星美控股

SMI HOLDINGS GROUP LIMITED
星美控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

Annual Report 2017

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WAI Yee Tai *(Chairman)*
(Appointed on 5 September 2017)
Mr. YANG Rongbing *(Chief Executive Officer)*
Mr. KOH Kok Sim *(Chief Operating Officer)*
(Appointed on 1 September 2017 and resigned on 9 March 2018)
Mr. CHENG Chi Chung
Mr. KONG Dalu (Appointed on 6 April 2017)
Mr. PAN Jen Kai (Appointed on 9 March 2018)

Non-Executive Directors

Dr. YAP Allan (Resigned on 28 November 2017)
Mr. HUNG Ka Hai Clement (Appointed on 16 January 2017 as independent non-executive director and re-designated on 15 March 2017)

Independent Non-Executive Directors

Mr. PANG Hong
Mr. LI Fusheng
Mr. LI Wing Yin (Resigned on 16 January 2017)
Mr. WONG Shui Yeung (Appointed on 13 April 2017)

AUDIT COMMITTEE

Mr. PANG Hong
Mr. LI Fusheng
Mr. LI Wing Yin (Resigned on 16 January 2017)
Mr. HUNG Ka Hai Clement (Appointed on 16 January 2017)
Mr. WONG Shui Yeung *(Chairman)*
(Appointed on 13 April 2017)

REMUNERATION COMMITTEE

Mr. LI Fusheng *(Chairman)*
Mr. PANG Hong
Mr. LI Wing Yin (Resigned on 16 January 2017)
Mr. HUNG Ka Hai Clement
(Appointed on 16 January 2017)

NOMINATION COMMITTEE

Mr. PANG Hong *(Chairman)*
Mr. LI Fusheng
Mr. LI Wing Yin (Resigned on 16 January 2017)
Mr. HUNG Ka Hai Clement
(Appointed on 16 January 2017)

COMPANY SECRETARY

Mr. TSANG Chun Yiu (Resigned on 31 July 2017)
Mr. WONG Wing Shun (Appointed on 31 July 2017)

AUTHORIZED REPRESENTATIVES

Mr. CHENG Chi Chung
Mr. YANG Rongbing

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

SHARE REGISTRARS

Principal Share Registrar in Bermuda

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

BRANCH SHARE REGISTRAR IN HONG KONG

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

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

00198.HK

WEBSITE

http://www.smi198.com

Chairman's Statement

To all Shareholders:

On behalf of the board ("Board") of directors ("Directors") of SMI Holdings Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2017.

In recent years, the film market in Mainland China has enjoyed leapfrog development. According to the statistics of the Film Division of the State Administration of Radio and Television of the People's Republic of China (the "PRC"), for the year ended 31 December 2017 (the "Year"), the total number of screens across China exceeded 50,000, surpassing the USA and has become the country with the highest number of screens in the world. The total box office receipts amounted to RMB55.91 billion, representing a year-on-year increase of 13.5%, the first time for China's annual total box office to record a revenue of over RMB55 billion, and continued as the world's second largest movie market. Entering 2018, the movie market in Mainland China ushered in "the Strongest Chinese New Year Cinema Audienceship Ever", which resulted in the February box office's receipts to surpass RMB10 billion and became the top of the world for single-month box office receipts. The outlook of the overall increase of the 2018 box office remains to be optimistic.

UPGRADING OLD MOVIE THEATRES AND CREATING THE NEW ERA OF CHINA'S MOVIE THEATRES 2.0

China's film market grows rapidly, competition between movie theatres becomes more and more intense. Since the Group entered the domestic movie theatre industry early, the facilities of individual old movie theatres can no longer satisfy consumers' demand for quality, and as such, upgrading and transformation is imperative. The Group commenced its upgrading project in 2017, and expects to complete the offline facilities upgrade of its movie theatres in 2018, including expanding the equipment in movie theatre, offline facilities and membership service, with an aim to establishing the new era of China's Movie Theatres 2.0.

