
*Shanghai Jinshan Baibei Cineplex Mgt Co., Ltd. 上海金山星美百倍影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	49%	Operation of cinema
#*Shenyang Dayue Stellar Mgt Co., Ltd. 沈陽大悦星美企業管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Hohhot Stellar International Cineplex Mgt Co., Ltd. 呼和浩特星美國際影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Kunming Stellar Enterprise Mgt Co., Ltd. 昆明星美企業管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Nanjing Wending Stellar Cineplex Mgt Co., Ltd. 南京星美文鼎影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Qingdao Yangguang Stellar Cineplex Mgt Co., Ltd. 青島陽光星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Beijing Yangguang Stellar International Cineplex Mgt Co., Ltd. 北京陽光星美國際影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Chengdu Jiana Stellar Cineplex Mgt Co., Ltd. 成都戛納星美影城管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
#*Nanchang Stellar Cineplex Mgt Co., Ltd. 南昌市星美影院管理有限公司	PRC	Registered capital of RMB1,000,000	–	30%	Operation of cinema
#*Khorgos Stellar Jincheng International Advertising Co., Ltd. 霍爾果斯市星美今晟國際廣告有限公司	PRC	Registered capital of RMB10,000,000	–	24%	Provisions of advertising and public relation services

* These subsidiaries are sino-foreign equity joint ventures established in the PRC. The directors of the Company are of opinion that, notwithstanding the fact of the Group holds less than 100% of nominal shares of these companies, having considered all facts and circumstances, the Group has control over these companies and owns 100% equity interest of these companies. Please refer to note 4 for details.

These entities are wholly-owned subsidiaries of Chengdu Runyun Culture Broadcasting Limited (成都潤運文化傳播有限公司) of which 30% of its nominal shares are held by the Group and the directors of the Company are of opinion that, having considered all facts and circumstances, the Group has control over them and owns 100% equity interest of these entities.

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

Details of non-wholly owned subsidiaries that has material non-controlling interests

The table below shows details of a non-wholly-owned subsidiary of the Company that has material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
				HK$'000	HK$'000	**HK$'000**	HK$'000
SMI Culture & Travel Group	Cayman Island	**35.5%**	–	**1,120**	–	**255,160**	–

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

SMI Culture & Travel Group

	2016 HK$'000	2015 HK$'000
Current assets	1,477,654	–
Non-current assets	82,762	–
Current liabilities	995,844	–
Equity attributable to owners of the company	565,388	–
Non-controlling interests	(816)	–

Current assets mainly comprise of inventories of HK$226,849,000 (2015: HK$252,238,000), film rights investments of HK$397,643,000 (2015: HK$100,619,000), trade and other receivables of HK$444,368,000 (2015: HK$238,741,000) and bank balances and cash of HK$408,794,000 (2015: HK$21,160,000).

Current liabilities mainly comprise of trade and other payables of HK$68,337,000 (2015: HK$90,646,000), tax payable of HK$141,142,000 (2015: HK$93,222,000), loan from a shareholder of HK$ Nil (2015: HK$50,000,000), loan notes of HK$445,531,000 (2015: Nil), convertible notes of HK$159,573,000 (2015: Nil), embedded derivatives of HK$55,685,000 (2015: Nil) and other borrowing of HK$125,576,000 (2015: Nil).

Non-current assets mainly comprise of property, plant and equipment of HK$390,000 (2015: HK$265,000) and intangible assets of HK$82,372,000 (2015: HK$114,633,000).

