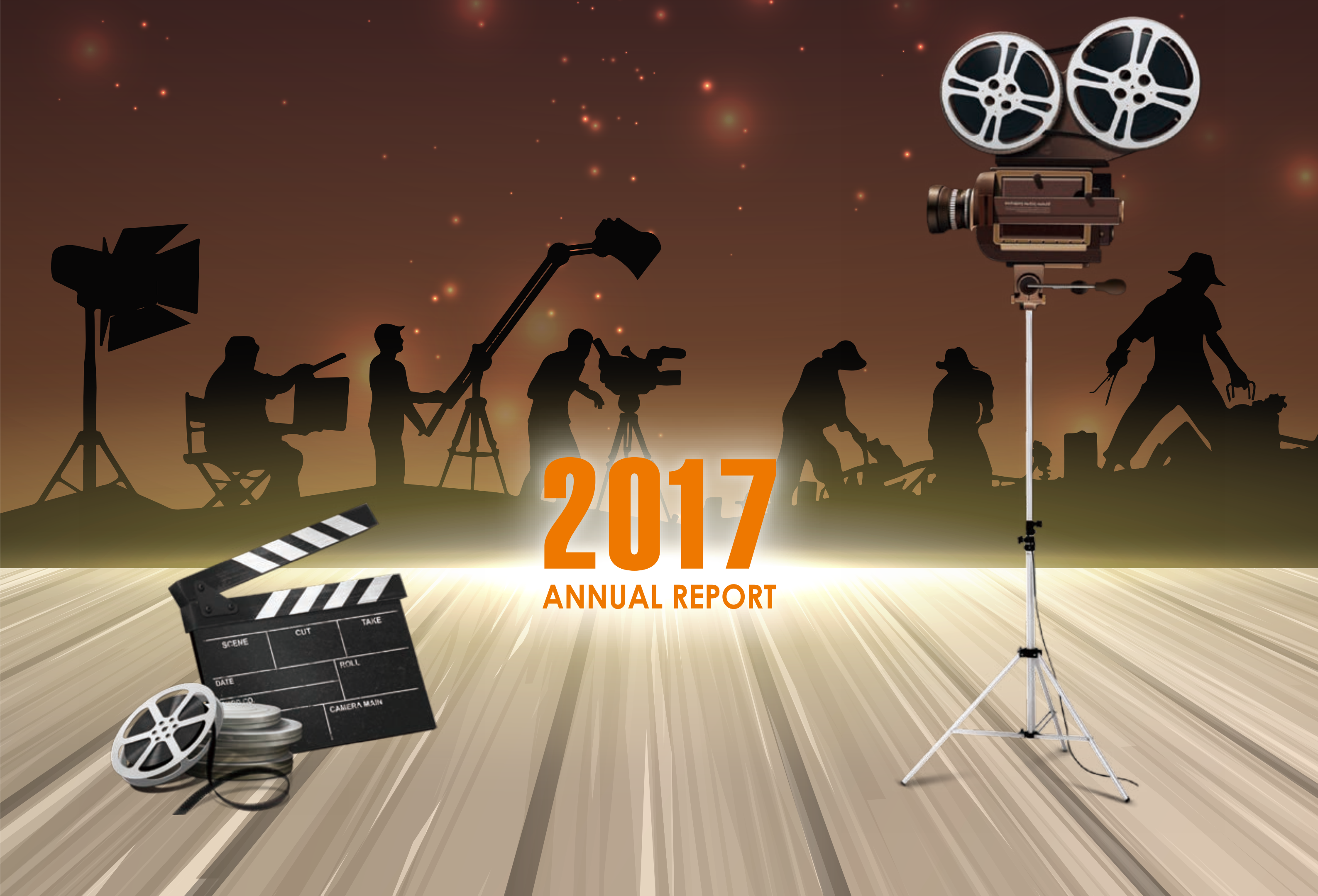
星美文旅

SMI Culture & Travel Group Holdings Limited
星美文化旅遊集團控股有限公司

SEHK Stock Code : 2366 | 香港聯合交易所股份代號：2366

2017 ANNUAL REPORT



Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WU Chien-Chiang *(Chairman)*
(re-designated from independent non-executive director to executive director and appointed as Chairman on 28 July 2017)
Ms. YAO Qinyi
Mr. LI Kai *(appointed on 9 March 2018)*
Mr. KONG Dalu *(resigned on 9 March 2018)*
Mr. YUAN Xin
(appointed on 6 April 2017 and resigned on 9 March 2018)
Mr. HUANG Zhengchao
(appointed on 29 June 2017 and resigned on 13 February 2018)
Mr. ZHONG Naixiong *(ex-Chairman)*
(resigned on 28 July 2017)

Independent Non-executive Directors

Mr. RAO Yong *(appointed on 20 January 2017)*
Mr. LIU Xianbo
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*
Mr. WU Chien-Chiang
(re-designated as executive director on 28 July 2017)
Mr. DU Jiang *(resigned on 20 January 2017)*

BOARD COMMITTEES

Audit Committee

Mr. RAO Yong *(Chairman)*
(appointed on 20 January 2017)
Mr. LIU Xianbo
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*
Mr. WU Chien-Chiang *(ceased on 28 July 2017)*
Mr. DU Jiang *(ex-Chairman)*
(resigned on 20 January 2017)

Remuneration Committee

Mr. RAO Yong *(Chairman)*
(appointed on 20 January 2017)
Mr. LIU Xianbo
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*
Mr. WU Chien-Chiang *(ceased on 28 July 2017)*
Mr. DU Jiang *(ex-Chairman)*
(resigned on 20 January 2017)

Nomination Committee

Mr. LIU Xianbo *(Chairman)*
Mr. RAO Yong *(appointed on 20 January 2017)*
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*
Mr. WU Chien-Chiang *(ceased on 28 July 2017)*
Mr. DU Jiang *(resigned on 20 January 2017)*

AUTHORISED REPRESENTATIVES

Mr. KONG Dalu *(ceased on 9 March 2018)*
Ms. YAO Qinyi
Mr. LI Kai *(appointed on 9 March 2018)*

COMPANY SECRETARY

Ms. MUI Ngar May *(resigned on 11 February 2018)*
Ms. LAI Wai Ha of Akron Advisory Limited, external service provider
(appointed on 11 February 2018)

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

40/F., Sunlight Tower
248 Queen's Road East
Wan Chai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.,
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited
DBS Bank (HK) Limited

LEGAL ADVISERS

As to Hong Kong Law
Vivien Teu & Co LLP
Loong & Yeung

As to PRC Law
Duan & Duan

As to Bermuda Law
Conyers Dill & Pearman

STOCK CODE

2366

WEBSITE

http://www.smiculture2366.com

Chairman's Statement

BUSINESS REVIEW

The world's economy was steadily recovering in 2017. Meanwhile, China maintained healthy economic development and recorded a GDP growth of 6.9% year-on-year, which exceeded the target set at the beginning of the year. This has ended the downward trend since 2011. It is particularly noteworthy that domestic consumption became the largest driver of economic development last year and consumption expenditure contributed 58.8% of the GDP growth. Increasing consumers in China's new economy brought momentum to the pan-entertainment industry.

In 2017, the Chinese film market turned around the decline in 2016 and increased to RMB55.9 billion, up 13% as compared to the same period last year. The growth was primarily attributable to the outstanding box office of domestic films in the second half of 2017. During the year, domestic films recorded remarkable box office receipts, which was mostly driven by war and action movies. The trend continued in the Lunar New Year holidays in February 2018.

The Chinese film market is shifting from imported films to domestic films in 2018. Riding on the success in the second half of last year, the box office of domestic films exceeded RMB10.0 billion in February, breaking the monthly record of the PRC market set in August 2017 (RMB7.37 billion) and the global monthly record for the US market alone set in July 2011 (USD1.395 billion, equivalent to approximately RMB8.816 billion). The exceptional box office reflected the growing market acceptance of domestic films and the golden period for the industry.

During the year, China introduced the Film Industry Promotion Law (《電影產業促進法》), which has a significant influence on regulating business operations and encouraging creativity. The "13th Five-Year Plan" period is a critical stage for China to promote cultural prosperity and development. The Chinese government has set its goal to speed up the development of the cultural industry in all aspects and further facilitate cultural development and reform, so as to support and drive economic development, improve people's quality of life and enhance the influence of Chinese culture in the global market. It is expected that the momentum of domestic films and the PRC film market will remain strong, providing room for growth to participants of the film industry.

Investment in film and TV drama remained to be the main business of the Group during the year under review. Given the stable growth in the box office and supportive policy last year, the Group continued to focus on strategic business transformation as the development goal. The Group invested in and produced a number of films during 2017. In addition to the 2017 New Year movie Cook Up A Storm (《決戰食神》), it also produced the simple romance movie 77 Heartbreaks (《原諒他77次》), which has accumulated a total box office receipts of approximately RMB6 million after one week since its release on 15 June 2017. As of 19 July 2017, the total box office revenue was well over RMB75 million, which further extended the market influence of the Group's brand name and laid a sound foundation for the prospects of the film investment business.

While film and TV drama investments grew steadily, the Group actively developed the pan-entertainment business and concentrated on pursuing growth and investment in the PRC culture and tourism industry, which had tremendous growth potential and was supported by favourable national policy. Due to changing lifestyle and consumption upgrade in China, the PRC tourism industry underwent rapid expansion. In late 2016, the PRC government promulgated the "13th Five-Year Plan" for the tourism industry. It defined the development approach of the domestic tourism industry, which shifted the focus from tourist attractions to all-for-one tourism. Besides, it encouraged the integration between tourism and other industries, and set the target of national tourism receipts at 6.4 billion, total tourism revenue at RMB7 trillion and overall GDP contribution of tourism at 12% by 2020, thereby providing huge growth potential for the industry. According to the China Tourism Data Center, the number of visitors increased significantly by 12.8% to 5.001 billion and the total tourism receipts went up 15.1% year-on-year to RMB5.4 trillion in 2017.

In 2017, the Group proceeded with strategic business transformation. On top of the well-established film investment and production business, it actively sought for investment and acquisition opportunities that could support the Group's steady growth in the long run. In October 2017, the Group completed the acquisition of 100% of the issued share capital of SMI Entertainment Limited at a total consideration of RMB150 million. SMI Entertainment Limited is a holding company and wholly owns SMI Performing Arts Co. Limited and TicketChina Limited ("TicketChina"). Ipiao (票量網), which is indirectly held by TicketChina, is an integrated one-stop online ticketing and reservation platform consisting of the online ticketing and reservation services for movies, performing arts, theatres and other related tickets, and other value-added services including the online booking and reservations for accommodations, hotels, tourists spots, cuisine and other kinds of refreshments. The acquisition was for the purpose of expanding the Group's core business into online ticketing services, which helped the Group to further penetrate the PRC market, achieve synergy and higher overall profitability and provide IT technical services to internal and external customers of the Group through cooperation and resources integration.

PROSPECTS

In 2018, the PRC film market took off with flying colours. As domestic films achieved excellent box office performance, the market expected the PRC film market to continue its rapid growth in the coming year. The Group will carry on expanding the film investment and production business in such a favourable environment, so as to exploit the opportunities in the flourishing domestic film market.

In the meantime, the Group will seek investment opportunities in film and TV projects and enterprises in the entertainment industry chain. It plans to further expand its know-how and resources in the content creation and distribution business, cooperate with enterprises in the upstream industry chain, establish its own IP product library and carry out pilot tests selectively on high-quality online platforms.

Chairman's Statement

Following the completion of the acquisition of Ipiao (票量網), the Group will be provided a prime opportunity to further extend its business to all aspects of consumers' lives, including entertainment, social, dining, arts and tourism, through the one-stop online commercial platform. For instance, by capitalising on the extensive database of Ipiao on PRC films and movies (which include but not limited to information of plots, trailers and videos, list of cast and crew, stage photos, relevant news and users reviews), the Group can enhance the existing film and television program production business. The Group can also accelerate the development into the video streaming and internet broadcast businesses, while promoting and strengthening the culture and tourism businesses with the online booking and reservations channels of Ipiao for hotels, dining and entertainment in the PRC.

Looking to the future, the Group will continue to actively identify suitable financing tools and investment opportunities so as to expand its business network. It will increase investment in film and TV drama production, entertainment and tourism, diversify sources of income, develop new operating models and evolve into a leading PRC entertainment and media enterprise and content provider, with an aim of creating greater investment returns for the shareholders.

APPRECIATION

Following the resignation of Mr. ZHONG Naixiong on 28 July 2017, I succeeded him as the executive Director and chairman of the Group. I would like to take this opportunity to thank Mr. Zhong for his whole-hearted devotion to the Group and his contribution to the Company in the past. Besides, my sincerest gratitude is extended to the customers for their long-term support, to the business partners and shareholders for their trust and support, and to the employees at different positions for their active contribution.

WU Chien-Chiang
Chairman

Hong Kong, 29 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

Due to increasing disposable income of Chinese residents and rising demand for high-quality entertainment, the PRC pan-entertainment industry flourished last year. In particular, the domestic film market came out of the slowdown in recent years and regained momentum. This was mainly attributable to a number of popular war movies in the second half of last year, which boosted the box office of domestic films to 13% higher than the corresponding period last year. Nonetheless, the PRC film market still faced challenges in the pan-entertainment industry and the change in entertainment spending. During 2017, the Group proceeded with the strategic business transformation. It also optimised the film production and investment model, and steadily advanced the ongoing exploration of the film production and investment business, so as to seize opportunities in the fast-growing domestic film market.

The Group focused on the development of new business in 2017, hence the number of movies invested as well as the investment amount for 2017 declined as compared with 2016. It has only invested in the 2017 New Year movie Cook Up A Storm (《決戰食神》) and the simple romance movie 77 Heartbreaks (《原諒他77次》).

Capitalising on the well-established film investment and production business, the Group actively sought for investment and acquisition opportunities during 2017 to support its long-term steady growth. On 14 December, the Group announced the possible acquisition of 少掌櫃科技北京有限公司 (the target company was incorporated in 2016 and mainly engaged in, amongst others, tourism platform, information consulting, technology development, technology promotion and software development in Asia). Despite that the transaction fails to complete, it demonstrates the Group's determination in development transformation and expansion of business in the cultural and entertainment industry.

In October 2017, the Group completed the acquisition of the entire issued share capital of SMI Entertainment Limited at a total consideration of RMB150 million. SMI Entertainment Limited is a holding company and wholly owns, amongst others, SMI Performing Arts Co. Limited and TicketChina Limited ("TicketChina"). Ipiao (票量網), which is indirectly held by TicketChina, is an integrated one-stop online ticketing and reservation platform consisting of the online ticketing and reservation services for movies, performing arts, theatres and other related tickets, and other value-added services including the online booking and reservations for accommodations, hotels, tourists spots. The acquisition was for the purpose of expanding the Group's core business into online ticketing services, which helped the Group to further penetrate the PRC market and achieve synergy and higher overall profitability and provide IT technical services to internal and external customers of the Group through cooperation and resources integration.

REVIEW OF OPERATIONS

During the financial year ended 31 December 2017, the Group recorded a turnover of approximately HK$134.9 million (2016: approximately HK$548.4 million). Loss for the financial year was approximately HK$133.9 million (2016: profit of approximately HK$26.4 million), administrative expenses was approximately HK$34.6 million (2016: approximately HK$31.1 million), impairment loss for goodwill was approximately HK$11.9 million (2016: Nil), impairment loss for intangible assets was approximately HK$9.3 million (2016: approximately HK$13.7 million), impairment loss for other receivables was approximately HK$52.5 million (2016: Nil), provision for inventories was approximately HK$9.8 million (2016: approximately HK$4.2 million), finance costs was approximately HK$71.7 million (2016: approximately HK$47.9 million), impairment loss for film rights investments was approximately HK$6.5 million (2016: Nil), fair value change of the embedded derivatives was approximately HK$29.0 million (2016: loss of approximately HK$61.7 million) and income tax expense was approximately HK$14.4 million (2016: approximately HK$47.9 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently managed its liquidity and financial resources in a prudent manner. As at 31 December 2017, the Group's cash level stood at approximately HK$6.1 million (2016: approximately HK$408.8 million). The balances are mainly denominated in Hong Kong Dollar and Renminbi. With cash in hand and in banking and external facilities available, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Gearing ratio (expressed as a percentage of the Group's total borrowings net of pledged deposits over total equity) was approximately 75.3% as at 31 December 2017 (2016: approximately 139.3%).

BORROWING STRUCTURE

As at 31 December 2017, the total borrowings of the Group amounted to HK$572,123,000 (31 December 2016: HK$786,365,000). Particulars of loan notes, convertible loan notes and embedded derivatives and other borrowing of the Group as at 31 December 2017 are set out in notes 26-28 to the consolidated financial statements.