As at 31 December 2017, the number of SMI Group's movie theatres reached 365, the total number of screens exceeded 2,290 pieces, spreading across 30 provinces, municipalities and autonomous regions and over 140 cities. In 2018, the Group will continue its effort in movie theatres network expansion, with a plan to own 400 movie theatres by the end of the year through self-operation and acquisition.

ARRANGING NEW ECOSYSTEM OF MOVIE THEATRES BASED ON MEMBERS' BIG DATA

To break away from the homogenization of competition in the industry, SMI has commenced an ecological deployment based on supporting facilities and channels as early as 2011, laying the foundation for a new movie theatre ecosystem of "New Marketing, New Retail, New Development". In 2018, SMI will carry out upgrading of marketing scenes in its 100 movie theatres with continuous efforts in expanding its scope of operation and income from non-box office business.

Currently the Company has approximately 40 million members, and is shifting its operating mode from the focus on movie theatres to focus on membership. The Group expanded ecological businesses relating to its members and has currently made connections between different businesses. With only one membership identity, one can enjoy the comprehensive services from SMI Mobile, SMI Living and SMI Ticket. During 2017, the SMI Group carried out a complete upgrade to its membership strategic product - Movie Card (隨影卡) and promoted it extensively through online and offline channels, which has effectively enhanced the members' sense of affiliation and promoted the members' value-added business.

SMI Mobile is a platform entry through which SMI will build new media, realise multi-panel interaction and enrich members' diversified entertainment experience in the future. It is the only enterprise in the domestic cultural media industry, which has received a virtual network operator license from the Ministry of Industry and Information Technology of the PRC (工信部虛擬電信運營商牌照). The total number of users has surpassed 2 million within two years of its establishment. Members can redeem movie tickets on SMI Mobile's channel with their accumulated credits, and complete the ticket purchasing and seat selection processes on the SMI Ticket App. The consistent efforts made by the new retail business of SMI Living has separated itself from the monotonous mode of "movie ticket + popcorn + coke". Extensive analyses are carried out on the members' data, with respect to movie watching frequencies, purchase amounts and consuming behaviours. With the advantages of offline facilities, enriched product contents and free delivery within 2 kilometre perimeter of movie theatres, members are provided with personalised, customised services.

Relying on the Group's 365 movie theatres and 40 million members, in 2018, the SMI Group will continue to strengthen its main operating business and deepen its "New Retail" mode by means of technological innovations to establish the new era of China's Movie Theatres 2.0, promoting innovation updates in China's culture industry.

Chairman
Mr. WAI Yee Tai

Hong Kong, 29 March 2018

Management Discussion and Analysis

INDUSTRY REVIEW

According to the statistics of the Film Division of the State Administration of Radio and Television of the People's Republic of China (the "PRC"), China continues to be the world's second largest movie market. For the year ended 31 December 2017 (the "Year" or the "Reporting Period"), China's total movie box office receipts amounted to RMB55.91 billion, representing a year-on-year increase of 13.5%. It is the first time for China's annual total movie box office to record a revenue of more than RMB55 billion. The urban cinema admission was 1,620 million, representing an increase of 18.1% as compared with 1,370 million for the same period last year. In 2017, there were 9,169 theatres in the country, with 9,597 newly added screens across China and the total number of screens has exceeded 50,000. China maintained its record as the country with the largest number of screens in the world.

According to statistics of the National Bureau of Statistics, China's per capita GDP in 2017 was approximately RMB59,000. The national disposable income per capita was RMB25,974, representing a year-on-year growth of 7.3% in real terms. The national per capita consumption expenditure for the Year was RMB18,322, representing a year-on-year growth of 5.4% in real terms, in which educational, cultural and entertainment expenditure was RMB2,086, representing a year-on-year growth of 8.9% in real terms and accounting for 11.4% of per capita consumption expenditure. The increase in income brought impetus to demand for cultural and entertainment consumption. With the upgrade in consumption, the movie industry in China will have a great development potential, especially in the movie derivative market. Apart from traditional cinema advertisements and sales of products, income from games, food and beverages and retail development around the movies will increase continuously in the future, and may even surpass that of the box office receipts.