	2016 HK$'000	2015 HK$'000
Revenue	548,429	–
Cost of sales and expenses	340,313	–
Profit for the year	26,441	–
Profit attributable to owners of the company	22,961	–
Net cash outflow from operating activities	(309,014)	–
Net cash inflow from investing activities	1,049	–
Net cash inflow from financing activities	696,990	–
Net cash inflow	389,025	–

49. RESERVES

	Share premium HK$'000	Other reserve HK$'000	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Warrants reserve HK$'000	Share-based payment reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	295,366	(36,615)	1,468,501	16,820	3,095	24,937	–	(62,437)	1,709,667
Total comprehensive income for the year	–	–	–	–	–	–	–	(87,539)	(87,539)
Approved final dividend for the year ended 31 December 2014	–	–	–	–	–	–	–	(42,017)	(42,017)
Issue of shares by subscription (note 39)	414,774	–	–	–	–	–	–	–	414,774
Issue of conversion shares (note 39)	303,531	–	–	(23,453)	–	–	–	23,453	303,531
Recognition of share options exercised	20,533	–	–	–	–	(13,819)	–	13,819	20,533
Issue of shares by placement (note 39)	377,230	–	–	–	–	–	–	–	377,230
Recognition of equity component of convertible notes	–	–	–	42,014	–	–	–	–	42,014
Recognition of warrants lapsed	–	–	–	–	(2,071)	–	–	2,071	–
Recognition of warrants exercised	108,000	–	–	–	(1,024)	–	–	1,024	108,000
Repurchase of own shares	(31,936)	–	–	–	–	–	4,415	–	(27,521)
Share-based payments	–	–	–	–	–	1,275	–	–	1,275
Changes in equity for the year	1,192,132	–	–	18,561	(3,095)	(12,544)	4,415	(89,189)	1,110,280
At 31 December 2015	1,487,498	(36,615)	1,468,501	35,381	–	12,393	4,415	(151,626)	2,819,947
At 1 January 2016	1,487,498	(36,615)	1,468,501	35,381	–	12,393	4,415	(151,626)	2,819,947
Total comprehensive income for the year	–	–	–	–	–	–	–	(231,729)	(231,729)
Approved final dividend for the year ended 31 December 2015	–	–	–	–	–	–	–	(147,231)	(147,231)
Issue of conversion shares (note 39)	30,005	–	–	(564)	–	–	–	564	30,005
Recognition of share options exercised	5,467	–	–	–	–	(7,508)	–	7,508	5,467
Lapse of share options	–	–	–	–	–	(4,885)	–	4,885	–
Repurchase of own shares	(57,187)	–	–	–	–	–	8,100	–	(49,087)
Changes in equity for the year	(21,715)	–	–	(564)	–	(12,393)	8,100	(366,003)	(392,575)
At 31 December 2016	1,465,783	(36,615)	1,468,501	34,817	–	–	12,515	(517,629)	2,427,372

(i) 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 1 January 2014, 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 1 January 2014 in the sum of approximately HK$1,692,627,000 was 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.

49. **RESERVES (Continued)**

(ii) **Other reserve**

Other reserve comprises:

(a) 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; and

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

(c) After obtaining the control of SMI Culture & Travel Group (see note 42(ii)), the Group acquired 1.08% additional interest in SMI Culture & Travel Group from non-controlling interests, increasing its controlling interest from 63.41% to 64.49%. The consideration on acquisition of HK$33,756,000 were paid in cash. The difference of HK$2,194,000 between the carrying amount of non-controlling interests being acquired of HK$31,562,000 and the consideration paid of HK$33,756,000 has been debited to other reserve.

(d) Save as disclosed in note 35(m), the Convertible Note XIII was converted into the ordinary share of SMI Culture & Travel Group, the subsidiary of the Company. The Group's interest in SMI Culture & Travel Group was diluted by 3.85%. The difference of HK$19,724,000 between the carrying amount of the Group's equity interests being disposed of HK$24,619,000 and the aggregate sum of liability component and embedded derivative of the Convertible Note XIII amount to HK44,343,000 has been credited to other reserve.

(e) In March 2016, the former shareholder of TicketChina Holdings Limited waived the shareholder's loan of HK$14,587,000 and treated as the deemed capital contribution to the Group and credited to other reserve. At the same date, the Group acquired 35.8% additional interest in TicketChina Holdings Limited, a subsidiary of the Company, from non-controlling interests. The consideration on acquisition of HK$400,000 were paid in cash. The difference of HK$6,068,000 between the carrying amount of non-controlling interests being acquire of HK$6,468,000 and the consideration paid of HK$400,000 has been credited to other reserve.