MORTGAGES AND CHARGES

As at 31 December 2017, the Group had no significant mortgages and charges.

EXPOSURE TO FOREIGN EXCHANGE RISK

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated in either Hong Kong Dollar or Renminbi. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

ACQUISITION OF SUBSIDIARIES/ GOODWILL

On 31 October 2017, the Group completed the acquisition of the entire issued share capital of SMI Entertainment Limited at a total consideration of RMB150 million. This acquisition has been accounted for using the acquisition method. SMI Entertainment Limited is incorporated in the British Virgin Islands with limited liability and is engaged in investment holding. SMI Performing Arts Co. Limited and TicketChina Limited (both companies were incorporated in Hong Kong with limited liability) are wholly-owned by SMI Entertainment Limited. The acquisition was for the purpose of expanding the Group's core business to online ticketing services. The online network of Ipiao can be integrated with the businesses of the Group and will bring along synergy effect to the Group's business integration and membership promotion. Details of goodwill and acquisition are set out in notes 17 and 36 to the consolidated financial statements.

EVENTS AFTER THE REPORTING DATE

On 17 October 2017, the Company entered into a subscription agreement with Raising Elite Limited, an independent third party (the "Subscriber"), pursuant to which the Subscriber, has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 188,678,203 subscription shares at the subscription price of HK$0.75 per subscription share (the "Subscription"). On 29 December 2017, the Company and the Subscriber entered into a supplemental letter, pursuant to which the date on which the condition(s) of the Subscription to be fulfilled or waived pursuant to the subscription agreement and the completion date will be extended to 31 March 2018. On 28 March 2018, the Subscriber and the Company entered into a deed of termination, pursuant to which it was agreed among the parties that the subscription agreement (as supplemented by the supplemental letter dated 29 December 2017) would be terminated with effect from 28 March 2018 and the Subscriber will not proceed with the Subscription with effect from the deed of termination. For details, please refer to the announcements of the Company dated 17 October 2017, 29 December 2017, 3 January 2018 and 28 March 2018 respectively.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had a total staff of 36 (2016: 18). Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonus payments are discretionary and determined according to the Group's performance and the performance of the individual employees. Benefits include retirement schemes, medical and dental insurance and share option scheme.

FINAL DIVIDEND

The Directors have not recommended the payment of a dividend for the financial year ended 31 December 2017 (2016: Nil).

PROSPECTS

The year 2018 is crucial to the building of a moderately prosperous society under the "13th Five-Year Plan". It is also a critical period for promoting cultural prosperity. Through a variety of policies and measures that are favourable to the culture industry, the PRC government aims at enriching people's spiritual lives and improving qualities of people and degree of civilisation. In the new normal economy, the disposal income of PRC residents has been on the rise, which will provide strong momentum for the continuous growth of domestic spending. It is worth noting that the Internet has changed the spending pattern of consumers, resulting in new consumer demand and the emerging pan-entertainment industry. Therefore, enterprises with extensive film and TV drama entertainment content for production and investment will see unlimited business opportunities and huge growth potential.

In 2018, the PRC film market took off with flying colours and domestic films achieved excellent box office performance. The accumulated box office was approximately RMB10.0 billion during the Chinese Lunar New Year, representing an increase of 68% as compared to RMB3.38 billion for the same period last year. As compared to a decade ago, the box office has grown by 3,564% from RMB155 million for 2009. Given the thriving film market in the PRC and improving production standards of domestic films, the Group will further develop the principal business and focus on investing and producing films that bring positive messages. Besides, it will seek investment and acquisition opportunities in relation to film and TV drama projects and enterprises in the entertainment industry chain. The Group plans to further expand its know-how and resources in the content creation and distribution business. It will also cooperate with enterprises in the upstream industry chain, establish its own IP product library and carry out pilot tests selectively on high-quality online platforms.

Due to changing lifestyle and consumption upgrade in China, the PRC tourism industry underwent rapid expansion. In late 2016, the PRC government promulgated the “13th Five-Year Plan” for the tourism industry. It defined the development approach of the domestic tourism industry, which shifted the focus from tourist attractions to all-for-one tourism. Besides, it encouraged the integration between tourism and other industries, and set the target of national tourism receipts at 6.4 billion, total tourism revenue at RMB7 trillion and overall GDP contribution of tourism at 12% by 2020, thereby providing huge growth potential for the industry. According to the China Tourism Data Center, the number of visitors increased significantly by 12.8% to 5.001 billion and the total tourism receipts went up 15.1% year-on-year to RMB5.4 trillion in 2017. In view of the fast-growing tourism industry, the Group will pursue innovation and steadily advance the cultural tourism business based on the diversity of Internet plus. It will actively seek for investment opportunities in the pan-entertainment industry, so as to increase sources of income and promote steady sustainable development.

Looking forward, the Group will continue to identify suitable financing channels and investment opportunities, while expanding the business scope. It will also increase investment proportions in film and TV production, entertainment and tourism, diversify sources of income and develop new business models. Apart from creating greater investment return for shareholders, it will evolve into a leader of the culture industry in the PRC and in the Greater China Region.

Biographies of Directors

EXECUTIVE DIRECTORS

Mr. WU Chien-Chiang ("Mr. Wu"), aged 62, appointed as an Independent Non-executive Director on 11 September 2013 and re-designated as an executive Director and appointed as chairman of the Board on 28 July 2017. He has experience of operating media and entertainment business in Taiwan for more than 30 years. He holds offices and positions in the following companies: (i) a director and the general manager of Era Communications Co., Limited; (ii) the chairman and the general manager of Satellite Entertainment Communication Co., Limited; (iii) the chairman and the general manager of Goldsun Communications Co., Limited; (iv) the general manager of Media-Chain International Marketing Co., Limited; (v) the chairman of Era Integrated Marketing Co., Limited; and (vi) the publisher of Trend Media & Publication Limited.

Ms. YAO Qinyi ("Ms. Yao"), aged 36, appointed as an Executive Director on 24 November 2016. She holds a bachelor degree in the department of Electronic Information Engineering from Xi'an Shiyou University in 2004.

She joined Mei Ah Entertainment Group Limited in 2008, and acted as the deputy general manager of Meiya Huatianxia Film Distribution Company Limited, the deputy general manager of Mei Ah Film & TV Culture Limited and the deputy general manager of Mei Ah Theatre Management Limited from 2009 to 2015. Since 2016 to the present, she has been the legal representative, director and general manager of Stellar Mega Films Company Limited; the legal representative, executive director and general manager of Beijing Xingmei Entertainment Distribution Company Limited; and the legal representative of Beijing Xingmei Culture Agency Company Limited.

Ms. Yao is an authorized representative and a director of certain subsidiaries of the Company.

Mr. LI Kai ("Mr. Li"), aged 56, appointed as an executive Director on 9 March 2018. Mr. Li graduated from the Postgraduate School of the China Academy of Social Sciences and has over 20 years of experience in corporate management both in the PRC and the United States.

Mr. Li is an authorised representative and a director of certain subsidiaries of the Company.

Biographies of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. RAO Yong ("Mr. Rao"), aged 59, has been an Independent Non-executive Director since 20 January 2017. He graduated from Guangxi University of Finance and Economics* (廣西財經學院), with a diploma of Business Finance in June 1980. He also obtained a master degree of Economic Management from Party School of Guangdong Province* (廣東省黨校). Mr. Rao is a certified public accountant and an auditor in the PRC.

Mr. Rao worked as a fiscal commissioner at Guangxi Wuzhou Finance Bureau* (廣西梧州市財政局) from June 1980 to May 1984. During the period from June 1984 to December 1990, he served as a section chief at Guangxi Wuzhou Auditing Bureau* (廣西梧州市審計局). From December 1990 to September 1997, he was a director* (處長) of the division at Shenzhen Auditing Bureau* (深圳市梧州市審計局). During the period from September 1993 to September 1997, he held a concurrent post as the head of Shenzhen Auditing Firm* (深圳審核事務所所長). He joined Shenzhen Pengcheng Accounting Firm* (深圳鵬城會計師事務所) as the general manager and the partner in September 1997 and left in August 2012. From August 2012 to present, Mr. Rao worked as the managing partner and the head of Guangdong office of Ruihua Certified Public Accountants* (瑞華會計師事務所). He served as a president of Shenzhen Institute of Certified Public Accountants* (深圳市註冊會計師協會會長) from December 2005 to September 2010 and the vice president of Guangdong Institute of Certified Public Accountants* (廣東省註冊會計師協會副會長) during November 2009 to May 2014, respectively. Mr. Rao was appointed as a member of the Fifth People's Congress of Shenzhen City* (深圳市第五屆人大代表) in May 2010 and a member of the Sixth People's Congress of Shenzhen City* (深圳市第六屆人大代表) and a member of the project budget committee of People's Congress Standing Committee of Shenzhen City* (深圳市人大常務委員會計劃預算委員會委員) in May 2010, respectively.

Mr. Rao is an independent non-executive director, the chairman of audit committee and member of remuneration committee and nomination committee of Kaisa Group Holdings Ltd. (Stock Code: 1638), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Rao is the chairman of both the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

* *For identification purposes only*

Mr. LIU Xianbo ("Mr. Liu"), aged 54, has been an Independent Non-executive Director since 27 August 2013. He holds a law degree from Jiangxi University and a graduate of Southwest University of Political Science & Law in civil and commercial law in the PRC. Mr. Liu has been a practicing lawyer in the PRC for more than 20 years, specializing in finance, real estate, economics, contracts, civil dispute, liquidation and bankruptcy, criminal defence. He currently works at China Commercial Law Co. in the PRC.

Mr. Liu is the chairman of the Nomination Committee and a member of both the Audit Committee and the Remuneration Committee of the Company.

Mr. ZHAO Xuebo ("Mr. Zhao"), aged 53, has been an Independent Non-executive Director since 28 July 2017. Mr. Zhao is currently a professor and a graduate tutor of the Faculty of Journalism and Communication and a part-time tutor of the Faculty of Economics and Management at Communication University of China. Mr. Zhao graduated from Shanxi University and obtained a bachelor degree in philosophy in 1986. He then obtained a master degree in law and a doctoral degree in literature from Communication University of China in 1998 and 2006 respectively. Mr. Zhao has over 30 years of experience in administrative and business management. From 2006 to 2010, he was the director of the dean office and the director of propaganda department of the party committee of Nanguang College, Communication University of China, as well as the deputy director of the Cultural and Creative Industrial Park Administrative Committee of Communication University of China. From 2016 to present, he is also the general manager of Beijing CUC Elite Education Co. Ltd.

Mr. Zhao is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company.

SENIOR MANAGEMENT

The senior management of the Group comprises the executive Directors who held office during the year ended 31 December 2017.

Corporate Governance Report

CORPORATE GOVERNANCE

The board (the "Board") of directors of the Company (the "Directors") and the management are committed to uphold a high standard of corporate governance to safeguard the interests of shareholders of the Company and the Company as a whole.

The Company has adopted the code provision set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the financial year ended 31 December 2017, the Company was in compliance with the code provisions set out in the CG Code except the following deviations:

Code provision A.2.1 of the CG Code provides that the roles and responsibilities of chairman and chief executive officer should be separated. The chief executive officer of the Company has been vacant from 23 October 2013. Until the appointment of new chief executive officer, any two of the executive Directors continue to oversee the day-to-day management of the business and operations of the Group.

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairmen and members of the audit, remuneration and nomination committees of the Company could not attend the annual general meeting of the Company held in June 2017. In addition, all independent non-executive directors could not attend two special general meeting held during the year under review to approve the transactions that required independent shareholders' approval as provided for in the said code provision.

Code provision A.2.7 of the CG Code requires that the chairman of the Board shall at least annually hold meetings with non-executive Directors (including independent non-executive Directors) without the executive Directors present. As Mr. WU Chien-Chiang serves as the Chairman and executive Director concurrently, the code provision does not apply and the Company deviates from such code provision. In addition, the Chairman of the Board is of the view that, the independent non-executive Directors can express their opinions to all executive Directors more directly and effectively at the Board meetings, hence the Board is of the view that the deviation from the code provision does not have material impact on the operation of the Board.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code for Securities Transactions") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Confirmations have been sought from the Directors that they have complied with the required standards set out in the Model Code for Securities Transactions throughout the period from 1 January 2017 or their respective dates of appointment as Directors to 31 December 2017. The Board has also adopted the Model Code for Securities Transactions as guidelines for relevant employees in respect of their dealings in the securities of the Company.

THE BOARD

Role of Directors

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. Every Director is charged to act in the best interest of the Company and contribute to the Company with their expertise and knowledge. The Board decides on overall strategies and monitors the Group's performance on behalf of the shareholders of the Company.

Composition

As at the date of this report, the Board comprises the following Directors:

Executive Directors
Mr. WU Chien-Chiang
Ms. YAO Qinyi
Mr. LI Kai

Independent Non-Executive Directors
Mr. RAO Yong
Mr. LIU Xianbo
Mr. ZHAO Xuebo

The diversified expertise and experience of the independent non-executive Directors contribute significantly in advising management on strategy and policy development. The independent non-executive Directors also serve to ensure that a high standard in financial and other mandatory reporting is maintained and to provide adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole. Having considered the functions of independent non-executive Directors, particularly their role in checks and balances, it is considered that there is a reasonable balance between the executive and non-executive Directors on the Board.

The Directors have no financial, business, family or other material/relevant relationships with each other.

Independent Non-executive Directors

As at the date of this report, Mr. RAO Yong, one of the independent non-executive Directors has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director, a written annual confirmation of their independence and is satisfied with their independence in accordance with the Listing Rules. The Company considers that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

Each of the independent non-executive Directors was appointed for a specific terms of either one or two years.

Appointment and Re-election of Directors

In accordance with the CG Code and the Bye-laws of the Company ("Bye-Laws"), all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. Composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 11 to 13.

During the year and up to the date of this report, Mr. RAO Yong, Mr. YUAN Xin, Mr. HUANG Zhengchao, Mr. ZHAO Xuebo and Mr. LI Kai were appointed as Directors and Mr. Wu Chien-Chiang was re-designated from independent non-executive Director to executive Director. The appointment of the above new directors and the re-designation is a matter for consideration and decision by the full Board. Only the most suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence are considered. During the year, the Board as a whole (with recommendations from the Nomination Committee of the Company) is responsible for approving the appointment of its new members and for recommending appropriate person for election or re-election pursuant to the Bye-Laws for shareholders' approval at the annual general meeting.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code provides that the roles and responsibilities of chairman and chief executive officer should be separated.

The chief executive officer of the Company has been vacant from 23 October 2013. Until the appointment of new chief executive officer, any two of the executive Directors continue to oversee the day-to-day management of the business and operations of the Group and are responsible for effective implementation of the overall strategies and initiatives adopted by the Board as well as the daily operations of the Group.

The Chairman is responsible for ensuring that the Board is functioning properly, with good corporate governance practices and procedures. He also steers the Board and the Company towards corporate goals.

The Chairman seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

Directors' Duties

The Directors are continually updated with the regulatory requirements, business activities and development of the Company to facilitate the discharge of their responsibilities. Through regular Board meetings, all Directors are kept abreast of the conduct, business activities and development of the Company.

Corporate Governance Function

The Board is also responsible for performing the corporate governance duties as required under the CG Code. The roles and functions of the Board in respect of corporate governance function are set out in code provision D.1.3 of the CG Code.

The Board had considered the following corporate governance matters for the year ended 31 December 2017:

– Reviewed the policies and procedures adopted by the Company.

– Reviewed the compliance with the CG Code and disclosure of this corporate governance report.

Board Delegation

The Board is responsible for setting overall corporate strategies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. Senior management members are responsible for effective implementation of the Board's decisions and the day-to-day operations of the Group.