BUSINESS REVIEW

The Group's operating revenue for the Year reached approximately HK$3,789,000,000, representing an increase of 13.1% as compared with HK$3,351,000,000 for 2016. Gross profit was approximately HK$978,000,000 (2016: approximately HK$1,207,000,000), representing a gross margin of 25.8% (2016: 36.0%). Loss for the year approximately HK$267 million (2016: profit for the year approximately HK$407 million).

Movie Theatre Business

For the year ended 31 December 2017, the Group's movie theatre business segment generated a revenue of approximately HK$3,027,000,000, representing an increase of 2.6% as compared with HK$2,951,000,000 for the corresponding period in 2016.

Profit of this segment decreased 86.0% to approximately HK$104 million (2016: HK$739 million) due to that impairment loss in goodwill and other assets amounted to approximately HK$347 million and approximately HK$68 million respectably was recorded in the Year.

As at 31 December 2017, the Group owned 365 movie theatres and 2,290 screens, representing a substantial growth as compared with 260 movie theatres and approximately 1,820 screens as at 31 December 2016. The Group will continue to leverage on the advantage of the industry and push forward the strategy of "one cinema in every county", that is, to operate at least one movie theatre in every county in China in order to capture the opportunity in the industry. It is expected that by late 2018, the total number of movie theatres owned by the Group in China will be approximately 450.

During the Year, the capital and financial structures of the Group was further optimised, Chengdu Runyun Culture Broadcasting Company Limited ("Chengdu Runyun"), a subsidiary of the Company, completed a capital increase of RMB2,210 million, effectively supplementing the Company's funds. The proceeds from the capital increase will be used for the construction and acquisition of new movie theatres as well as for the repayment of certain interest-bearing debts of the Group.

SMI Living

During the Year, SMI continuously returned benefits to its members in form of innovations and its sincerity. As at 31 December 2017, the accumulative number of members under the new membership scheme reached 40 million. Meanwhile, the Group actively set up the "New Retail" platform, and carried out strategic upgrades by leveraging on the Group's 365 theatres and 40 million members, so as to create more output value. Through the cloud platform, the Group analyses the members' needs instantly and "understands exactly what the members need" rather than "guess what the members would like". Gradually, more strategic partners will be introduced and the platform for own products will be constantly enriched. With technology means such as big data, artificial intelligence, the SMI Living ecosystem will be revamped to achieve upgrade of consumption facilities. Following the successive launching of the 3C Digital Centre and Maternal-Infant Care Supplies Centre, the experiential consumption mode in relation to movie theatres is emerging.

During the Year, the segment of retailed sales business generated revenue of approximately HK$624,000,000, representing an increase of 62.9% as compared with HK$383,000,000 in 2016. Profit increased 13.2% to approximately HK$27.0 million in this segment (2016: HK$23.9 million), which shows that the Group's "New Retail" strategy has been gradually achieving results.

PROSPECTS

During the 2018 Chinese New Year period (16 February 2018 to 22 February 2018), China's movie box office receipts reached RMB6.37 billion, representing a significant increase of nearly 70% as compared with the same period last year. Benefitting from "the Strongest Chinese New Year Cinema Audienceship Ever", the Mainland China's movie box office receipts in February 2018 unprecedentedly broke the mark of RMB10 billion and became the top of the world for single-month movie box office receipts. Some industry players even made bold forecasts that the annual movie box office receipts of China in 2018 will surpass RMB70 billion. Data shows that watching movies has become a common way of entertainment in China. As per capita income increases continuously, demand for culture and entertainment will continue to rise. It is expected that the movie theatre business will continue to benefit.