(iii) **Contributed surplus**

The contributed surplus of the Group represented: (a) 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; (b) less the amount transferred to accumulated losses in relation to capital reorganisation in the years ended 31 March 2003 and 2005; (c) the amount released from disposal of certain associates and distribution of dividend in prior years, and (d) the balance of credit arising from the reduction of share capital and the cancellation of share premium in relation to the Share Premium Reduction mentioned in note (i) above during the year ended 31 December 2014.

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.

(iv) **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.

(v) **Statutory reserve**

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

50. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained profits).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

51. DISPOSAL OF SUBSIDIARIES

(i) On 30 September 2016, the Group entered into an agreement to dispose one wholly owned subsidiary to an independent third party. The subsidiary was principally engaged in the operation of cinema in the PRC. The disposal of subsidiary was completed during the year ended 31 December 2016, a net gain on the disposal of such subsidiary of approximately HK$251,000 were recognised.

The aggregate net assets of the above subsidiary at its date of disposal are as follows:

	HK$'000
Cash consideration	44,837
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,287
Intangible assets	915
Goodwill	36,804
Inventories	4
Trade and other receivables	1,283
Bank balances and cash	11
Trade and other payables	(185)
Deferred tax liabilities	(229)
	40,890
Gain on disposal of the subsidiary	
Consideration	44,837
Net assets disposed	(40,890)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	(3,696)
Gain on disposal of the subsidiary	251
Net cash inflow on disposal of the subsidiary	
Cash consideration	44,837
Bank balance and cash	(11)
	44,826

51. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) Save as disclosed in note 41, the disposal of Photon Group was completed on 30 April 2016, a net gain on the disposal of approximately HK$1,158,000 were recognised.

The aggregate net assets of the Photon Group at its date of disposal are as follows:

	HK$'000
Cash consideration	22,250
Analysis of assets and liabilities over which control was lost:	
Intangible assets	25,120
Bank balances and cash	58
Trade and other payables	(3,667)
Deferred tax liabilities	-
	21,511
Gain on disposal of the subsidiary	
Consideration	22,250
Net assets disposed	(21,511)
Non-controlling interest	(1,222)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	1,641
Gain on disposal of the subsidiary	1,158
Net cash inflow on disposal of the subsidiary	
Cash consideration	22,250
Cash consideration to be received	(14,233)
Bank balance and cash	(58)
	7,959

52. 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 disclosures of fair value measurements as shown above 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 investments in listed equity interests in held-for-trading investments are measured at fair value (Level 1 inputs) at the end of the reporting period.

The Group's investments in unlisted interests in available-for-sale investments are measured at fair value (Level 3 inputs) for impairment review assessment at the end of the reporting period.

The Directors of the Company consider that the carrying amounts of the other financial assets and financial liabilities recorded at amortised cost in the results and financial position of the Group approximate their respective fair values.

53. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

Financial instruments are fundamental to the Group's daily operations. The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(b) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Financial assets at fair value through profit or loss:		
– Held-for-trading investments	**304,217**	196,017
Available-for-sales investments	**65,396**	–
Loans and receivables (including cash and cash equivalents)	**1,926,602**	1,608,527
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
– Derivatives	**55,686**	–
Financial liabilities at amortised cost	**6,376,272**	3,567,280

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.

(c) Credit risk management

The carrying amount of deposits paid for acquisitions of property, plant and equipment, other assets, rental deposits, deposits paid for the acquisitions of entities, the pledged bank deposits, the bank balances and cash, trade and other receivables, loan to related parties, and amounts due from related parties represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

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

The Group has concentration of credit risk as 24% (2015: 45%) of the total trade receivables were due from the Group's five largest customers with average credit period of 90 to 180 days. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual's receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. An internal credit assessment process assesses the potential borrower's credit quality and defines credit limits by borrowers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