Board Process

During the year ended 31 December 2017, the Board has scheduled meetings at regular interval and additional board meetings were held as and when necessary. The Directors participated in person or through electronic means of communication. The attendance of each Director at board meetings and general meetings during the year are set out as follows:

Name of Directors	Number of Board meetings attended/ Number of Board meetings eligible to attend	Number of general meetings attended/ Number of general meetings eligible to attend
Executive Directors		
Mr. WU Chien-Chiang *(Chairman)* *(re-designated from independent non-executive director to executive director and appointed as Chairman on 28 July 2017)*	21/23	1/3
Mr. LI Kai *(appointed on 9 March 2018)*	N/A	N/A
Ms. YAO Qinyi	22/23	3/3
Mr. KONG Dalu *(resigned on 9 March 2018)*	22/23	0/3
Mr. YUAN Xin *(appointed on 6 April 2017 and resigned on 9 March 2018)*	15/19	0/3
Mr. HUANG Zhengchao *(appointed on 29 June 2017 and resigned on 13 February 2018)*	7/15	0/1
Mr. ZHONG Naixiong *(ex-chairman)* *(resigned on 28 July 2017)*	2/15	1/2
Independent Non-Executive Directors		
Mr. LIU Xianbo	21/23	0/3
Mr. RAO Yong *(appointed on 20 January 2017)*	20/23	0/3
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*	6/8	0/1
Mr. DU Jiang *(resigned on 20 January 2017)*	N/A	N/A

Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquiries if necessary. A Director of the Company who considers it necessary to seek independent professional advice in order to perform his/her duties as a Director of the Company may convene, or request the Company Secretary of the Company to convene, a meeting of the Board to approve the consultation of independent legal or other professional advisor for advice. For regular Board meetings, an agenda and accompanying board papers of the meeting are sent in full to all Directors well in advance.

Every Director is entitled to have access to the advice and services of the company secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the designated secretary and are open for inspections by any Director during normal office hours by giving reasonably advance notice. Minutes of Board meetings and Board committees meetings record in sufficient details the matters considered in the meetings and decisions reached. Draft and final versions of minutes of Board meetings have been sent to all Directors for their comments and record respectively within a reasonable time after the relevant meeting was held.

If a substantial shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference, which are of no less exact terms than those set out in the CG Code.

Remuneration Committee

As at the date of this report, the Chairman of the Remuneration Committee is Mr. RAO Yong and other members are Mr. LIU Xianbo and Mr. ZHAO Xuebo, all are independent non-executive Directors. The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for non-executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the market standard. Individual Director and senior management would not be involved in deciding their own remuneration. The specific written terms of reference which follows closely the requirements of the code provisions of the CG Code have been adopted by the Board.

During the year ended 31 December 2017, the Remuneration Committee held five meetings, with attendance record as follows:

Name of Members	**Number of meetings attended/ Number of meetings eligible to attend**
Mr. RAO Yong *(Chairman)* *(appointed on 20 January 2017)*	4/4
Mr. LIU Xianbo	5/5
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*	N/A
Mr. WU Chien-Chiang *(ceased on 28 July 2017)*	5/5
Mr. DU Jiang *(resigned on 20 January 2017)*	0/1

During the year ended 31 December 2017, the Remuneration Committee reviewed matters relating to remuneration packages of executive directors and senior management and new candidates as well as their service contracts (if any), remuneration of non-executives and made recommendation to the Board for approval. The model set out in code provision B.1.2(c)(ii) of the CG Code has been adopted by the Remuneration Committee.

The remuneration of the senior management (including former and existing executive Directors) fell within the following band:

	Number of Senior Management
Nil-HK$1,000,000	9
HK$1,000,001-HK$2,000,000	2

Audit Committee

As at the date of this report, the Chairman of the Audit Committee is Mr. RAO Yong and other members are Mr. LIU Xianbo and Mr. ZHAO Xuebo, all are independent non-executive Directors. The Audit Committee is to oversee the Group's financial reporting system and internal control procedures, and to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with the applicable standard. Other duties of the Audit Committee are set out in its specific written terms of reference which deal clearly with their authority and duties.

During the year ended 31 December 2017, the Audit Committee held two meetings with attendance record as follows:

Name of Members	**Number of meetings attended/ Number of meetings eligible to attend**
Mr. RAO Yong *(Chairman)* *(appointed on 20 January 2017)*	2/2
Mr. LIU Xianbo	2/2
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*	1/1
Mr. WU Chien-Chiang *(ceased on 28 July 2017)*	1/1
Mr. DU Jiang *(resigned on 20 January 2017)*	N/A

At the meetings, the Audit Committee has reviewed the audited financial statements for the financial year ended 31 December 2016 with senior management and the Company's external auditors and the interim report for the six months ended 30 June 2017. The Audit Committee has also reviewed the Group's accounting policies and practices, the Listing Rules and statutory compliance, risk management, internal controls and financial reporting matters. During the year, the Audit Committee met representatives of the auditors twice to discuss matters relating to fees and audit/review findings, etc.

Nomination Committee

As at the date of this report, the Chairman of the Nomination Committee is Mr. LIU Xianbo and other members are Mr. RAO Yong and Mr. ZHAO Xuebo, all being independent non-executive Directors. The Nomination Committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Other duties of the Nomination Committee are set out in its specific written terms of reference which deal clearly with their authority and duties.

During the year and up to the date of this report, Mr. RAO Yong, Mr. YUAN Xin (resigned on 9 March 2018), Mr. HUANG Zhengchao (resigned on 13 February 2018), Mr. ZHAO Xuebo and Mr. LI Kai were appointed as directors of the Company and Mr. WU Chien-Chiang was re-designated from independent non-executive Director to executive Director. In considering the above new appointment of directors and the re-designation of director, the Nomination Committee assessed the candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively and independent factors under the Listing Rules, etc. and made recommendation to the Board for approval. The Nomination Committee reviewed the board diversity policy.

As at the date of this report, the Nomination Committee also nominated and the Board recommended (i) Mr. WU Chien-Chiang and Mr. RAO Yong, will retire by rotation at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election by shareholders of the Company at the forthcoming annual general meeting; and (ii) Mr. LI Kai who was appointed by the Board on 9 March 2018, will retire at the forthcoming annual general meeting and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

During the year ended 31 December 2017, the Nomination Committee held five meetings with attendance record as follows:

Name of Members	Number of meetings attended/ Number of meetings eligible to attend
Mr. LIU Xianbo *(Chairman)*	5/5
Mr. RAO Yong *(appointed on 20 January 2017)*	4/4
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*	N/A
Mr. WU Chien-Chiang *(ceased on 28 July 2017)*	5/5
Mr. DU Jiang *(resigned on 20 January 2017)*	0/1

Board Diversity Policy

The Company has formulated the board diversity policy in August 2013 aiming at setting out the approach on diversity of the Board of the Company.

The Board recognizes the importance of having a diverse Board in enhancing the board effectiveness and corporate governance. A diverse Board will include and make good use of differences in the skills, industry knowledge and experience, education, background and other qualities, etc. of Directors and does not discriminate on the ground of race, age, gender or religious belief. These differences will be taken into account in determining the optimum composition of the Board and when possible should be balanced appropriately.

The Nomination Committee has responsibility for identifying and nominating for approval by the Board, candidates for appointment to the Board. It takes responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the Board and assessing the extent to which the required skills are represented on the Board and reviewing effectiveness of the Board.

The Nomination Committee is also responsible for reviewing and reporting to the Board in relation to Board diversity.

Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates to join the Board will be, in part, dependent on the pool of candidates with the necessary knowledge, experience, skills, educational background and other qualities. The final decision will be based on merit and contribution the chosen candidate will bring to the Board.

The Board considers that Board diversity, including gender diversity, is a vital asset to the business.

At present, the Nomination Committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable objectives from time to time.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

The Directors who held office during the year ended 31 December 2017 have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2017 to the Company. The management provided induction materials to the Directors appointed during the year.

The individual training record of each current Director who held office during the year ended 31 December 2017 is set out below:

Name of Directors	**Attending or participating in seminars/ conference/ workshops relevant to rules and regulations and the Group's business/ directors' duties**	**Reading materials relating to rules and regulations and discharge of directors' duties and responsibilities**
Mr. WU Chien-Chiang *(Chairman)*		✓
Ms. YAO Qinyi	✓	✓
Mr. LIU Xianbo		✓
Mr. RAO Yong *(appointed on 20 January 2017)*		✓
Mr. ZHAO Xuebo *(appointed on 28 July 2017)*		✓
Mr. LI Kai *(appointed on 9 March 2018)*	N/A	N/A
Mr. KONG Dalu *(resigned on 9 March 2018)*		✓
Mr. YUAN Xin *(appointed on 6 April 2017 and resigned on 9 March 2018)*		✓
Mr. HUANG Zhengchao *(appointed on 29 June 2017 and resigned on 13 February 2018)*		✓
Mr. ZHONG Naixiong *(ex-chairman)* *(resigned on 28 July 2017)*		✓
Mr. DU Jiang *(resigned on 20 January 2017)*		✓

COMPANY SECRETARY

During the year, Ms. MUI Ngar May ("Ms. Mui") was the Company Secretary. Ms. Mui is not an employee of the Company and is from an external company secretarial services provider which has been engaged to provide company secretarial services to the Company.

According to Rule 3.29 of the Listing Rules, Ms. Mui had taken not less than 15 hours of relevant professional training for the year ended 31 December 2017.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 31 December 2017, the remuneration to the auditor of the Company charged to income statement were approximately HK$4.4 million for audit services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The management provides the explanation and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2017 and of the Group's profits and cash flows for the year then ended. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgements and estimates made are prudent and reasonable. In preparing the financial statements for the financial year ended 31 December 2017, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as going concern. The Board has prepared the financial statements on a going concern basis. The action plan taken by the Company to address the audit modification are set out note 3b to the financial statements. The Group is also considering possible equity fund raising opportunities and other fund raising alternatives following the placing of shares of Raising Elite Limited was fallen through in March 2018. However, the Board considers that it is prudent to finance the funding needs of the Group in the form of equity as it will not increase the finance costs and interest burden of the Group.

View of Audit Committee

The Audit Committee agreed with the Audit Modification and confirmed that it had reviewed and agreed with the management's position on preparing the financial statements on a going concern basis due to reasons specified in note 3b to the financial statements.

The Audit committee agrees with and is confident at the action plans mentioned above. The Audit Committee believes the company does not have any going concern issue.

The Audit Committee would recommend the directors of the Company to consider and negotiate the feasible financing measures (including those as set forth above) to improve the Group's liquidity and financial position so as to fulfil its financial position so as to fulfil its financial obligations as and when they fall due.

The reporting responsibilities of external auditor of the Company are disclosed in "Independent Auditor's Report" set out on pages 42 to 51 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems of the Group. The scope of the review is determined and recommended by the Audit Committee and approved by the Board annually. The review covers all material controls, including financial, operational and compliance controls and risks management. Such annual review also considers the adequacy of resources, staff's qualifications and experience and training programmes and budget of the Company's accounting and financial reporting function. The internal control review function reports directly to the Chairman of the Audit Committee. Regular internal control review reports are circulated to the Audit Committee members and the Board in accordance with the approved scope.

During the year ended 31 December 2017, management has conducted regular review on the effectiveness of the risk management and internal control systems covering all material controls in area of financial and compliance controls and various functions for risks management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls and risk management for the year ended 31 December 2017. The Audit Committee is satisfied that the risk management and internal control systems maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained.

Risk management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented – principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group – regular meetings with each business unit to ensure principals risk are properly managed, and new or changing risks are identified; and

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal controls – consideration of the Audit Committee's recommendation.

In addition, the Group has an internal audit team. Such risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure the maintenance of proper accounting records, to ensure compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

The Audit Committee also had regular meetings with the external auditor and reviewed the reports by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations of the external auditor to remedy the control issues identified or to further improve the internal control system.

The Board formed its own view on the effectiveness of the systems based on the recommendation of the Audit Committee.

In respect of the year ended 31 December 2017, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

In addition, an independent professional firm has been engaged to review and assess certain internal control system of the Group for the year ended 31 December 2017 and reported the review and recommended procedures whereas no material control failure was noted.

Dissemination of Inside Information

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

COMMUNICATION WITH SHAREHOLDERS

Effective Communication

The Company discloses relevant information to shareholders through the Company's annual report and financial statements, the interim report, as well as the annual general meeting (the "AGM"). The section under "Management Discussion and Analysis" of the annual report facilitate the shareholders' understanding of the Company's activities. The AGM allows the Directors to meet and communicate with shareholders. The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

During the year ended 31 December 2017, the Company held the AGM in June 2017 (the "2017 AGM") and two special general meetings in April and October 2017 respectively ("2017 SGMs").

The chairman of the 2017 AGM and 2017 SGMs had explained the procedures for conducting a poll. At the 2017 AGM and 2017 SGMs, separate resolution was proposed by the chairman of the meeting in respect of each separate issue, including re-election of retiring directors at the 2017 AGM, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The executive Directors and representatives of the then external auditor Messrs. Deloitte Touche Tohmatsu, attended the 2017 AGM and have effective communication with shareholders. Besides, the Company held 2017 SGMs to consider and approve mainly about (i) issue of shares pursuant to the subscription agreement and the placing agreement, both dated 24 January 2017, (ii) the re-appointment/re-election of directors, and (iii) issue of consideration shares. The executive Directors attended the said general meetings to answer related questions.

To manage its relationship with investment community, the Group meets regularly with the press and financial analysts and participates frequently in other conferences and presentations.

To further promote effective communication, the corporate website is maintained to disseminate Company announcements and other relevant financial and non-financial information electronically on a timely basis.

The Company has established a shareholders' communications policy.

Shareholders' Rights

An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called a special general meeting under the Bye-Laws.

Shareholders to Convene a Special General Meeting

Pursuant to the Bye-laws and the Bermuda Companies Act, the Board shall, on the requisition of shareholders holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company (the "Registered Office"), which is presently situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and may consist of several documents in like form each signed by one or more requisitionists.

If the Board does not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionist, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

The procedures that shareholders can use for proposing a person for election as Director at general meeting are set out in the document entitled "Procedures for a Shareholder to Propose a Person for Election as a Director", which is currently available on the Company's website.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting forward Proposals by Shareholders at Shareholders' Meeting

Pursuant to the Bermuda Companies Act, either any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to (a) give to shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and (b) circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition signed by all the requisitionists must be deposited at the Registered Office with a sum reasonably sufficient to meet the Company's relevant expenses, not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution; and not less than one week before the meeting in the case of any other requisition. Provided that if, an annual general meeting is called for a date six weeks or less after the requisition has been deposited, the requisition though not deposited within the time required shall be deemed to have been properly deposited for the purposes thereof.

The above procedures are subject to Bye-Laws and applicable laws and regulations.

Voting by Way of Poll

Pursuant to Rule 13.39(4) of the Listing Rules and the Bye-Laws, all votes of the shareholders at the AGM or general meetings must be taken by poll. Relevant details of the proposed resolutions, including biographies of each retiring Director standing for re-election, were included in the circular to shareholders dispatched together with the proxy forms. The Company announced the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

Constitutional Document

The memorandum of association and Bye-Laws of the Company have been published on the websites of the Stock Exchange and the Company.

There is no significant change in the Company's constitutional documents during the year ended 31 December 2017.

Hong Kong, 29 March 2018

Report of the Directors

The Directors submit herewith their report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the investments in the production and distribution of films, investments in the production and distribution of television dramas, creations, production and distribution of new media contents, production and distribution of online and film advertisements and agency operations for films, directors, scriptwriters and artists, and travel business.

The particulars of the subsidiaries are set out in note 34 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Company, a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company's business are provided in the "Management Discussion and Analysis" from pages 7 to 10 of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is provided in "Financial Summary" on page 132 in this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in notes 5, 40 and 41 to the financial statements. Particulars of important events affecting the Company that have occurred since the end of the financial year 2017 can be found in note 42 to the financial statements. Discussion on the Group's environmental policies and performance, compliance with laws and regulations and relationship with employees, customers and suppliers are set out in other sections in this Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to building an eco-friendly corporation that tries to reduce the impacts of its operation on the environment.

Currently, the Group implements the following paper-saving measures:

(a) employees are encouraged to use duplex printing for internal documents;

(b) facilities and procedures are in place for paper waste recycling; and

(c) the Group had strived for long to establish a paperless office by using electronic storage and communication whenever possible.

The Group took different measures to minimize environmental impact by saving electricity and encouraging recycle of office supplies and other material.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's investments are mainly carried out by the Company's subsidiaries established in the British Virgin Islands, the PRC and Hong Kong while the Company itself is incorporated in the Cayman Islands and continued in Bermuda with its shares listed on the main board of the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in Bermuda, the British Virgin Islands, the PRC and Hong Kong.

During the year ended 31 December 2017 and up to the date of this annual report, we have complied with all the relevant rules, laws and regulations in Bermuda, the British Virgin Islands, the PRC and Hong Kong that have a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

As the Group principally engages in media sector, the Group has always paid great attention to and maintained a good relationship with, and has been providing quality professional and customer-oriented services for customers. Since the nature of business of the Group, no specific suppliers will be involved in the operation of business. The aforementioned customers are good working partners creating value for the Group. The Group also values the knowledge and skills of its employees, and continues to provide favourable career development training and education opportunities for its employees.

FINANCIAL STATEMENTS

The profits of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 52 to 131.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 30 to the financial statements.

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

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the year ended 31 December 2017.