The Chinese government has launched a series of measures in recent years, including the "Notice of Economic Policies Supporting the Development of the Film Industry" (《關於支持電影發展若干經濟政策的通知》), "National Film Industry Development Funds Collection and Management Approach"(《國家電影事業發展專項資金徵收使用管理辦法》) and "Film Industry Promotion Act" (《電影產業促進法》), to regulate and support the development of the film industry. Meanwhile, the upgrade in new consumption and the change in the public's attitude towards entertainment consumption is expected to give momentum to the development of the movie-related businesses.

Looking into 2018, SMI will continue its deployment of movie theatres expansion and at the same time intensify its upgrading work of traditional movie theatres and endeavour to create the new movie theatre ecosystem of "New Marketing, New Retail, New Development", so as to start a new era in movie theatre development with cooperating partners.

In the future, SMI will continue to focus on members' core demand as its operating direction, leveraging on modern logistic means and platform of experiential mode, and supplemented by innovations of intelligent technology. SMI's "New Retail" model will be created by incorporating duplications of successful models. In the future, movie watching will only be one of the underlying businesses in SMI's business chain, while "SMI Living", the new retail platform, will lead the traditional movie theatres in carrying out whole-elements, multi-dimensional and systematic innovative reforms.

FINANCIAL REVIEW

Turnover, Revenue and Profit for the year

During the year ended 31 December 2017, total revenue amounted to approximately HK$3,789 million (2016: approximately HK$3,351 million), an increase of 13.1% as compared with 2016.

During the Year, the Group continuously expanded through acquisition and self construction. The number of the theatres and the screens owned by the Group increased significantly with the core business of the Group recording an increase.

Due to the continuous increase in the operating cost as a result of recovering economy which drives the growth of the enterprise, as well as certain portion of borrowings were completed in late 2016, the cost of sales and finance cost for the Year, recorded a relatively large increase. Since time was required for some of the newly acquired theatres to be consolidated, the revenue growth did not increase as the management expected. Therefore, a larger provision for goodwill of newly acquired theatres for the Year was made. An impairment of approximately HK$347,000,000 was made for goodwill for the Year (2016: approximately HK$47,000,000). Also an impairment of approximately HK$68,000,000 was made for various assets.

In addition, SMI Culture & Travel Group Holdings Limited ("SMI Culture") (Stock code: 2366), a subsidiary of the Group, shrank the investment scale in movies, resulting in a record of loss.

The loss after tax for the Year was approximately HK$267,000,000 (2016: profit of approximately HK$407,000,000). Excluding the abovemention impairment of goodwill and assets, profit for the year will be approximately HK$149,000,000.

During the year ended 31 December 2017, the segment revenue and profit were mainly contributed by theatre operation.

The revenue of theatre operation for the year ended 31 December 2017 increased by approximately HK$76 million compared to the corresponding period in 2016. Affected by the impairment of goodwill, the profit decreased by 86% from approximately HK$739 million in 2016 to approximately HK$104 million in 2017.

An impairment of approximately HK$68,000,000 was made for other assets for the Year.

Furthermore, retail business segment recorded revenue of approximately HK$624 million. Segment profit of approximately HK$27.0 million (2016: profit HK$23.9 million) was recorded during the Reporting Period.

Selling, Marketing and Administrative Expenses

The selling, marketing and administrative expenses increased by 12.7%, which were mainly attributable to the increase in number of theatres acquired and construction completed during the year ended 31 December 2017.

Financial Costs

Financial costs were mainly represented by the interest of approximately HK$262,268,000 from bank and other loans, interest of approximately HK$176,397,000 from bonds, interest of approximately HK$105,434,000 from convertible notes, interest of approximately HK$32,755,000 from securities margin facilities and finance lease charges of approximately HK$15,667,000.

Financial Resources and Liquidity

As at 31 December 2017, the Group had net current liabilities of approximately HK$3,050 million. The Group has been operating in profit and positive operating cash inflow is recorded since 2011. The Group meets the potential investors from time to time to expand the capital structure of the Company for short term working capital and long term capital investment. In addition to the Group's successful fund raising activities organised at past, the Directors believe that the Group will have sufficient cash resources to satisfy its future working capital requirement.