In addition, the Group has concentration of credit risk as 39% and 100% (2015: 75% and 100%) of progress payments for construction of property, plant and equipment and deposits paid for acquisitions of entities, respectively, were due from the contractors and the agent (see note 22 and 23 for details). In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of progress payment approvals and other monitoring procedures to ensure that follow-up action is taken to the proper realization of the progress payments and deposits. In addition, the Group reviews the progress on the renovation and due diligence works carrying out by the contractors and the agent during the reporting period, the continuous business relationship and the construction payables to contractors and the agent subsequent to the end of the reporting period, the underlying assets would be obtained by the Group from the vendors under the conditional sales and purchase agreements with the contractors and the agent and the financial background of the contractors and the agent to ascertain the recoverability of the amounts paid to the contractors and the agent.

As a result, the directors of the Company consider that the Group's exposure to credit risk on the amounts paid to the contractors and the agent are significantly reduced.

53. **FINANCIAL INSTRUMENTS (Continued)**

(c) **Credit risk management (Continued)**

The credit risk for bank deposits and bank balances exposure is considered minimal as such amounts are placed in banks in the PRC and Hong Kong having reputation.

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

(d) **Interest rate risk management**

The Group's exposure to changes in interest rate risk is mainly attributable to its bank deposits in Hong Kong and the PRC and bank borrowings in the PRC. These bank deposits and borrowings bear interests at variable interest rates and expose the Group to cash flow interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

The Group's exposure to interest rate risk on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the bank deposit rate arising from bank deposits in Hong Kong and People's Bank of China ("PBOC") base interest rate arising from bank deposits and bank borrowings in the PRC. The bank deposits carried at prevailing market rates.

The following table details the Group's sensitivity to a 100 basis points increase and decrease in bank deposit rate, and a 100 basis points increase and decrease in PBOC base interest rate prescribed interest rate. 100 basis points are the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The sensitivity analysis includes only variable-rate bank borrowings and other borrowings assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year, after taking into consideration the effects of the interest rate swaps designated as hedging instruments. A positive number below indicates an increase in profit where the interest rate decreases. If the interest rate increases, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2016 **HK$'000**
Bank deposit rate	
Profit or loss	**6,250**
PBOC based interest rate	
Profit or loss	**(389)**

(e) **Price risk management**

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments of different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

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

As at 31 December 2016, if the share price of the investment increases/decreases by 10%, profit after tax for the year would have been approximately HK$30,421,700 (2015: HK$19,601,700) higher/lower, arising as a result of the fair value gain/loss of the investment.

(f) **Foreign currency risk management**

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

53. FINANCIAL INSTRUMENTS (Continued)

(g) Liquidity risk management

The Directors of the Company consider that the Group's holding of bank balances and cash, bank deposits, together with net cash flow from operating activities and committed credit facilities, can provide adequate sources of funding to enable the Group to meet in full its financial obligations due for the foreseeable future and manage its liquidity position. In addition, the management of the Group expects to fund the remaining estimated capital expenditure and commitments of its business development in Hong Kong, Taiwan and the PRC through a proper balance between internal generated funds and credit facilities secured by the Group's assets.

Save as disclosed in note 1, the management of the Company have given careful consideration of the future liquidity of the Group in light of the fact that the Group incurred a net current liabilities of HK$1,732,156,000 as at 31 December 2016. The management of the Company considered that the Company could obtain adequate funds to meet in full its financial obligations as they fall due for the foreseeable future by obtaining full support by adequate funds provided by Mr. Qin and the Proceeds of RMB2,500,000,000 from the Investors detailed in note 1.

The following table details the Group's remaining contractual maturities of financial liabilities that exposed the Group to liquidity risk based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group could be required to pay. The table includes both interests and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount of interest payment is estimated based on the interest rate at the end of the reporting period.