RESULTS AND RESERVES

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 52 to 53 of the annual report. The movements in reserves are set out in the consolidated statement of changes in equity on pages 56 to 57 of the annual report.

The Directors do not recommend the payment of a final dividend for the financial year ended 31 December 2017 (2016: Nil).

CHARITABLE DONATIONS

During the financial year ended 31 December 2017, no charitable donations were made by the Group (2016: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2017 is set out on page 132 of the annual report.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 16 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors

Mr. WU Chien-Chiang *(Chairman)*
(re-designated from independent non-executive director to executive director and appointed as Chairman on 28 July 2017)
Ms. YAO Qinyi
Mr. LI Kai
(appointed on 9 March 2018)
Mr. KONG Dalu
(resigned on 9 March 2018)
Mr. YUAN Xin
(appointed on 6 April 2017 and resigned on 9 March 2018)
Mr. HUANG Zhengchao
(appointed on 29 June 2017 and resigned on 13 February 2018)
Mr. ZHONG Naixiong *(ex-Chairman)*
(resigned on 28 July 2017)

Independent Non-Executive Directors

Mr. RAO Yong
(appointed on 20 January 2017)
Mr. LIU Xianbo
Mr. ZHAO Xuebo
(appointed on 28 July 2017)
Mr. WU Chien-Chiang
(re-designated as executive director on 28 July 2017)
Mr. DU Jiang
(resigned on 20 January 2017)

As at the date of this report, (i) in accordance with Bye-Law 84(1) of the Bye-Laws, Mr. WU Chien-Chiang, and Mr. RAO Yong will retire by rotation and being eligible, offer themselves for re-election at the AGM; and (ii) in accordance with Bye-Law 83(2) of the Bye-Laws, Mr. LI Kai will retire forthcoming and be eligible, offer himself for re-election at the forthcoming AGM.

None of the Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

Changes of Directors' Information under Rule 13.51B(1) of the Listing Rules

Save as disclosed herein, the Company is not aware of any other change in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2017 interim report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange and as known to the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements, or contracts of significance, to which the Company or its subsidiaries, its parent company (if any) or its fellow subsidiaries (if any), was a party, and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses as at 31 December 2017 which are required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

Name of directors	Name of entity the businesses in which are considered to compete or likely to compete with the businesses of the Group	Description of the businesses of the entity which are considered to compete or likely to compete with businesses of the Group	Nature of interest of the director in the entity
Mr. WU Chien-Chiang *(Chairman and Executive Director)*	Era Communications Co Ltd.	TV program production (The likely "Competing Business")	As general manager
Ms. YAO Qinyi *(Executive Director)*	Stellar Mega Films Company Limited	Investment in movie production (The likely "Competing Business")	As the legal representative, director and general manager
	Beijing Xingmei Entertainment Distribution Company Limited	Investment in movie distribution (The likely "Competing Business")	As the legal representative, executive director and general manager
	Beijing Xingmei Culture Agency Company Limited	Models agency and event planning and production (The likely "Competing Business")	As the legal representative

The Board is of the view that the Group is capable of carrying on its business independently of the Competing Business. When making decisions on the television investment, production and distribution of the Group, the above Director, in the performance of his duties as Director, has acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors of the Company has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

PERMITTED INDEMNITY PROVISION

The Bye-Laws provides that directors shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they are or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme by written resolutions of the shareholders passed on 13 June 2004 (the "old share option scheme") which would be expired on 13 June 2014. The Company terminated the old share option scheme and adopted a new share option scheme (the "new share option scheme") pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 6 June 2014.

Pursuant to the new share option scheme the Directors may, at their discretion, invite any full time or part time employees and Directors, consultants and advisers of the Group (subject to the eligibility requirements as set out therein) to take up options which entitle them to subscribe for shares representing up to a maximum in nominal value of 30% of the issued share capital of the Company from time to time. The total number of shares available for issue under the new share option scheme and other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of adoption of the new share option scheme unless further shareholders' approval has been obtained. The total number of shares to be issued upon exercise of the options to be granted (including both exercised and outstanding options) in any 12 months' period up to the date of grant to a substantial shareholder or an independent non-executive Director or their associates would not exceed 0.1% of the shares in issue or an aggregate value of HK$5,000,000 unless further shareholders' approval has been obtained; and to each other eligible person would not exceed 1% of the shares in issue. The purpose of the new share option scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full time and part time), Directors, consultants and advisers of the Group and to promote the success of the business of the Group. The new share option scheme shall be valid and effective for a period of ten years from 6 June 2014 (the "Scheme Period"). The exercise price of options shall be determined by the Board and shall not be less than the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options and the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer and the nominal value of a share of the Company. An option may be exercised at any time during a period being not more than ten years from the date of grant and expiring at the close of business on the last day of such period but subject to the provisions of early termination hereof. There is no specific minimum period under the new share option scheme for which an option must be held or the performance target which must be achieved before an option can be exercised.

During the year ended 31 December 2017, no options were outstanding, granted, exercised, cancelled or lapsed under the new share option scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, its parent company (if any), or any of its subsidiaries or fellow subsidiaries (if any) a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

The interests and short positions of those persons (other than a Director or chief executive of the Company disclosed above) in the shares and underlying shares of the Company as at 31 December 2017, which have been notified to the Company and recorded in the register required to be kept under Section 336 of the SFO or as known to the Company were as follows:

Long Position in shares and underlying shares of the Company

Name of substantial shareholders	Capacity	Number of shares interested	Number of underlying shares interested pursuant to convertible bonds (Note 3)	Approximate percentage of total issued shares as at 31 December 2017
SMI Investment (HK) Limited (Note 1)	Beneficial owner	816,860,517	–	62.07%
Ever Ascend Investments Limited ("Ever Ascend") (Note 2)	Beneficial owner	9,072,037	111,111,112	9.13%

Name of substantial shareholders	Capacity	Number of shares interested	Number of underlying shares interested pursuant to convertible bonds (Note 3)	Approximate percentage of total issued shares as at 31 December 2017
Raising Elite Limited (Note 4)	Beneficial owner	188,678,203	–	14.34%
Li Xiaobin (Note 4)	Interest in controlled corporation	188,678,203	–	15.86%
	Beneficial owner	20,000,000	–	

Note 1: SMI Investment (HK) Limited is wholly-owned by SMI Holdings Group Limited ("SMI Holdings"). SMI Holdings is owned directly or indirectly as to approximately 65.01% by Mr. Qin Hui himself. Accordingly, each of Mr. Qin Hui and SMI Holdings is deemed to be interested in the 816,860,517 shares held by SMI Investment (HK) Limited under the SFO.

Note 2: Ever Ascend is wholly-owned by Huarong International Financial Holdings Limited ("Huarong Financial") through Linewear Assets Limited. Camellia Pacific Investment Holding Limited, a corporation wholly-owned by China Huarong International Holdings Limited ("China Huarong"), held 51% interest in Huarong Financial. China Huarong is owned as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") and as to 88.1% by Huarong Read Estate Co., Ltd. ("Huarong Real Estate") whereas each of Huarong Zhiyuan and Huarong Real Estate is wholly-owned by China Huarong Asset Management Co., Ltd. ("Huarong Asset Management"). Ministry of Finance of the PRC (中華人民共和國財政部) is the direct controlling shareholder (holding 63.36%) of Huarong Asset Management. Accordingly, each of Linewear Assets Limited, Huarong Financial, Camellia Pacific Investment Holding Limited, China Huarong, Huarong Real Estate, Huarong Asset Management and Ministry of Finance of the PRC (中華人民共和國財政部) is deemed to be interested in the 9,072,037 shares and the 111,111,112 underlying shares in the Company through unlisted equity derivatives with physically settled as those owned by Ever Ascend by virtue of the SFO.

Note 3: The terms of the convertible bonds for underlying shares are set out in the announcement made by the Company on 8 August 2016 and 5 September 2016.

Note 4: Raising Elite Limited is wholly-owned by Mr. Li Xiaobin and, therefore, Mr. Li Xiaobin is deemed to be interested in the 188,678,203 shares held by Raising Elite Limited under the SFO.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other persons who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The transactions of service income of online ticketing thereon set out in note 37(b) fall under Rules 14A.76 of the Listing Rules and are exempted from reporting, announcement and independent shareholders' approval requirements in the Listing Rules.

The transaction of acquisition of 100% equity interest of the SMI Entertainment Group sets out in note 37(b) to the financial statements which is in existence or entered into during the financial year ended 31 December 2017 fall under the definition of connected transactions in accordance with Chapter 14A of the Listing Rules as a one-off connected transaction (Please refer to the announcements dated 24 July 2017 and 31 October 2017 for details).

Except for above transactions mentioned, none of the related party transactions disclosed in note 37 to the consolidated financial statements constituted a one-off connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (where applicable) with respect to the connected transactions and continuing connected transactions entered into by the Company for the financial year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-Laws or the laws in Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS

The aggregate turnover attributable to the Group's five largest customers accounted for approximately 89% (2016: 93%) and the largest customer accounted for approximately 35% (2016: 47%) of the Group's total turnover for the financial year ended 31 December 2017.

At no time during the year have the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITOR

Deloitte Touche Tohmatsu resigned as auditor of the Company on 22 February 2018 and had not commenced any audit work on the consolidated financial statements of the Company for the year ended 31 December 2017.

BDO Limited ("BDO") was appointed as auditor of the Company on 22 February 2018 and the consolidated financial statements of the Company for the year ended 31 December 2017 were audited by BDO. BDO will retire at the next AGM and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of BDO as auditor of the Company will be proposed at the next AGM.

On behalf of the Board of Directors of
SMI Culture & Travel Group Holdings Limited

WU Chien-Chiang
Chairman

Hong Kong, 29 March 2018

Independent Auditor's Report

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TO THE SHAREHOLDERS OF SMI CULTURE & TRAVEL GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of SMI Culture & Travel Group Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 52 to 131, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3b in the consolidated financial statements, which indicates that the Group has incurred a loss of approximately HK$133,914,000 for the year ended 31 December 2017 and at the end of reporting period, included in the current assets, the amount of HK$996,543,000 was the balance of inventories and film rights investments which are not readily convertible to cash. However, under the current liabilities, the amount of HK$572,123,000 was the balance of loan notes, convertible loan notes and embedded derivatives which will be matured in August 2018 and October 2018. As stated in Note 3b, these events and conditions, along with other matters as set forth in Note 3b indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 matter

Impairment assessment of intangible assets

Refer to notes 4 and 19 to the consolidated financial statements

In determining the impairment of ticketing platform and purchased license rights, management assessed the recoverable amounts of the ticketing platform and purchased license rights based on their fair value determined with reference to the valuation carried out by a management's valuation expert, which is a professional valuer. The fair value is based on market data from comparable guideline companies taking into account adjusting factors including cost of equity, expected market return and other adjusting factors of the ticketing platform and purchased license rights.

The Group's ticketing platform and purchased license rights as at 31 December 2017 amounted to HK$54,075,000 and HK$61,148,000, respectively. During the year ended 31 December 2017, no impairment loss of ticketing platform was recognised in profit or loss and, impairment loss of purchased license rights amounting to HK$9,318,000 was recognised in profit or loss.

We identified the impairment assessment of ticketing platform and purchased license rights as a key audit matter because the assessment of impairment entailed a significant degree of management judgement.

Our response:

Our procedures in relation to management's impairment assessment of intangible assets which included:

– evaluating management's impairment assessment process, including identifying of impairment indicators of the ticketing platform and purchased license rights, valuation model adopted, key assumptions used and involvement of management's valuation expert;

– evaluating the competence, capabilities and objectivity of the management's valuation expert;

– evaluating the appropriateness of the market data and adjusting factors used by the professional valuer; and

– evaluating the sufficiency and appropriateness of the relevant disclosures of impairment assessment in the consolidated financial statements.

Key audit matter

Provision of inventories

Refer to notes 4 and 20 to the consolidated financial statements

The estimated selling prices are determined with reference to a valuation performed by management's valuation expert, which is a professional valuer, on an individual basis for each script, synopsis and editing/ publishing rights, taking into account the market information on estimated selling prices adjusted for factors such as authorship, length of the works, historical trends on marketability of the works.

As at 31 December 2017, the carrying amount of inventories was HK$185,926,000 (net of provision of HK$264,334,000). During the year ended 31 December 2017, a provision of inventories of HK$9,819,000 was recognised in profit or loss.

We identified the provision of inventories as a key audit matter because assessment of the provision entailed a significant degree of management judgement.

Our response:

Our procedures in relation to management's assessment of the provision of inventories which included:

- obtaining an understanding of management's provision assessment process, including identifying of impairment indicators of inventories, valuation model adopted, key assumptions used, adjusting factors adopted and involvement of the management's valuation expert;
- evaluating the competence, capabilities and objectivity of the management's valuation expert;
- evaluating the reasonableness of estimated selling prices and adjusting factors based on the available market data; and
- evaluating the accuracy of the historical estimated selling prices by comparing with the actual sales, and verifying whether the actual selling price is supported by relevant agreements.

Key audit matter

Impairment of trade receivables and other receivables

Refer to notes 4 and 22 to the consolidated financial statements

In determining the impairment of trade receivables and other receivables, the recoverability of the trade receivables and other receivables is assessed by management taking into account the credit history of the customers including default or delay in payments, settlement records during the year, subsequent settlement and aging analysis of the trade receivables and other receivables.

The carrying amount of the trade receivables and other receivables was approximately HK$149,469,000 and HK$164,621,000 as at 31 December 2017, respectively. During the year ended 31 December 2017, no impairment loss of trade receivables was recognised in profit or loss, and impairment loss of other receivables amounting to HK$52,472,000.

We identified the impairment of trade receivables and other receivables as a key audit matter because the assessment of the potential impairment of trade receivables and other receivables entailed a significant degree of management judgement.

Our response:

Our procedures in relation to management's assessment of impairment of trade receivables and other receivables which included:

– obtaining an understanding of management's impairment assessment process on trade receivables and other receivables;

– understanding and testing the key controls relating to the preparation of the aging analysis of trade receivables and other receivables;

– testing the accuracy of the aging analysis of trade receivables and other receivables, by tracing a sample basis, to relevant document;

– identifying any impairment indicators of trade receivables and other receivables by reference to the settlement records during the year and the post year and subsequent settlement;

– tracing a sample of the settlement during the year to bank receipts; and

– tracing a sample of the post year end subsequent settlements to bank receipts.

Key audit matter

Valuation of embedded derivatives

Refer to notes 4 and 27 to the consolidated financial statements

In determining the fair value of embedded derivatives, management engaged a management's valuation expert, which is a professional valuer to perform the valuation. The fair value of embedded derivatives is estimated based on binomial option pricing model and the key inputs of the estimation are the stock price, volatility and risk-free interest rate.

The carrying amount of the embedded derivatives totalled approximately HK$14,585,000 as at 31 December 2017.

We identified the valuation of embedded derivatives as a key audit matter because the estimation of fair values is complex and entailed a significant degree of management judgement.

Our response:

Our procedures in relation to management's assessment of valuation of embedded derivatives which included:

- evaluating the competence, capabilities and objectivity of the management's valuation expert;
- evaluating the appropriateness of the valuation methodologies, and evaluating the reasonableness on the key inputs used including the discount rate, stock price, volatility and risk-free interest rate; and
- evaluating the potential impact in relation to the reasonably possible change in the stock prices of the Company's shares determined by the management's valuation expert.

Key audit matter

Impairment assessment of goodwill

Refer to notes 4, 17 and 18 to the consolidated financial statements

In determining the impairment of goodwill, management had to compare the recoverable amount and carrying amount of the relevant cash generating units at the end of the reporting period. Significant judgment and assumptions were required by the management of the Group in assessing the recoverable amounts of the cash generating units. The recoverable amounts of the cash generating units are estimated with reference to the value in use and the key input used in the estimation is the discount rate and growth rate during the period in order to derive the net present value of the discounted future cash flow analysis.

The carrying amount of the goodwill was approximately HK$95,721,000 as at 31 December 2017. During the year ended 31 December 2017, impairment loss of HK$11,885,000 was recognised in profit or loss.

We identified the impairment assessment of goodwill as a key audit matter because the assessment of the significant degree of judgement and estimation made by management.

Our response:

Our procedures in relation to management's assessment of impairment of goodwill which included:

– evaluating the appropriateness of the valuation methodologies, and evaluating the reasonableness on the key inputs used including market data and adjusting factors used by the management;

– assessing future revenue and margins and the historical accuracy of the management's estimates and considering its ability to produce accurate forecasts; and

– evaluating the sensitivity in the valuation resulting from changes to the key assumptions applied and comparing these assumptions to corroborating information, including PRC Market value and data from competitors.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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 misstatements, 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.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with terms of our engagement, 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 the Audit Committee, 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 the Audit Committee 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 the directors, 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.