As at 31 December 2017, the gearing ratio (total borrowings (including convertible notes) to total assets of the Company) reduced from 33.0% from 46.1% in 2016, which was mainly due to increase of goodwill approximately HK$1,559 million, increase in progress payment approximately HK$41 million and increase in deposits paid approximately HK$139 million.

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

Capital expenditures
During the Year, the expenditures on leasehold land and buildings, leasehold improvements and theatre equipment of the Group increased approximately HK$690 million. The Group also acquired a number of subsidiaries for an aggregated consideration of approximately HK$1,719 million. The above expenditures were mainly related to the construction and acquisition of movie theatres by the Group all over China.

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

As at 31 December 2017, the Group and the Company did not have any other significant contingent liabilities.

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

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

(a) The Group's building situated in the PRC amounted to approximately HK$205,057,000 (2016: HK$24,456,000) was pledged to secure for certain bank borrowings granted to the Group.

(b) the Group assigned the movie box office's receipts and receivables from the movie theatres operated by certain subsidiaries in the PRC to the financial institutions for securing the repayments of FY 2015, FY 2016 Trust loans (the "Trust Loans") and FY 2017 Other Loan in the next five year.

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

(d) As at 31 December 2017, all equity interests in a subsidiary and held-for-trading investments were used as contingent collaterals for the margin account facilities granted to the Group.

Employees
Excluding the staff of associates, the Group had approximately 6,400 full-time staff as at 31 December 2017 (including Directors but excluding part-time staff). The Group offers remuneration and benefit packages to its employees according to the prevailing salary levels in the market, individual merits and performance.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. WAI Yee Tai, aged 40, was appointed as an executive Director and the chairman of the Board on 5 September 2017. He has approximately 15 years' working experience and extensive knowledge in the field of private banking, and wealth management in Singapore. Mr. Wai obtained a bachelor's degree in Economics (major in Banking and Finance) at University of London (External) in 1999. Mr. Wai is an executive director of private wealth management, Institutional Equity Division of Morgan Stanley Asia Limited from 2015, focus on serving ultra-high net worth individuals, corporates and institutions. From 2003 to 2015, Mr. Wai worked in Citibank Singapore Limited, with the latest position of elite plus relationship manager of global consumer bank.

Mr. YANG Rongbing, aged 38, was appointed as an executive Director on 3 May 2013 and the CEO of the Company on 6 April 2017. He holds a MBA from Central University of Finance and Economics. Mr. Yang joined the Group in 2010 and is an executive Director and the vice president of the Company. Mr. Yang is mainly responsible for corporate strategy whilst oversees a list of key operational departments including finance, investment, human resources and legal. Mr. Yang has extensive experience in investment and finance, and familiar with relevant areas with regard to the media industry, including financial markets and tax planning. Mr. Yang is also an expert in adopting a wide range of innovative financial vehicles to support rapid growth and continuously improving capital structure. Mr. Yang has acquired extensive experience in financial management, capital planning, internal control, investment and financing and capital financial strategy from serving various financial and investment roles in state-owned enterprises and institutions such as Beijing Golden Tide Group Co., Ltd., Foreign Economic Cooperation Office under Ministry of Environmental Protection, Center for Development of Trade and Control of Investment in Europe, etc.

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

Mr. CHENG Chi Chung, aged 51, was appointed as an executive Director on 22 November 2011. He holds an EMBA degree from Tsinghua University of Beijing and a bachelor degree from Taiwan University, and obtained Special Awards and honor of the 44th National Culture and Arts in China. He served as the chief executive officer of Beijing Gome Online Co., Ltd. (北京國美在線有限公司), the director of Eastern Broadcasting Co., Ltd. (東森集團), the general manager of Eastern Broadcasting and Eastern Shopping (America) (東森電視及東森購物(美洲)), the general manager of Eastern Public Relations Company (東森公關公司) and the director of Eastern Broadcasting News Channel (東森電視新聞台). Mr. Cheng has extensive management experience in culture, media and retail areas.