	Weighted average effective interest rate	On demand/ less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2016 HK$'000
At 31 December 2016							
Financial liabilities at fair value through profit or loss							
Derivatives	–	55,686	–	–	–	55,686	55,686
Financial liabilities at amortised cost							
Trade and other payables	–	632,286	–	–	–	632,286	632,286
Amounts due to related parties	–	20,967	–	–	–	20,967	20,967
Other borrowings	10.01%	824,900	1,312,294	959,811	–	3,097,005	2,810,944
Bank borrowings	6.53%	38,906	–	–	–	38,906	38,906
Convertible notes	12.18%	1,108,424	–	–	–	1,108,424	1,007,572
Bonds	9.27%	1,283,981	351,356	260,820	219,167	2,115,324	1,865,597
		3,909,464	1,663,650	1,220,631	219,167	7,012,912	6,376,272
At 31 December 2015							
Trade and other payables	–	1,164,547	–	–	–	1,164,547	1,164,547
Amounts due to related parties	–	18,536	–	–	–	18,536	18,536
Other borrowings	10.66%	340,000	381,685	387,617	–	1,109,302	930,367
Bank borrowings	6.59%	203,946	219,851	–	–	423,797	405,493
Convertible notes	12.06%	103,221	942,935	–	–	1,046,156	823,207
Bonds	8.25%	12,102	12,102	35,433	253,527	313,164	225,131
		1,842,352	1,556,573	423,050	253,527	4,075,502	3,567,280

The amounts included above for variable rate bank borrowings are subject to change if variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

53. FINANCIAL INSTRUMENTS (Continued)

(g) Liquidity risk management (Continued)

The above table summarises the maturity analysis of the bonds classified as current liabilities due to the Company did not fulfill certain terms of such bonds. As at the date of this report, the lenders of bonds have provided their written consents to waive the relevant covenant terms of bonds. Based on the agreed scheduled repayments set out in the relevant bond agreements, the undiscounted cash flows which include both interests and principal cash flows are set out below. Taking into account the Group's financial position, the Directors believe that such bonds will be repaid in accordance with the scheduled repayment dates set out in the bond agreements.

	On demand/ less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000
31 December 2016	534,861	1,160,710	260,820	219,167	2,175,558
31 December 2015	12,102	12,102	35,433	253,527	313,164

54. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group have the following events:

(i) pursuant to the Company's announcement on 15 March 2017, Chengdu Runyun Culture Broadcasting Limited ("Chengdu Runyun"), a subsidiary of the Company, entered into the agreements with the independent investors (the "Investors"), which the Investors have agreed to make an aggregate capital contribution of RMB2,500,000,000 (the "Proceeds"), in exchange of a total of 15.63% of the enlarged equity interest of Chengdu Runyun (the "Transaction"). The directors of the Company expected that the Transaction will be completed by May 2017 after the completion of the Chengdu Runyun's change of business registration and capital contribution verification.

(ii) in respect of the bonds with a carrying amount of HK$780,180,000 including in current liabilities as at 31 December 2016, the Group did not fulfill certain terms of such bonds, which are primarily related to the covenant in regard of the leverage ratio of the Group. The Directors had informed the lenders of the bonds and sought for the waiver from the relevant lenders. As at the date of this report, the lenders have provided their written consents to waive the relevant covenant terms of bonds.

Financial Summary

Results	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
			Year ended 31 December		
Revenue	857,205	1,471,684	1,650,146	2,924,086	**3,351,186**
Profit before taxation	41,576	172,596	209,077	446,859	**493,097**
Income tax expense	(21,263)	(56,878)	(83,692)	(78,498)	**(85,993)**
Profit before non-controlling interests	20,313	115,718	125,385	368,361	**407,104**
Non-controlling interests	10,562	(2,745)	5,607	(8,397)	**(3,380)**
Profit for the year	30,875	112,973	130,992	359,964	**403,724**

Assets and liabilities	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	**2016** **HK$'000**
			As at 31 December		
Total assets	3,499,512	4,494,237	6,131,082	9,485,617	**12,922,638**
Total liabilities	(903,718)	(1,684,068)	(2,765,905)	(4,258,283)	**(7,403,785)**
Total equity	2,595,794	2,810,169	3,365,177	5,227,334	**5,518,853**