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659
Hong Kong, 29 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	6	**134,948**	548,429
Cost of sales		**(79,085)**	(340,313)
Gross profit		**55,863**	208,116
Other revenue	7	**79**	36,174
Other expenses		**(8,150)**	(11,312)
Impairment losses recognised in respect of:			
– goodwill	18	**(11,885)**	–
– intangible assets	19	**(9,318)**	(13,713)
– other receivables	22	**(52,472)**	–
– film rights investments	21	**(6,490)**	–
Fair value change of the embedded derivatives	27	**28,989**	(61,696)
Provision for inventories	20	**(9,819)**	(4,155)
Selling expenses		**(41)**	–
Administrative expenses		**(34,583)**	(31,122)
Finance costs	8	**(71,650)**	(47,931)
(Loss)/profit before income tax expense		**(119,477)**	74,361
Income tax expense	9	**(14,437)**	(47,920)
(Loss)/profit for the year	10	**(133,914)**	26,441
(Loss)/profit for the year attributable to:			
Owners of the Company		**(133,063)**	22,961
Non-controlling interests		**(851)**	3,480
		(133,914)	26,441

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
		HK cents	HK cents
(Loss)/earnings per share			
– Basic (Hong Kong cents)	15	**(14.29)**	2.81
– Diluted (Hong Kong cents)	15	**N/A**	N/A
(Loss)/profit for the year	10	**(133,914)**	26,441
Other comprehensive (expense)/income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**29,840**	(1,391)
Other comprehensive income/(expense) for the year		**29,840**	(1,391)
Total comprehensive (expense)/income for the year		**(104,074)**	25,050
Total comprehensive (expense)/income attributable to:			
Owners of the Company		**(103,223)**	21,570
Non-controlling interests		**(851)**	3,480
		(104,074)	25,050

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,387**	390
Goodwill	17	**95,721**	–
Intangible assets	19	**115,223**	82,372
		213,331	82,762
Current assets			
Inventories	20	**185,926**	226,849
Film rights investments	21	**810,617**	397,643
Trade and other receivables	22	**323,327**	432,168
Amount due from a shareholder	23	**91,918**	2,376
Amounts due from a related party	23	**35,746**	9,824
Cash and cash equivalents	24	**6,128**	408,794
		1,453,662	1,477,654
Current liabilities			
Trade and other payables	25	**124,080**	67,977
Amounts due to directors	23	**943**	360
Amounts due to fellow subsidiaries	23	**13,320**	–
Tax provisions		**156,952**	141,142
Loan notes	26	**448,725**	445,531
Convertible loan notes	27	**108,813**	159,573
Embedded derivatives	27	**14,585**	55,685
Other borrowing	28	**–**	125,576
		867,418	995,844
Net current assets		**586,244**	481,810
Total assets less current liabilities		**799,575**	564,572
Non-current liabilities			
Deferred tax liabilities	29	**13,671**	–
Net assets		**785,904**	564,572

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	30	**13,160**	8,620
Other reserves		**774,411**	556,768
Equity attributable to owners of the Company		**787,571**	565,388
Non-controlling interests		**(1,667)**	(816)
Total equity		**785,904**	564,572

The consolidated financial statements on pages 52 to 131 were approved and authorised for issue by the board of directors on 29 March 2018 and are signed on its behalf by:

LI Kai
DIRECTOR

YAO Qinyi
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000 (note a)	Capital reserve HK$'000 (note b)	Exchange reserves HK$'000	Other reserve HK$'000 (note c)	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016	8,101	190,417	95	11,961	(123)	–	289,419	499,870	(6,082)	493,788
Profit for the year	–	–	–	–	–	–	22,961	22,961	3,480	26,441
Other comprehensive expense	–	–	–	–	(1,391)	–	–	(1,391)	–	(1,391)
Total comprehensive income/ (expense) for the year	–	–	–	–	(1,391)	–	22,961	21,570	3,480	25,050
Shares issued upon exercise on conversion of convertible loan notes (note 27)	519	43,824	–	–	–	–	–	44,343	–	44,343
Acquisition of non-controlling interests in a subsidiary (note c)	–	–	–	–	–	(395)	–	(395)	395	–
Disposal of subsidiaries (note 35)	–	–	–	–	–	–	–	–	1,391	1,391
At 31 December 2016	8,620	234,241	95	11,961	(1,514)	(395)	312,380	565,388	(816)	564,572
Loss for the year	–	–	–	–	–	–	(133,063)	(133,063)	(851)	(133,914)
Other comprehensive income	–	–	–	–	29,840	–	–	29,840	–	29,840
Total comprehensive (expense)/ income for the year	–	–	–	–	29,840	–	(133,063)	(103,223)	(851)	(104,074)
Shares issued for business acquisition (note 36)	1,583	112,417	–	–	–	–	–	114,000	–	114,000
Shares issued for working capital	2,142	143,357	–	–	–	–	–	145,499	–	145,499
Shares issued upon exercise on conversion of convertible loan notes (note 27)	815	65,092	–	–	–	–	–	65,907	–	65,907
At 31 December 2017	13,160	555,107	95	11,961	28,326	(395)	179,317	787,571	(1,667)	785,904

Notes:

(a) During 2008, the Company repurchased its owned ordinary shares on the Stock Exchange. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by nominal value of these shares. An amount equivalent to the par value of the shares cancelled of HK$95,000 was transferred from retained profits to capital redemption reserve.

(b) Pursuant to a group reorganisation (the "Reorganisation") which was completed on 17 November 2003 to rationalise the Group structure in the preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group. The excess of the nominal value of the shares issued by the Company over the aggregate of the nominal value of the share capital of the subsidiaries which the Company acquired under the Reorganisation was transferred to the capital reserve.

The capital reserve also comprises the fair value of the number of unexercised share options granted to directors of the Company and an employee of the Group.

(c) During the year ended 31 December 2016, the Group acquired additional 30% equity interests in a subsidiary at a cash consideration of HK$3. The Group's effective interests in this subsidiary increased to 100% after the acquisition. An amount of HK$395,000 (being the non-controlling interests proportionate share of the carrying amount of the subsidiary's net liabilities) has been transferred from non-controlling interests to other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before income tax expense		**(119,477)**	74,361
Adjustments for:			
Interest income	7	**(79)**	(1,641)
Finance costs	8	**71,650**	47,931
Depreciation of property, plant and equipment	16	**1,705**	257
Expenses settled through share issuance		**196**	–
Amortisation of intangible assets	19	**12,514**	14,293
Gain on disposal of subsidiaries	35	**–**	(32,858)
Provision for inventories	20	**9,819**	4,155
Fair value (gains)/losses of the embedded derivatives	27	**(28,989)**	61,696
Impairment of other receivables	22	**52,472**	–
Impairment of goodwill	17	**11,885**	–
Impairment loss recognised on film rights investments	21	**6,490**	–
Impairment loss recognised on intangible assets	19	**9,318**	13,713
Loss on disposal of property, plant and equipment		**372**	–
Operating profit before working capital changes		**27,876**	181,907
Decrease/(increase) in trade and other receivables		**100,296**	(209,471)
Increase in film rights investments		**(413,229)**	(297,024)
Decrease in inventories		**31,330**	21,234
Increase in amounts due from a related party		**(25,924)**	–
Increase in trade and other payables		**(9,748)**	(5,660)
Cash used in operations		**(289,399)**	(309,014)
Income tax paid		**–**	–
NET CASH USED IN OPERATING ACTIVITIES		**(289,399)**	(309,014)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash acquired	36	**626**	–
Disposal of subsidiaries, net of cash disposed	35	**–**	(56)
Purchases of property, plant and equipment		**(3,899)**	(382)
Acquisition of intangible assets	19	**–**	(154)
Interest received	7	**79**	1,641
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(3,194)**	1,049

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES	38		
Proceeds from issue of convertible loan notes		–	198,420
Proceeds from issue of loan notes		–	758,954
Redemption of loan notes		–	(314,431)
Proceed from other borrowing		–	160,000
Repayment of other borrowing		–	(34,424)
Proceed from shareholder loan		69,758	–
Repayment of loan from a shareholder		(180,000)	(50,000)
Proceeds from fellow subsidiaries		93,220	–
Repayment to fellow subsidiaries		(69,205)	–
Cash advance from directors		3,939	–
Repayment to directors		(3,356)	–
Net proceeds from issuance of shares		13,206	–
Interest paid		(67,475)	(21,529)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(139,913)	696,990
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(432,506)	389,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		408,794	21,160
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		29,840	(1,391)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		6,128	408,794

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

SMI Culture & Travel Group Holdings Limited (the "Company") is a limited liability company incorporated in Cayman Islands as an exempted company with limited liability. It changes the domicile to Bermuda in 2015. Its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and the principal place of business of the Company are disclosed in the Corporate Information to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34.

The directors consider its immediate parent is SMI Holdings Group Limited ("SMI Holdings"), a company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange, and ultimate controlling party of the Company is Mr. QIN Hui ("Mr. Qin").

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective on 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7- Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statement to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the note 38 to the consolidated financial statement.

Expect the adoption of the amendments to HKAS 7, the adoption of the amendments has no impact on these consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) 23	Uncertainty over Income Tax Treatments[2]
Annual Improvements to HKFRSs 2015 – 2017 Cycle	Amendments to: HKFRS 3, Business Combination; HKFRS 11 Joint Arrangements; HKAS 12, Income Taxes; and HKAS 23 Borrowing Costs[2]
Amendment to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[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

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at FVTOCI if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at FVTPL.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The directors of the Company anticipate that the application of expected credit loss model of HKFRS 9 might result in earlier provision of credit losses in relation to the Group's trade receivables measured at amortised cost. However, management expect the effect would not be material.

HKFRS 15 – Revenue from Contracts with Customers

HKFRS 15 requires the application of a 5 steps 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 each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 15 – Revenue from Contracts with Customers *(continued)*

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The amendment to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Based on the preliminary assessment, the adoption of HKFRS 15 has no significant impact on the Group's revenue recognition on all income, except licensing income from purchased license rights. Under HKFRS 15, the application of 5 steps approach may result in an earlier recognition of licensing income from purchased license rights. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

HKFRS 16 – Leases *(continued)*

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating lease of HK$2,277,000 as disclosed in Note 32. A preliminary assessment indicated that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liabilities in respect of all the lease unless they qualify for the low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

HK(IFRIC) 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

HK(IFRIC) 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transaction

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The Group has already commenced and assessment of the impact of adopting the above standards and amendments to existing standards to the Group. Expect as HKFRS 15 and 16 described above, the directors of the Company anticipate that the application of other new and amendments to HKFRS and an interpretation will have no material impact on the Group's financial performance and positions and/or the disclosures to the financial statements of the Group.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provision of disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

(b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies set out below.

3. BASIS OF PREPARATION *(continued)*

(b) Basis of measurement and going concern assumption *(continued)*

During the year, the Group has incurred a loss of HK$133,914,000 and at the end of reporting period, included in the current assets, the amount of HK$996,543,000 was the balance of inventories and film rights investments which are not readily convertible to cash. However, under the current liabilities, the amount of HK$572,123,000 was the balance of loan notes, convertible loan notes and embedded derivatives which will be matured in August 2018 and October 2018. It is considered that only amount due from a shareholder of HK$91,918,000 and cash and cash equivalents of HK$6,128,000 can be used for repayment whenever necessary, which are not sufficient for repayment as the right to decide whether conversion option exercised or not is held by the note holders, the Group is unable to avoid the contractual liabilities. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The financial statements have been prepared in conformity with principles applicable to a going concern basis because:

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

(ii) included in the other receivables, HK$116,784,000 was paid for potential film rights investments, in which the balance of HK$116,544,000 can be refunded on demand;

(iii) included in the film rights investments, an amount of HK$108,787,000 can be refunded on demand and the remaining portion of the film rights investments of HK$701,830,000 can be sold to other investors easily for working capital purpose if necessary as the relevant film projects are casted by famous actors and filmed by famous directors in Asia; and

(iv) Both note holders, Ever Ascend Investments Limited ("Ever Ascend") and Cheer Hope Holding Limited ("Cheer Hope") intent to extend the maturity date of loan notes of HK$448,725,000 and convertible loan notes of HK$108,813,000 from the second anniversary date to the fifth anniversary date.

3. BASIS OF PREPARATION *(continued)*

(c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership.

Interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Business combination and basis of consolidation *(continued)*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Goodwill

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4(n)), and whenever there is an indication that the unit may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill *(continued)*

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(d) Property, plant and equipment

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

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvement	6 years or over the term of the lease, whichever is shorter
Furniture, fixtures and other assets	15% – 33%
Props and costumes	15% – 33%
Motor vehicles	10% – 20%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) 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

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) Intangible assets (other than goodwill)

(i) Intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in cost of sales or administrative expenses.

Ticketing platform	15 years
Purchased license rights	9 years – 15 years

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(n)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, loans and other receivables, amounts due from a shareholder and a related party, and cash and cash equivalents are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial instruments *(continued)*

(ii) Impairment loss on financial assets (continued)

For loans and receivables

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 respective credit period and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables 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.

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

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial instruments *(continued)*

(iii) Financial liabilities *(continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, amounts due to directors and fellow subsidiaries, loan notes, convertible loan notes issued by the Group are subsequently measured at amortised cost and other borrowing, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial instruments *(continued)*

(iv) Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. 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 Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

When the notes are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital as consideration for the shares issued. When the notes are redeemed, and difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised to profit or loss immediately. 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.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

(vi) Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial instruments *(continued)*

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the specific cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(i) Film rights investments

Film rights investments represent films invested by the Group.

Film rights investments 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Film rights investments *(continued)*

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.

(j) Revenue recognition

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

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 the film investment income 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.

Agency fee income of selling ticket through ticketing platform is recognised when the arrangement of provision of tickets completed.

IT technical service fee income is recognised when services are rendered.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Promotional service income is recognised when services are rendered.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(l) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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

(m) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Employee benefits *(continued)*

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(n) Impairment of assets (other than financial assets)

At the end of the reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exist or may have decreased:

- property, plant and equipment;
- goodwill; and
- intangible assets.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets (other than financial assets) *(continued)*

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 4(c)), 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 or cash generating unit.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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

(p) Related parties

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

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions apply:

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

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions apply: *(continued)*

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, 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 differ from these estimates.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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.

(a) Critical Judgements In Applying Accounting Policies

(i) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determine based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(ii) Income tax

Determining income tax provisions require the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

(iii) Consolidation of entity engaged in operating online ticketing platform in the PRC

The online ticketing platform of the Group is carried out mainly through a domestic operating company incorporated in the PRC. Certain of the Company's wholly-owned hold equity interests in the online ticketing platform operating company. 100% equity interests of this online ticketing platform operating company is held by a PRC entity controlled by Mr. Qin, the controlling shareholder of the Company ("Mr. Qin's affiliates") and independent third parties. The Group's entity engaged in online ticketing operation is defined as the "Relevant Entity" hereinafter.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(a) Critical Judgements In Applying Accounting Policies *(continued)*

(iii) Consolidation of entity engaged in operating online ticketing platform in the PRC (continued)

Pursuant to applicable PRC laws and regulations, foreign investors are restricted from owning any equity interest of any online service operation entity. In order to enable control to be exercised over this entity engaged in online ticketing platform operation business invested by the Group, the wholly-owned subsidiaries of the Company entered into certain contractual arrangements (the "Contractual Arrangements") with the Relevant Entity and the respective equity holder, which enable those wholly-owned subsidiary and the Company to:

- exercise effective financial and operational control over the Relevant Entity;
- exercise equity holders' voting rights of the Relevant Entity;
- receive substantially all of the economic interest returns generated by the Relevant Entity;
- obtain an irrevocable and exclusive right to purchase the remaining entire equity interest in the Relevant Entity from the respective equity holder; and
- obtain a pledge over the entire equity interest of the Relevant Entity from its respective equity holders as collateral security to secure performance of the obligations of the Relevant Entity and its 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 Entity and has the ability to affect those returns through its power over the Relevant Entity and is considered to control the Relevant Entity. Consequently, the Company regards the Relevant Entity as consolidated structured entity under HKIFRSs and all existing ownership interests of these Relevant Entity are held by the Group. The Group has included the assets and liabilities and results of the Relevant Entity in the consolidated financial statements. The revenue generated from the Relevant Entity during the year ended 31 December 2017 and total assets and total liabilities attributable to the Relevant Entity as at 31 December 2017 amounted to approximately HK$2,546,000 (2016: Nil), approximately HK$87,256,000 (2016: Nil) and approximately HK$86,096,000 (2016: Nil), respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(a) Critical Judgements In Applying Accounting Policies *(continued)*

(iii) Consolidation of entity engaged in operating online ticketing platform in the PRC (continued)

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Relevant Entity and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Relevant Entity. 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.