Mr. KONG Dalu, aged 45, was appointed as an executive Director on 6 April 2017. He has approximately 20 years' working experience and extensive knowledge in the field of banking, corporate finance and investment in Hong Kong and Mainland China. Mr. Kong obtained a bachelor's degree in Economics (major in International Finance) at Wuhan University in the PRC in 1994.

Mr. Kong was a foreign exchange manager and foreign exchange trader in the international business department in the headquarters of Hua Xia Bank Co., Limited from 1994 to 1997. From 1997 to 2007, Mr. Kong also served at senior management level respectively at China Minsheng Bank Corp., Ltd. and Bank of Communications Co., Ltd. Since 2007, Mr. Kong has acted as a director of Xince (Hong Kong) Investment Development Co. Limited, being an equity investment company incorporated in Hong Kong. During the period from 2008 to 2011, Mr. Kong also acted as a director of Haitong Securities Company Limited (Shanghai Stock Code: 600837), being a company listed on the Shanghai Stock Exchange. Mr. Kong was an executive director of SMI Culture & Travel Group Holdings Limited (Stock code: 2366) from 7 June 2014 to 9 March 2018, the shares of which are listed on the Main Board of the Stock Exchange.

Mr. PAN Jen Kai, aged 38, was appointed as an executive Director on 9 March 2018. He has over 18 years' experience in equity research, corporate finance, investment banking, assets management and listed companies. He obtained a Master of Science degree in global finance in Leonard N. Stern School of Business of New York University.

NON-EXECUTIVE DIRECTOR

Mr. HUNG Ka Hai Clement, aged 62, was appointed as an independent non-executive Director on 16 January 2017 and re-designated as an non-executive Director on 15 March 2017. He retired from the Chairman role of Deloitte China in June 2016. He also represented Deloitte China in the Deloitte Global Board and Governance Committee as a member during at that time.

Mr. Hung has served Deloitte China firm for 31 years. He has extensive experience in the areas of initial public offerings, mergers and strategic acquisitions and corporate finance, and advising multinational corporations, public companies and enterprises in Hong Kong and the People's Republic of China and is an expert in listings in Main Board and GEM in the Hong Kong Stock Exchange. Recently the Ministry of Finance of People's Republic of China appointed him as an expert Consultant under his extensive experience as a Hong Kong accounting professionals.

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

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

Mr. Hung is the independent non-executive director of Gome Finance Technology Co., Ltd. (Stock code: 628), Henry Group Holdings Limited (Stock code: 859), and LT Commercial Real Estate Limited (Stock code: 112). He is also a non-executive director of High Fashion International Limited (Stock code: 608), whose shares are listed on the main board of the Stock Exchange. Mr. Hung is also an independent non-executive director of Sheng Ye Capital Limited (Stock code: 8469), of which it shares are listed on the GEM of the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. PANG Hong, aged 63, was appointed as an independent non-executive Director on 28 September 2004. Mr. PANG had worked for various enterprises and government departments in China for over 20 years. He has substantial knowledge of the investment environment in China and has extensive experience in the management of Chinese companies. After studying in the United States for 3 years, he came to Hong Kong to further his career development. He is currently engaged in providing private management consultancy services. Mr. PANG is the independent non-executive director of Shaw Brothers Holdings Limited (Stock code: 953) and Sino Haijing Holdings Limited (Stock Code: 1106), both shares are listed on the Main Board of the Stock Exchange.

Mr. LI Fusheng, aged 56, was appointed as an independent non-executive Director on 10 October 2013. Mr. LI is the manager of Beijing Office of Hong Kong Ta Kung Pao. Since joining Ta Kung Pao in 1994, Mr. LI has reported many breaking news and important events. He has reported many significant events in Mainland China, such as reporting the news about the National People's Congress and Chinese People's Political Consultative Conference for 20 consecutive years, and the Beijing Olympic Games. Mr. LI has extensive experience and network in the media industry.