(b) Key Sources of Estimation Uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(ii) Impairment assessment of intangible assets

Determining whether intangible assets is impaired requires an estimation 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 directors to estimate the future cash flows generated by intangible assets discounted to its present value by using a suitable discount rate.

(iii) Provision for inventories

Inventories are valued at the lower of cost and net realisable value. The Group engaged a professional valuer to carry out the estimation of selling prices of the inventories for the script, synopsis and editing/publishing rights with details as set out in note 20. Where the net realisable value is different from the original estimate, additional provision for inventories may be required.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(b) Key Sources of Estimation Uncertainty *(continued)*

(iv) Impairment assessment of film rights investments

Determining whether film rights investments are impaired requires an estimation 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 directors to estimate the future cash flows generated by film right investments discounted to its present value by using a suitable discount rate.

(v) Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are different from expected, a material impairment or reversal may arise.

(vi) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures embedded derivatives (note 27) at fair value.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(b) Key Sources of Estimation Uncertainty *(continued)*

(vii) Estimated useful lives of intangible assets

In determining the useful lives of intangible assets, it is based on historical experience, the expected usage, as well as market obsolescence arising from changes in market demands. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are difference from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

6. REVENUE AND SEGMENT INFORMATION

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

The Group has three reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Television program related business
  - Sales of editing rights
  - Licensing income from purchased license rights
- Film investment
  - Investment in film rights
- Ticketing system and IT technical service
  - Agency fee income
  - IT technical service

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

For the year ended 31 December 2017

	Television program related business HK$'000	Film investment HK$'000	Ticketing system and IT technical service HK$'000	Total HK$'000
Revenue	**132,148**	**254**	**2,546**	**134,948**
Segment profit/(loss)	**48,132**	**(83,368)**	**(11,265)**	**(46,501)**
Unallocated expenses				**(30,315)**
Fair value change of the embedded derivatives				**28,989**
Finance costs				**(71,650)**
Loss before income tax expense				**(119,477)**

For the year ended 31 December 2016

	Television program related business HK$'000	Film investment HK$'000	Total HK$'000
Revenue	127,081	421,348	548,429
Segment profit	69,991	109,617	179,608
Unallocated income			35,806
Unallocated expenses			(31,426)
Fair value change of the embedded derivatives			(61,696)
Finance costs			(47,931)
Profit before income tax expense			74,361

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results *(continued)*

All of the segment revenue reported above are from external customers.

Segment profit represents the profit incurred by each segment without allocation of unallocated income (which mainly includes gain on disposal of subsidiaries), unallocated expense (which mainly include central administration costs and directors' emoluments) and finance costs. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

(b) Segment assets and liabilities

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

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Segment assets		
Television program related business	**354,830**	359,615
Film investment	**1,022,726**	765,937
Ticketing system and IT technical service	**198,583**	–
Segment assets	**1,576,139**	1,125,552
Unallocated	**90,854**	434,864
Consolidated total assets	**1,666,993**	1,560,416

	As at 31 December	
	2017	2016
	HK$'000	HK$'000
Segment liabilities		
Television program related business	**161,192**	140,907
Film investment	**99,273**	46,204
Ticketing system and IT technical service	**39,140**	–
Segment liabilities	**299,605**	187,111
Unallocated	**581,484**	808,733
Consolidated total liabilities	**881,089**	995,844

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities *(continued)*

Included the unallocated asset, the balance as at 31 December 2017 mainly represented amount due from a shareholder of HK$82,123,000 (2016: HK$2,376,000).

Included the unallocated liabilities, the balance as at 31 December 2017 mainly represented convertible bonds of HK$108,813,000 (2016: HK$159,573,000), derivative financial instrument of HK$14,585,000 (2016: HK$55,686,000) and notes and other loans HK$448,725,000 (2016: HK$571,107,000).

(c) Other segment information included in the measure of segment profit or segment assets

For the year ended 31 December 2017

	Television program related business HK$'000	Film investment HK$'000	Ticketing system and IT technical service HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	–	79	–	–	79
Depreciation of property, plant and equipment	–	8	12	1,685	1,705
Amortisation of intangible assets	11,869	39	606	–	12,514
Impairment loss recognised in respect of goodwill	–	–	11,885	–	11,885
Impairment loss recognised in respect of intangible assets	9,318	–	–	–	9,318
Impairment loss recognised in respect of other receivables	–	52,472	–	–	52,472
Impairment loss recognised in respect of film rights investments	–	6,490	–	–	6,490
Provision for inventories	9,819	–	–	–	9,819
Income tax expense	11,489	2,643	305	–	14,437
Additions to property, plant and equipment	–	47	–	3,852	3,899

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(c) Other segment information included in the measure of segment profit or segment assets *(continued)*

For the year ended 31 December 2016

	Television program related business HK$'000	Film investment HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	–	11	1,630	1,641
Depreciation of property, plant and equipment	38	123	96	257
Amortisation of intangible assets	14,293	–	–	14,293
Impairment loss recognised in respect of intangible assets	13,713	–	–	13,713
Provision of inventories	4,155	–	–	4,155
Income tax expense	18,438	29,482	–	47,920
Additions to property, plant and equipment	7	367	8	382

(d) Geographical information

The following table provides an analysis of the Group's revenue from external customers and non-current assets.

	Revenue from external customers		Non-current assets	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Hong Kong	**–**	–	**63,372**	82,756
The People's Republic of China ("PRC")	**134,948**	548,429	**136,288**	6
	134,948	548,429	**199,660**	82,762

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(e) Revenue from the Group's products and services

The following is an analysis of the Group's revenue from external customers by products or services:

	2017 **HK$'000**	2016 HK$'000
Film investment income	**254**	421,348
Sales of editing rights	**123,943**	125,133
Licensing income from purchased licence rights	**8,205**	1,948
Agency fee income	**634**	–
IT technical service fee income	**1,912**	–
	134,948	548,429

(f) Information about major customers

Revenue from major customers of the corresponding years contributing over 10% of total revenue of the Group are as follows:

	2017 **HK$'000**	2016 HK$'000
Customer A – television program related business	**47,481**	N/A
Customer B – television program related business	**38,150**	N/A
Customer C – television program related business	**23,281**	N/A
Customer D – film investment	**N/A**	255,068
Customer E – film investment	**N/A**	119,764

Save as disclosed above, none of the individual customers contributing over 10% of total revenue for both years.

7. OTHER REVENUE

	2017 HK$'000	2016 HK$'000
Interest income from bank deposits	79	1,641
Gain on disposal of subsidiaries	–	32,858
Promotional service income	–	1,509
Sundry income	–	166
	79	36,174

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on loan notes (Note 26)	43,081	23,360
Interest on convertible loan notes (Note 27)	12,745	3,042
Interest on other borrowing	10,961	21,529
Handling charge for loan note extension	4,863	–
	71,650	47,931

9. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of profit or loss and comprehensive income represents:

	2017 HK$'000	2016 HK$'000
Current tax:		
Hong Kong Profits Tax	–	–
The PRC Enterprise Income Tax ("EIT")	14,437	53,274
	14,437	53,274
Under/(over) provision in respect of prior years:		
The PRC EIT	–	(5,354)
Income tax expense	14,437	47,920

9. INCOME TAX EXPENSE *(continued)*

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2016: 25%).

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

	2017	2016
	HK$'000	HK$'000
(Loss)/profit before income tax expense	**(119,477)**	74,361
Tax at domestic rates applicable to profits or losses in the jurisdiction concerned	**(13,921)**	48,468
Tax effect of expenses not deductible for tax purpose	**11,963**	3,005
Tax effect of income not taxable for tax purpose	**(32)**	(249)
Over provision in respect of prior years	**–**	(5,354)
Tax effect of deferred tax assets not recognised	**13,118**	–
Tax effect of tax loss not recognised	**3,309**	2,050
Income tax expense	**14,437**	47,920

The weighted average applicable tax rate was 9.86% (2016: 8.24%).

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. As at 31 December 2017 and 2016, due to the accumulated loss in each of the PRC subsidiaries, there is no deferred tax liabilities arising as there are no undistributed profits.

10. (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging:

	2017 HK$'000	2016 HK$'000
Cost of editing rights expensed recognised as cost of sales	**66,455**	35,526
Auditor's remuneration	**4,422**	3,700
Exchange losses, net (included in other expenses)	**6,869**	11,312

11. EMPLOYEE COSTS

	2017 HK$'000	2016 HK$'000
Employee costs (including directors' emoluments (note 12)) comprise:		
Wages and salaries	**9,673**	10,940
Short-term non-monetary benefits	**191**	236
Contributions on defined contribution retirement plans	**307**	240
	10,171	11,416

12. DIRECTORS' EMOLUMENTS

Directors' emoluments is disclosed as follows:

	ZHONG Naixiong HK$'000 (note i)	KONG Dalu HK$'000 (note ii)	YUAN Xin HK$'000 (note iii)	HUANG Zhengchao HK$'000 (note iv)	YAO Qinyi HK$'000 (note v)	RAO Yong HK$'000 (note vi)	DU Jiang HK$'000 (note vii)	ZHAO Xuebo HK$'000 (note viii)	LIU Xianbo HK$'000	WU Chien-Chiang HK$'000 (note ix)	LI Kai HK'000 (note x)	Total HK$'000
For the year ended 31 December 2017												
Fees	–	80	177	–	–	228	13	103	240	240	–	1,081
Other emoluments												
Salaries and other benefits	–	1,315	972	–	480	–	–	–	–	–	–	2,767
Contributions to retirement benefits schemes	–	–	–	–	–	–	–	–	–	–	–	–
	–	1,395	1,149	–	480	228	13	103	240	240	–	3,848

	ZHONG Naixiong HK$'000 (note i)	KONG Dalu HK$'000 (note ii)	YAO Qinyi HK$'000 (note v)	HAO Bin HK$'000 (note xi)	WANG Fei HK$'000 (note xii)	JIANG Feng HK$'000 (note xiii)	CHAN Chi To, Antony HK$'000 (note xiv)	WANG Hai Yun HK$'000 (note xv)	DU Jiang HK$'000 (note vii)	LIU Xianbo HK$'000	WU Chien-Chiang HK$'000 (note ix)	Total HK$'000
For the year ended 31 December 2016												
Fees	–	240	–	130	284	1,750	640	40	240	240	240	3,804
Other emoluments												
Salaries and other benefits	–	315	–	360	–	–	–	–	–	–	–	675
Contributions to retirement benefits schemes	–	–	–	8	–	–	15	–	–	–	–	23
	–	555	–	498	284	1,750	655	40	240	240	240	4,502

12. DIRECTORS' EMOLUMENTS *(continued)*

Notes:

(i) Mr. Zhong Naixiong, Victor was appointed as Executive Director on 11 November 2016 and resigned on 28 July 2017.

(ii) Mr. Kong Dalu resigned as Executive Director on 9 March 2018.

(iii) Mr. Yuan Xin was appointed as Executive Director on 6 April 2017 and resigned on 9 March 2018.

(iv) Mr. Huang Zhengchao was appointed as Executive Director on 29 June 2017 and resigned on 13 February 2018.

(v) Ms. Yao Qinyi was appointed as Executive Director on 24 November 2016.

(vi) Mr. Rao Yong was appointed as Independent Non-Executive Director on 20 January 2017.

(vii) Mr. Du Jiang resigned as Independent Non-Executive Director on 20 January 2017.

(viii) Mr. Zhao Xuebo was appointed as Independent Non-Executive Director on 28 July 2017.

(ix) Mr. Wu Chien-Chiang was redesignated from Independent Non-Executive Director to Executive Director on 28 July 2017.

(x) Mr. Li Kai was appointed as Executive Director on 9 March 2018.

(xi) Mr. Hao Bin resigned as Executive Director on 4 July 2016.

(xii) Mr. Wang Fei was appointed as Executive Director on 11 January 2016 and resigned on 11 November 2016.

(xiii) Mr. Jiang Feng was appointed as Executive Director on 29 April 2016 and resigned on 11 November 2016.

(xiv) Mr. Chan Chi To, Antony resigned as Executive Director on 24 November 2016.

(xv) Mr. Wang Hai Yun retired as Executive Director on 3 June 2016.

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments during the year ended 31 December 2017 (2016: Nil).

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2016: three) were directors of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining two (2016: two) individuals were as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries and other benefits	**1,179**	1,880
Contributions to retirement benefits schemes	**29**	45
	1,208	1,925

Their emoluments were within the following bands:

	2017 **Numbers of individuals**	2016 Numbers of individuals
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1

14. DIVIDENDS

No dividend has been paid or declared during each of the years ended 31 December 2017 and 2016. The Directors do not recommend the payment of a final dividend for 2017 (2016: Nil).

15. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the loss for the year of HK$133,063,000 (2016 profit for the year: HK$22,961,000) and the weighted average number of ordinary shares of 931,112,000 (2016: 815,866,000) in issue during the year.

No adjustment has been made to basic (loss)/earnings per share presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the impact of convertible loan notes outstanding, had an anti-dilutive on the basic (loss)/earnings per share amount presented.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Furniture, fixtures and other assets HK$'000	Props and costume HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
At 1 January 2016	143	1,692	7	–	1,842
Additions	292	90	–	–	382
Disposals/written-off	–	–	(7)	–	(7)
At 31 December 2016	435	1,782	–	–	2,217
Additions	2,024	1,145	–	730	3,899
Acquired through business combination	–	239	–	–	239
Disposals/written-off	(357)	(138)	–	–	(495)
At 31 December 2017	2,102	3,028	–	730	5,860
Accumulated depreciation and impairment					
At 1 January 2016	68	1,502	7	–	1,577
Depreciation	124	133	–	–	257
Eliminated on disposals	–	–	(7)	–	(7)
At 31 December 2016	192	1,635	–	–	1,827
Depreciation	1,183	413	–	109	1,705
Acquired through business combinations	–	64	–	–	64
Eliminated on disposals	(85)	(38)	–	–	(123)
At 31 December 2017	1,290	2,074	–	109	3,473
Carrying values					
At 31 December 2017	812	954	–	621	2,387
At 31 December 2016	243	147	–	–	390

The cost of above items of property, plant and equipment are depreciated, after taking into account of their estimated residual values, on a straight-line basis.

17. GOODWILL

	Ticketing platform HK$'000	IT technical service HK$'000	Total HK$'000
Cost			
At 1 January 2017	–	–	–
Acquired through business combinations	41,862	65,744	107,606
At 31 December 2017	41,862	65,744	107,606
Accumulated impairment losses			
At 1 January 2017	–	–	–
Impairment losses recognised in the year (note 18)	–	11,885	11,885
At 31 December 2017	–	11,885	11,885
At 31 December 2017 Net carrying amount	41,862	53,859	95,721

Goodwill acquired in the business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. As at 31 December 2017, the goodwill arose from the acquisition of CGUs which are engaged in operation of ticketing platform and provision of IT technical service.

18. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, impairment of goodwill is allocated to the CGUs identified as follows:

	2017 **HK$'000**	2016 HK$'000
IT technical service	**11,885**	–

The recoverable amount of ticketing platform is determined based on fair value less costs of disposal using market approach by reference to transaction price of similar items, whether from recent transactions or using market multiples and guideline public company method. Other key estimation included intended price to gross merchandise value of 1.37 (2016: Nil) and estimated cost of disposal of 5% (2016: Nil).

The recoverable amounts of IT technical service are determined from value in use calculation based on cash flow projection from formally approved budgets covering a five year period, followed by estimation of management on future business. The pre-tax discount rate used for value in use calculation is 21% (2016: N/A) per annum, which reflects specific risks relating to the relevant CGU.

The key assumptions for the value in use calculation are those the discount rate 21%, expectation on future revenue 4% and operating cost growth rate 4% which had been determined based on the market comparables and budgeted revenue, which had been determined based on the management's expectation for the market production capacity of the CGU.

Goodwill impairment of HK$11,855,000 (2016: Nil) was made for IT technical service due to the recently intensively competitive environment within which the CGU operates. Management have therefore adjusted their expected profit forecast for the CGU to allow for the impact of material competitiveness in the market.