Mr. WONG Shui Yeung, aged 47, was appointed as an independent non-executive Director on 13 April 2017. Mr. Wong has over 20 years of experience in public accounting, taxation, secretarial and financial consultancy and management in Hong Kong. He is a practising member and fellow of Hong Kong Institute of Certified Public Accountants and a member of Hong Kong Securities and Investment Institute. Mr. Wong is the independent non-executive director of Singapore eDevelopment Limited (Stock code: 40V), the shares of which are listed on the Catalist of the Singapore Exchange Securities Trading Limited.

Directors' Report

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are operating movie theatres in PRC. Details of the Company's principal subsidiaries and associates as at 31 December 2017 are set out in notes 50 and 20 to the consolidated financial statements on pages 121 to 125 and 86 respectively. There were no significant changes in the nature of the principal activities of the Company and of the Group during the year ended 31 December 2017.

BUSINESS REVIEW AND PERFORMANCE

A review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and a discussion on the Group's future business development and outlook of the Company's business, possible risks and uncertainties that the Group may be facing and important events affecting the Company occurred during the year ended 31 December 2017 are provided in the section headed "Chairman's Statement" on pages 3 to 4, the section headed "Management Discussion and Analysis" on pages 5 to 8 of this annual report and the paragraph headed "Principal Risks and Uncertainties" of this section of this annual report. An analysis of the Group's performance during the year ended 31 December 2017 using financial performance indicators is provided in the section headed "Management Discussion and Analysis" on pages 5 to 8 of this annual report. An account of the Company's relationships with its employees, suppliers and customers is included in the paragraph headed "Relationship with Employees, Suppliers, Customers and Other Stakeholders" of this section of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Business Risk

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

Liquidity Risk

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35. The Board does not recommend the payment of a final dividend for the year ended 31 December 2017. (2016: HK1.32 cents per ordinary share).

SHARE CAPITAL AND RESERVES

As at 31 December 2017 the total number of shares issued by the Company was 2,720,041,916 shares. Movements in the Company's authorized and issued share capital are set out in note 40 to the consolidated financial statements on page 108.

Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 38 to 39 and those of the Company are set out in note 51 to the consolidated financial statements on pages 126 to 129.

PROPERTY, PLANT AND EQUIPMENT

Details of the Group's property, plant and equipment during the year ended 31 December 2017 are set out in note 16 to the consolidated financial statements on pages 80.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors:

Mr. WAI Yee Tai	*(Chairman)* (Appointed on 5 September 2017)
Mr. YANG Rongbing	*(Chief Executive Officer)*
Mr. KOH Kok Sim	(Appointed on 1 September 2017 and resigned on 9 March 2018)
Mr. CHENG Chi Chung	
Mr. KONG Dalu	(Appointed on 6 April 2017)
Mr. PAN Jen Kai	(Appointed on 9 March 2018)

Non-executive Directors:

Dr. YAP Allan	(Resigned on 28 November 2017)
Mr. HUNG Ka Hai Clement	(Appointed on 16 January 2017 as an independent non-executive Director and re-designated as a non-executive Director on 15 March 2017)

Independent non-executive Directors:

Mr. PANG Hong	
Mr. LI Fusheng	
Mr. LI Wing Yin	(Resigned on 16 January 2017)
Mr. Wong Shui Yeung	(Appointed on 13 April 2017)

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Company's bye-laws (the "Bye-laws"), Mr. WAI Yee Tai and Mr. PAN Jen Kai were appointed by the Board as executive Directors of the Company after the last annual general meeting dated 2 June 2017. They shall retire from office, and being eligible, have offered themselves for re-election at the forthcoming 2018 annual general meeting of the Company.