19. INTANGIBLE ASSETS

	Ticketing platform HK$'000	Purchased license rights HK$'000	Total HK$'000
Cost			
At 1 January 2016	–	1,230,127	1,230,127
Additions	–	154	154
Disposals	–	(28,796)	(28,796)
At 31 December 2016	–	1,201,485	1,201,485
Acquired through business combination	54,683	–	54,683
At 31 December 2017	54,683	1,201,485	1,256,168
Amortisation and impairments			
At 1 January 2016	–	1,115,494	1,115,494
Amortisation	–	14,293	14,293
Impairment	–	13,713	13,713
Eliminated on disposals	–	(24,387)	(24,387)
At 31 December 2016	–	1,119,113	1,119,113
Amortisation	608	11,906	12,514
Impairment	–	9,318	9,318
At 31 December 2017	608	1,140,337	1,140,945
Carrying values			
At 31 December 2017	54,075	61,148	115,223
At 31 December 2016	–	82,372	82,372

19. INTANGIBLE ASSETS *(continued)*

Ticketing platform belongs to ticketing platform and IT technical service business segment. Purchased license right belongs to television program business segment.

Ticketing platform represents fair value of the identifiable value of online ticketing platform of the newly acquired component, SMI Entertainment Limited and its subsidiaries ("SMI Entertainment Group") (Note 36). The fair value of the system as at acquisition date have been arrived at market value basis carried by GW Financial Advisory Services Limited, an independent valuer who holds a recognised and relevant professional qualification and has relevant experience in the valuation of the similar assets.

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 directors of the Company have reviewed the recoverable amount of the purchased license rights with reference to their fair value less cost to sell on 31 December 2017. The fair value of purchased license rights is a level 3 recurring fair value measurement. The fair value of the Group's purchased license rights at 31 December 2017 has been arrived at on the market value basis carried out by Grant Sherman Appraisal Limited (2016: Ascent Partners Valuation Service Limited), an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the valuation of similar assets. Other key estimation included risk-free rate of 3.9% (2016: 3.9%) and market equity risk premium of 10.42% (2016: 9.9%). An impairment loss of HK$9,318,000 for purchased license right was recognised for the year ended 31 December 2017 (2016: HK$13,713,000) due to continuous unsatisfactory results from licensing of these assets.

The directors of the Company have reviewed the recoverable amount of the ticketing platform with reference to their fair value less cost to sell on 31 December 2017. The fair value of ticketing platform is a level 3 recurring fair value measurement. The fair value of the Group's ticketing platform at 31 December 2017 has been arrived at on the market value basis carried out by Grant Sherman Appraisal Limited, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the valuation of similar assets. Other key estimation included indicated price to gross merchandise volume of 1.37 and estimated cost of disposal of 5%. No impairment loss was recognised for the ticketing platform for the year ended 31 December 2017.

20. INVENTORIES

Inventories represent 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 the inventories with reference to their fair value less cost to sell at 31 December 2017. The fair value of the Group's inventories at 31 December 2017 have been arrived at on market value basis carried out by Grant Sherman Appraisal Limited (2016: Ascent Partners Valuation Service Limited), an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the valuation of similar assets.

An impairment loss of HK$9,819,000 was recognised for the year ended 31 December 2017 (2016: HK$4,155,000) due to the continuous unsatisfactory results from sales of those works.

21. FILM RIGHTS INVESTMENTS

	HK$'000
At 1 January 2016	100,619
Addition	582,882
Recognised as an expense included in cost of sales	(285,858)
At 31 December 2016	397,643
Addition	456,513
Recognised as an expense included in cost of sales	(37,049)
Impairment	(6,490)
At 31 December 2017	**810,617**

The costs of film rights are recognised as an expense included 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.

An impairment loss of HK$6,490,000 was recognised for the year ended 31 December 2017 (2016: Nil) due to expected loss over the recoverable amount.

22. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**149,469**	352,818
Prepayments and deposits	**9,237**	4,060
Other receivables	**164,621**	75,290
	323,327	432,168

The Group allows a credit period ranging from 0 days to 270 days to its trade customers. As at 31 December 2017, trade receivables of HK$122,172,000 (2016: HK$257,726,000) were past due but not impaired. These related to the independent customers for whom there is no recent history of default. The following is an ageing analysis of trade receivables based on the payment due dates:

	2017 HK$'000	2016 HK$'000
Current	**27,297**	95,092
Less than 1 to 3 months past due	**101,763**	255,604
More than 3 months but less than 12 months past due	**14,663**	2,122
Over 1 year	**5,746**	–
	149,469	352,818

No interest is charged on the overdue trade receivables.

The below table reconciled the impairment loss of the other receivables for the year:

	2017 HK$'000	2016 HK$'000
At beginning of the year	**–**	–
Impairment loss recognised, net	**52,472**	–
At end of the year	**52,472**	–

As at 31 December 2017, an amount of HK$116,784,000 (2016: HK$67,207,000) prepaid for the acquisition of potential film rights was included in other receivable. The amount will be transferred to the film rights investments once the investment agreement is finalised.

23. AMOUNTS DUE FROM/(TO) A SHAREHOLDER/A RELATED PARTY/FELLOW SUBSIDIARIES/DIRECTORS

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

24. CASH AND CASH EQUIVALENTS

As at 31 December 2017, short-term bank deposits and bank balances carry market interest rates ranging from 0.03% to 0.06% (2016: 0.01% to 0.25%) per annum.

As at 31 December 2016, cash held by securities broker of HK$340,000,000 included in cash and cash equivalents was placed with securities brokers for trading securities in Hong Kong.

25. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	HK$'000
Trade payables	**7,770**	6,088
Accruals	**11,610**	12,947
Other payables	**104,700**	48,942
	124,080	67,977

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

Included in trade payables are trade creditors with the following ageing analysis, based on invoice dates, as of the end of reporting period:

	2017	2016
	HK$'000	HK$'000
Current or less than 1 month	**26**	–
1 to 3 months	**–**	–
More than 3 months but less than 12 months past due	**5,593**	–
More than 12 months but less than 24 months past due	**2,151**	6,088
	7,770	6,088

26. LOAN NOTES

The movement of the loan notes for the year is set out below:

	2017 HK$'000	2016 HK$'000
At the beginning of the year	**445,531**	–
Issue of loan notes	**–**	758,954
Effective interest charged (Note 8)	**43,081**	23,360
Coupon interest paid/payable	**(39,887)**	(22,352)
Redemption	**–**	(314,431)
	448,725	445,531

As at the end of the reporting period, the amounts comprised of:

(a) The Company issued a 1-year note ("Note I") to Cheer Hope Holding Limited ("Cheer Hope"), 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 guarantee by SMI Holdings Group Limited ("SMI Holdings"), the immediate holding company of the Group. Note I 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 Note I is 9.85%. During the year ended 31 December 2016, loan notes of HK$64,431,000 has been early redeemed.

On the date of issuance, the fair value of the Note I was amounted to HK$311,287,000.

In August 2017, the maturity date of the Note I was extended to August 2018 without any supplemental clause. Other terms of the Note I remain unchanged and there was no redemption during the year.

(b) The Company issued a 1-year note ("Note II") 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 SMI Holdings. Note II 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 Note II is 11.00%.

On the date of issuance, the fair value of the Note II was amounted to HK197,667,000.

In August 2017, the maturity date of the Note II was extended to August 2018, without any supplemental clause. Other terms of the Note II remain unchanged and there was no redemption during the year.

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES

(a) The Company issued 1-year 5% convertible loan note ("CLN I") with principal amount of HK$35,000,000 on 8 August 2016 to Cheer Hope. The CLN I is denominated in Hong Kong dollars and entitles the holder to convert it into ordinary shares of the Company 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 adjustments and resets in accordance with the terms and conditions of CLN I, provided that the conversion price shall not in any event be lower than HK$0.38. CLN I is unsecured and guaranteed by SMI Holdings. If the CLN I has 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 CLN I 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 Company 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 movements of the liability component and embedded derivative of the CLN I for the year are set out as below:

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2016	–	–	–
Issued during the year	33,694	894	34,588
Interest charged	843	–	843
Interest paid/payable	(488)	–	(488)
Converted during the year	(34,049)	(10,294)	(44,343)
Gain arising on change in fair value	–	9,400	9,400
As at 31 December 2016, 1 January and 31 December 2017	–	–	–

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES *(continued)*

(a) *(continued)*

	21 November 2016
Stock price	HK$0.830
Exercise price	HK$0.675
Volatility	37.51%
Option life	0.72 year
Risk-free interest rate	0.53%

The valuations of the liability component and conversion option and other embedded derivatives of the CLN I are determined with the involvement of an independent qualified valuer, GW Financial Advisory Services Limited ("GW Financial Advisory Services").

On 21 November 2016, the CLN I holder exercised the conversion rights to the entire principal amount of HK$35,000,000 of the CLN I, to convert into ordinary shares 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 CLN I was outstanding.

(b) The Company issued 1-year 5% convertible loan note ("CLN II") with principal amount of HK$100,000,000 on 26 October 2016 to Ever Ascend. The CLN II are denominated in Hong Kong dollars and unsecured. The CLN II mature one year from the issue date at their principal amount or entitle the holder to convert it into ordinary shares of the Company 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 25 October 2017 at a conversion price of HK$0.675 per share, subject to adjustments and resets in accordance with the terms and conditions. If the CLN II has 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.

In August 2017, the maturity date of the CLN II was extended to October 2018, without any supplement clause. Other terms of the CLN II remain unchanged and there was no redemption during the year. On 15 March 2017, the CLN II holder exercised the conversion rights to principal amount of HK$25,000,000 of the CLN II, to convert the CLN II at a conversion price of HK$0.675 per ordinary share, and a total of 37,037,037 conversion ordinary shares were then issued.

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES *(continued)*

(b) *(continued)*

The CLN II 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 Company 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 movements of the liability component and embedded derivative of the CLN II for the year are set out as below:

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2016	–	–	–
Issued during the year	96,253	2,579	98,832
Interest charged	1,606	–	1,606
Interest paid/payable	(2,624)	–	(2,624)
Loss arising on change in fair value	–	32,342	32,342
As at 31 December 2016 and 1 January 2017	95,235	34,921	130,156
Interest charged	9,110	–	9,110
Interest paid/payable	(6,486)	–	(6,486)
Converted during the year	(24,046)	(5,367)	(29,413)
Gain arising on change in fair value	–	(20,430)	(20,430)
As at 31 December 2017	73,813	9,124	82,937

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 CLN II is 12.09%.

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES *(continued)*

(b) *(continued)*

Binomial option pricing model is used for valuation of conversion option of the CLN II. The inputs into the model were as follows:

	31 December 2017	31 December 2016
Stock price	**HK$0.750**	HK$0.860
Exercise price	**HK$0.675**	HK$0.675
Volatility	**21.05%**	36.04%
Option life	**0.82 year**	0.82 year
Risk-free interest rate	**1.47%**	0.86%

The valuations of the liability component and conversion option and other embedded derivatives of the Convertible Note II are determined with the involvement of Grant Sherman Appraisal Limited (2016: GW Financial Advisory Services).

(c) The Company issued 1-year 5% convertible loan note ("CLN III") with principal amount of HK$65,000,000 on 11 November 2016 to Cheer Hope. The CLN III are denominated in Hong Kong dollars and unsecured. The CLN III mature one year from the issue date at their principal amount or entitle the holder to convert it into ordinary shares of the Company 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 adjustments and resets in accordance with the terms and conditions. If the CLN III has 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.

In August 2017, the maturity date of the CLN III was extended to August 2018 without any supplemental clause. Other terms of the CLN III remain unchanged. On 10 February 2017, the CLN III holder exercised the conversion rights to principal amount of HK$30,000,000 of the CLN III, to convert the CLN III at a conversion price of HK$0.675 per ordinary share, and a total of 44,444,444 conversion ordinary shares were then issued.

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES *(continued)*

(c) *(continued)*

The CLN III 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 Company 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 movements of the liability component and embedded derivative of the CLN III for the year are set out as below:

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2016	–	–	–
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 and 1 January 2017	64,338	20,764	85,102
Interest charged	3,635	–	3,635
Interest paid/payable	(3,224)	–	(3,224)
Converted during the year	(29,749)	(6,744)	(36,493)
Gain arising on change in fair value	–	(8,559)	(8,559)
As at 31 December 2017	35,000	5,461	40,461

At the date of issue, the liability component was recognised at fair value. The fair value component was calculated based on the present value of the contractually determined future cash flows discounted at the required yield, which was determined with reference 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 interest rate of the liability component of the CLN III is 11.4%.

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES *(continued)*

(c) *(continued)*

The carrying values of the liability component and embedded derivatives of the CLN III recognised in the consolidated statement of financial position at the end of the reporting period are as follows:

Binomial option pricing model is used for valuation of conversion option of the CLN III. The inputs into the model were as follows:

	31 December 2017	31 December 2016
Stock price	**HK$0.750**	HK$0.860
Exercise price	**HK$0.675**	HK$0.675
Volatility	**22.00%**	37.73%
Option life	**0.61 year**	0.61 year
Risk-free interest rate	**1.39%**	0.82%

The valuations of the liability component and conversion option and other embedded derivatives of the CLN II are determined with the involvement of Grant Sherman Appraisal Limited (2016: GW Financial Advisory Services).

28. OTHER BORROWING

As at 31 December 2017, there is no other borrowing.

As at 31 December 2016, other borrowing amounting to HK$125,576,000, which was repayable on demand, unsecured and bore interest by the fixed rate of 17.5% per annum.

29. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements during the current year:

	Intangible asset – ticketing platform HK$'000
As at 1 January 2017	–
Acquisitions	13,671
As at 31 December 2017	13,671

30. SHARE CAPITAL

	Par value	Number of shares '000	Share capital HK$'000
Authorised:			
As at 1 January 2016, 31 December 2016 and 2017	HK$0.01	100,000,000	1,000,000
Issued and fully paid:			
As at 1 January 2016		810,058	8,101
Debt conversion rights exercised (note (i) (a))		51,852	519
As at 31 December 2016		861,910	8,620
Debt conversion rights exercised (note (i) (b))		81,481	815
Other issues for cash during the year:			
Shares issued for working capital (note (ii))		214,285	2,142
Shares issued in settlement of acquisition (note (iii))		158,333	1,583
As at 31 December 2017		1,316,009	13,160

30. SHARE CAPITAL *(continued)*

Notes:

(i) Debt conversion rights exercised

(a) On 11 November 2016, a CLN I holder Cheer Hope elected to exercise the conversion rights to the extent of the principal amount of HK$35,000,000 of the convertible loan note, for the conversion of 51,851,851 ordinary shares of HK$0.01 each at a conversion price of HK$0.675 per share. The conversion was completed on 21 November 2016 and the premium on issue of shares amounting to approximately HK$34,481,000 was credited to the Company's share premium amount.

(b) On 24 January 2017, a CLN III holder Cheer Hope elected to exercise the conversion rights to the extent of the principal amount of HK$30,000,000 of the convertible loan note, for the conversion of 44,444,444 ordinary shares of HK$0.01 each at a conversion price of HK$0.675 per share. The conversion was completed on 10 February 2017 and the premium on issue of shares amounting to approximately HK$29,556,000 was credited to the Company's share premium amount.

On 24 January 2017, a CLN II holder Ever Ascend elected to exercise the conversion rights to the extent of the principal amount of HK$25,000,000 of the convertible loan note, for the conversion of 37,037,037 ordinary shares of HK$0.01 each at a conversion price of HK$0.675 per share. The conversion was completed on 15 March 2017 and the premium on issue of shares amounting to approximately HK$24,750,000 was credited to the Company's share premium amount.

(ii) Shares issued for working capital

A placement of 214,285,000 shares, with par value of HK$0.01, of the Company at a price of HK$0.70 per share was issued to independent third parties for working capital.

(iii) Shares issued in settlement of acquisition

A placement of 158,333,000 shares, with par value of HK$0.01, of the Company at a price of HK$0.75 per share was issued to SMI Holdings, in order to settle the proceed of business acquisition.

31. OTHER RESERVE

The Company	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	190,417	95	14,759	(27,318)	177,953
Debt converted	43,824	–	–	–	43,824
Loss for the year	–	–	–	(180,259)	(180,259)
As at 31 December 2016	234,241	95	14,759	(207,577)	41,518
Debt converted	65,092	–	–	–	65,092
Shares issued for working capital	143,357	–	–	–	143,357
Shares issued in settlement of acquisition	112,417	–	–	–	112,417
Loss for the year	–	–	–	(29,882)	(29,882)
As at 31 December 2017	555,107	95	14,759	(237,459)	332,502

32. LEASES

Operating leases – lessee

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for terms of one year (2016: one year). There is no contingent rental arrangement.

The lease payments recognised as an expense are as follows:

	2017 HK$'000	2016 HK$'000
Minimum leases payments	**5,262**	2,667

The total future minimum lease payments are due as follows:

	2017 HK$'000	2016 HK$'000
Not later than one year	**2,277**	–

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Investments in subsidiaries		**390**	390
Amounts due from subsidiaries		**828,650**	473,942
		829,040	474,332
Current assets			
Prepayments, deposits and other receivables		**26,549**	23,600
Amount due from a shareholder		**91,918**	–
Cash and cash equivalents		**647**	354,686
		119,114	378,286
Current liabilities			
Accrual and other payables		**29,426**	16,115
Amounts due to directors		**943**	–
Loan notes		**448,725**	445,531
Convertible loan notes		**108,813**	159,573
Embedded derivatives		**14,585**	55,685
Other borrowing		**–**	125,576
		602,492	802,480
Net current liabilities		**(483,378)**	(424,194)
Net assets		**345,662**	50,138
Capital and reserves			
Share capital	30	**13,160**	8,620
Other reserves	31	**332,502**	41,518
Total equity		**345,662**	50,138

LI Kai
Director

YAO Qinyi
Director

34. INTERESTS IN PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place/ country of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of issued share capital held by the Company				Principal activity
			2017		2016		
			Directly %	Indirectly %	Directly %	Indirectly %	
Quick Gain Enterprises Limited	British Virgin Island ("BVI")	USD1	**100**	**-**	100	–	Investment holding
Qin Jia Yuan Media Creation Co., Limited	BVI	USD1	**-**	**100**	–	100	Holding of adaption right
Qin Jia Yuan Creation Co., Limited	BVI	USD1	**-**	**100**	–	100	Holding of scripts and synopses
Hangwai Enterprise Limited	BVI	USD1	**-**	**100**	–	100	Holding of distribution rights
Hang Hung Yip International Limited	BVI	USD1	**-**	**100**	–	100	Holding of distribution rights
Vast Top Investments Limited	BVI	USD1	**-**	**100**	–	100	Holding of adaption right
Great Mean Enterprises Limited	BVI	USD1	**-**	**100**	–	100	Holding of adaption right
SMI Culture Workshop Company Limited	HK	HK$1	**-**	**100**	–	100	Film investment
Sharp Cheer Enterprises Limited	BVI	USD1	**-**	**100**	–	100	Holding of distribution rights
Green Team Culture Asset Limited	BVI	USD10,000	**-**	**100**	–	100	Holding of publication and adaption right

34. INTERESTS IN PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/ country of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of issued share capital held by the Company				Principal activity
			2017		2016		
			Directly %	Indirectly %	Directly %	Indirectly %	
SMI Movie Company Limited	HK	HK$1	-	100	–	100	Film and TV program investment
必可視(北京)國際廣告傳媒有限公司	PRC	HK$12,000,000	-	100	–	100	Provision of TV program and production related service
天津星美雲視文化傳播有限公司	PRC	HK$15,000,000	-	100	–	100	Film and TV program investment
鋭達數碼科技(深圳)有限公司	PRC	RMB500,000	-	100	–	–	Software development and IT consultation
*廣州星美票務有限公司	PRC	RMB10,000,000	-	-	–	–	Sales of ticket through ticketing platform, software development and IT consultation

* The entity is a wholly owned subsidiary of Mr. Qin's affiliates and independent third parties. The directors of the Company are in the opinion that, notwithstanding the fact of the Group holds no nominal share of this company, having considered all facts and circumstances, the Group has control over the company and own 100% equity interest of the company. Please refer to Note 5(a) (iii) for details.

The above table includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the Group for the year or formed a substantial portion of the assets and liabilities of the Group at the end of the reporting period. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length. None of the subsidiaries had issued any debt securities at the end of the year.

35. DISPOSAL OF SUBSIDIARIES

On 11 August 2016, the Group entered into an agreement to dispose of four wholly owned subsidiaries ("Smart Beyond Group") to a third party for an aggregate consideration of HK$8. The subsidiaries were principally engaged in purchased license rights investment and television program productions business. The disposal was completed during the year ended 31 December 2016, a net gain on disposal of these subsidiaries of HK$32,858,000 was recognised.

The net assets of the Smart Beyond Group at the date of disposal were as follows:

	HK$'000	HK$'000
Intangible assets	4,409	
Trade and other receivables	3,844	
Cash and cash equivalents acquired	57	
Trade and other payables	(42,558)	
Non-controlling interests	1,391	(32,857)
Gain on disposal of subsidiary		32,858
Total consideration		1
Satisfied by:		
Cash		1
Net cash outflow arising on disposal		
Cash consideration		1
Cash and bank balances disposed of subsidiaries		(57)
		(56)

36. BUSINESS ACQUISITION DURING THE YEAR

On 31 October 2017, the Group acquired 100% of the voting equity instruments of the SMI Entertainment Group, a Group whose principal activity is movie ticketing and reservation and provision of IT technical service. The acquisition was made with the aims to explore the provision of online ticket booking and reservation services and IT technical service in the PRC market.

The provisional fair value of identifiable assets and liabilities of the acquire as at the date of acquisition were:

	HK$'000	HK$'000
Property, plant and equipment	175	
Intangible assets – ticketing platform	54,683	
Trade and other receivables	68,227	
Inventories	226	
Cash and cash equivalents acquired	626	
Trade and other payables	(67,993)	
Tax payable	(1,373)	
Deferred tax liabilities	(13,671)	
Amounts due to fellow subsidiaries	(13,806)	27,094
The fair value of consideration transfer:		
Cash	57,000	
158,333,000 ordinary share of HK$0.72 each	114,000	
Less: Sale loan assigned (note)	(36,300)	134,700
Goodwill (note 17)		107,606

The goodwill of HK$107,606,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

Since the acquisition date, SMI Entertainment Group has contributed HK$2,614,000 and HK$915,000 to Group's revenue and profit or loss. If the acquisition had occurred on 1 January 2017, Group revenue and loss would have been HK$151,933,000 and HK$127,854,000 respectively. This unaudited 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 2017, nor is it intended to be a projection of future performance.

Note: Pursuant to the Agreement, apart from the issued share capital, the benefit of the sale loan was assigned from the seller to the Group. As at the date of the Agreement, the sale loan amounted to HK$36,300,000.

37. RELATED PARTY TRANSACTION

(a) Related parties balances

Details of the Group's outstanding balances with related parties are set out in the consolidated statement of financial position and in note 23.

(b) Related parties transactions

During the year, the Group entered into the following transactions with related parties:

Name of related party	Related party relationship	Type of transaction	Transaction amount 2017 HK$'000	2016 HK$'000
Stella Mega Films Co., Ltd (星美影業有限公司)	Common director	Film rights income	**23,741**	–
Beijing Mingxiang International Cinema Mgt. Co., Ltd. (北京名翔國際影院管理有限公司)	Common shareholder	Service income of online ticketing	**628**	–
SMI Holdings	Immediate Parent	Acquisition of 100% equity interests of the SMI Entertainment Group	**171,000**	–

37. RELATED PARTY TRANSACTION *(continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2017 **HK$'000**	2016 HK$'000
Wages and salaries	**3,848**	4,479
Contributions on defined contribution retirement plans	**–**	23
	3,848	4,502

38. NOTES SUPPORTING CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	2017 **HK$'000**	2016 HK$'000
Short-term bank deposits	**–**	50
Cash held by securities broker	**–**	340,000
Bank balances and cash	**6,128**	68,744
	6,128	408,794
Significant non-cash transactions are as follows:		
Investment activities		
Equity consideration for business combination	**114,000**	–
Financing activities		
Exercise of convertible right of convertible loan notes	**65,906**	–
Other borrowing	**125,576**	–
	305,482	–

38. NOTES SUPPORTING CASH FLOW STATEMENT *(continued)*

(b) Reconciliation of liabilities arising from financing activities:

	Loan notes (note 26) HK$'000	Embedded derivatives (note 27) HK$'000	Convertible loan notes (note 27) HK$'000	Other borrowing (note 28) HK$'000	Amount due to fellow subsidiaries HK$'000	Amount due to directors HK$'000	Trade and other payables HK$'000
At 1 January 2017	445,531	55,685	159,573	125,576	–	360	67,977
Changes from cash flows:							
Proceed from directors	–	–	–	–	93,220	3,939	–
Payment to directors	–	–	–	–	(69,205)	(3,356)	–
Finance cost paid	–	–	–	–	–	–	(67,475)
	–	–	–	–	24,015	583	(67,475)
Changes in fair value	–	(28,989)	–	–	–	–	–
Other changes:							
Interest expenses	3,194	–	3,035	–	–	–	65,421
Debt conversion rights exercised	–	(12,111)	(53,795)	–	–	–	–
Shares issued for working capital	–	–	–	(125,576)	–	–	(6,322)
Shares issued for business acquisition	–	–	–	–	(10,695)	–	67,993
Movement of cash flow related to operating activities	–	–	–	–	–	–	(9,749)
Film investment remain unsettled	–	–	–	–	–	–	6,235
Total other changes	3,194	(12,111)	(50,760)	(125,576)	(10,695)	–	123,578
At 31 December 2017	448,725	14,585	108,813	–	13,320	943	124,080

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**453,318**	775,487
Financial liabilities		
Amortised cost	**694,502**	785,709
Embedded derivatives	**14,585**	55,685

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, amount due from a shareholder, amounts due from a related party, trade and other payables, amounts due to directors, loan notes, convertible loan notes and other borrowing.

Due to their short term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other approximates fair value.

(b) Financial instruments measured at fair value

The fair value of financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

The fair value of the embedded conversion option of convertible loan notes is estimated using a binomial option pricing model.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(continued)*

(b) Financial instruments measured at fair value *(continued)*

Significant unobservable inputs

Convertible Loan Note I (note 27 (a))	**2017**	2016
Stock price	**–**	HK$0.830
Exercise price	**–**	HK$0.675
Volatility	**–**	37.51%
Option life	**–**	0.72 years
Risk-free interest rate	**–**	0.53%

Convertible Loan Note II (note 27 (b))	**2017**	2016
Stock price	**HK$0.750**	HK$0.860
Exercise price	**HK$0.675**	HK$0.675
Volatility	**21.05%**	36.04%
Option life	**0.82 years**	0.82 years
Risk-free interest rate	**1.47%**	0.86%

Convertible Loan Note III (note 27 (c))	**2017**	2016
Stock price	**HK$0.750**	HK$0.860
Exercise price	**HK$0.675**	HK$0.675
Volatility	**22.00%**	37.73%
Option life	**0.61 years**	0.61 years
Risk-free interest rate	**1.39%**	0.82%

There were no changes in valuation techniques during the current and prior years.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(continued)*

(b) Financial instruments measured at fair value *(continued)*

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial liabilities at fair value through profit or loss				
Embedded conversion option of convertible loan note	**–**	**–**	**(14,585)**	**(14,585)**

	2016			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities at fair value through profit or loss				
Embedded conversion option of convertible loan note	–	–	(55,685)	(55,685)

There were no transfers between levels during the current and prior years.

40. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and foreign currency arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds of the Group is limited because the counterparties are banks with high credit ratings assigned by reputable credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk with exposure spread over a number of counterparties.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 34% (2016: 43%) and 79% (2016: 93%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the Television program related business and film investment segment.

40. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of all the borrowings and ensures compliance with loan covenants.

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's non-derivative and derivative financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

The Group	Weighted average effective interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount
	%	HK$'000	HK$'000	HK$'000
2017				
Non-derivatives:				
Trade and other payables	**–**	**122,701**	**122,701**	**124,080**
Amounts due to directors	**–**	**943**	**943**	**943**
Loan notes	**10.14**	**478,364**	**478,364**	**448,725**
Convertible loan notes	**7.62**	**116,052**	**116,052**	**108,813**
		718,060	**718,060**	**682,561**
2016				
Non-derivatives:				
Trade and other payables	–	55,029	55,029	55,029
Loan notes	6.23	468,355	468,355	445,531
Convertible loan notes	8.17	169,895	169,895	159,573
Other borrowing	17.50	131,070	131,070	125,576
		824,349	824,349	785,709

40. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from loan notes (note 26), convertible loan notes (note 27) and other borrowings (note 28).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (note 24). The Group's cash flow interest rate is mainly concentrated on the fluctuation of interest rates on bank balances.

Loan notes, convertible loan notes and other borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 50 (2016: 50) basis points in interest rates, with all other variables held constant, would decrease the Group's loss for the year and retained profits by approximately HK$31,000 (2016: increase the Group's profit for the year and retained profits by approximately HK$2,044,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 (2016: 50) basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The analysis is performed on the same basis for 2017.

(d) Currency risk

The Group mainly operated in Hong Kong and PRC with most of the transactions settled in Hong Kong dollars or Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates. 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.

40. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of embedded derivatives of the Group. At the end of reporting period, the Group is exposed to this risk through the conversion rights attached to the convertible loan notes issued by the Company as disclosed in note 27.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to the Company's share price risk at the reporting date only. If the Company's share price at the reporting date had been 10% higher/lower and assuming all other variables were held constant, the impact to the Group's post-tax profit for the year (as a result of changes in fair value of conversion and other embedded derivatives of convertible loan notes) would be:

	2017 **HK$'000**	2016 HK$'000
10% higher in Company's share price – Decrease in post-tax loss (2016: Increase in post-tax profit)	**9,819**	21,022
10% lower in Company's share price – Increase in post-tax loss (2016: Decrease in post-tax profit)	**7,377**	21,016

In the opinion of the directors of the Company, the sensitivity analysis above is unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the loan receivable with embedded derivation involves multiple variables and certain variables are interdependent.

41. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts, which includes the loan notes (note 26), convertible loan notes (note 27) and other borrowings (note 28), cash and cash equivalents (note 24) and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Notes 30 and 31 respectively. The Group's risk management reviews the capital structure on an on-going basis. As part of this review, the directors considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group may 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 and the redemption of existing debts.

The Group monitors capital using a gearing ratio, which is total debt divided by total capital plus total debt. Total debt is calculated as trade and other payables, amounts due to directors, amount due to fellow subsidiaries, loan notes and convertible loan notes, embedded derivatives and other borrowing.

	2017 **HK$'000**	2016 HK$'000
Total debt	**592,777**	786,725
Equity attributable to the owners of the Company	**787,570**	565,388
Total debt and equity	**1,380,347**	1,352,113
Gearing ratio	**75.3%**	139.3%

42. EVENTS AFTER THE REPORTING DATE

On 17 October 2017, the Company entered into a subscription agreement with Raising Elite Limited, an independent third party (the "Subscriber"), pursuant to which the Subscriber, has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 188,678,203 subscription shares at the subscription price of HK$0.75 per subscription share (the "Subscription"). On 29 December 2017, the Company and the Subscriber entered into a supplemental letter, pursuant to which the date on which the condition(s) of the Subscription to be fulfilled or waived pursuant to the subscription agreement and the completion date will be extended to 31 March 2018. On 28 March 2018, the Subscriber and the Company entered into a deed of termination, pursuant to which it was agreed among the parties that the subscription agreement (as supplemented by the supplemental letter dated 29 December 2017) would be terminated with effect from 28 March 2018 and the Subscriber will not proceed with the Subscription with effect from the deed of termination.

Financial Summary

	Year ended 31 December 2013 HK$'000 (Restated)	Year ended 31 December 2014 HK$'000 (Restated)	Year ended 31 December 2015 HK$'000	Year ended 31 December 2016 HK$'000	**Year ended 31 December 2017 HK$'000**
STATEMENT OF PROFIT OR LOSS					
Turnover	8,752	37,442	191,390	548,429	**134,948**
(Loss) profit before taxation	(676,273)	(517,539)	49,519	74,361	**(119,477)**
Income tax	33	(1,873)	(36,978)	(47,920)	**(14,437)**
Profit (loss) for the year from discontinued operation	1,899	(43,843)	6,061	–	**–**
(Loss) profit after taxation	(674,341)	(563,255)	18,602	26,441	**(133,914)**
Attributable to:					
Equity shareholders of the Company	(675,376)	(560,689)	19,476	22,961	**(133,063)**
Non-controlling interests	1,035	(2,566)	(874)	3,480	**(851)**

	As at 31 December 2013 HK$'000	As at 31 December 2014 HK$'000	As at 31 December 2015 HK$'000	As at 31 December 2016 HK$'000	**As at 31 December 2017 HK$'000**
STATEMENT OF FINANCIAL POSITION					
Total assets	1,136,130	552,903	727,656	1,560,416	**1,666,993**
Total liabilities	(284,452)	(264,753)	(233,868)	(995,844)	**(881,089)**
Net assets	851,678	288,150	493,788	564,572	**785,904**
Total equity attributable to equity shareholders of the Company	849,280	288,318	499,870	565,388	**787,571**
Non-controlling interests	2,398	(168)	(6,082)	(816)	**(1,667)**
Total equity	851,678	288,150	493,788	564,572	**785,904**