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

All annual remuneration packages of the Directors were determined on arm's length negotiations between the parties based on their respective contributions to and responsibilities in the Company. No Director proposed for re-election at the forthcoming 2018 annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation. Details of the Director's emoluments are set out in note 12 to the consolidated financial statements.

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2017, the interests and short positions of the Directors and chief executive in the shares of the Company and their associates or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity	Register Shareholders	Underlying Interest	Total	Approximate % of Shareholding
WAI Yee Tai (Appointed on 5 September 2017)	Beneficial Owner	–	6,000,000	6,000,000	0.22
YANG Rongbing	Beneficial Owner	1,066	7,000,000	7,001,066	0.26
CHENG Chi Chung	Beneficial Owner	–	4,500,000	4,500,000	0.17
KONG Dalu (Appointed on 6 April 2017)	Beneficial Owner	–	7,000,000	7,000,000	0.26
KOH Kok Sim (Appointed on 1 September 2017 and resigned on 9 March 2018)	Beneficial Owner	–	6,000,000	6,000,000	0.22

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company, subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 30 September 2009. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to eligible participants, including the Directors of the Company, as incentives or rewards for their contributions to the Group. Details of the scheme are set out in note 41 to the consolidated financial statements.

During the year ended 31 December 2017, certain existing executive Directors of the Company and other eligible participants have interests in share options to subscribe for shares in the Company. Details of such interests and movement of share options granted by the Company are shown below:

	Date of Grant	Exercise period	Balance as at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31 December 2017	Exercise price per share (HK$)
WAI Yee Tai	12 October 2017	Note 1	0	6,000,000	–	–	6,000,000	4.37
YANG Rongbing	12 October 2017	Note 1	0	7,000,000	–	–	7,000,000	4.37
KOH Kok Sim	12 October 2017	Note 1	0	6,000,000	–	–	6,000,000	4.37
CHENG Chi Chung	12 October 2017	Note 1	0	4,500,000	–	–	4,500,000	4.37
KONG Dalu	12 October 2017	Note 1	0	7,000,000	–	–	7,000,000	4.37
Other Eligible Participants	12 October 2017	Note 1	0	53,500,000	–	–	53,500,000	4.37

Notes:

(1) From 12 October 2017 to 12 October 2019 (both days inclusive) provided that the maximum number of share options granted on 12 October 2017 which may be exercisable of by each of the Grantee in each one year of the exercise period shall not exceed half of the options granted to that Grantee.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2017, so far as it is known to the Directors, the following parties (other than the Directors and chief executive of the Company) had interests of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under Section 336 of SFO:

Substantial Shareholder	Beneficial Owner	Corporate Interest	Family Interest	Long Position	Short Position	% of total issued share
Mr. QIN Hui (Notes 1 and 2)	1,767,025,513	1,285,828	–	1,767,025,513	–	65.01%

Notes:

1. Mr. QIN Hui is beneficially interested in 1,767,025,513 shares.

2. Mr. QIN Hui owns the entire interest in Strategic Media International Limited ("SMIL") and was accordingly deemed to be interested in 1,285,828 shares which are held by SMIL.

Save as disclosed herein, the Company has not been notified by any other person (other than a Director of the Company) who had an interest or a short position in the shares and underlying shares as recorded in the register to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director of the Company had a material interest in any business apart from the business of the Group which directly or indirectly completed or likely to compete with the business of the Group at the end of the year or at any time during the year ended 31 December 2017 which is required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

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

1. MANAGEMENT CONTRACTS

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

2. PERMITTED INDEMNITY PROVISION

Subject to the applicable laws, every Director and other officers of the Company shall be entitled to be indemnified by the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur in the execution and discharge of his or her duties or in relation thereto pursuant to the Bye-laws. Such provisions were in force during the course of the financial year ended 31 December 2017 and remained in force as of the date of this report. The Group has also taken out and maintained liability insurance for Directors and officers throughout the year.

MAJOR CUSTOMERS AND SUPPLIERS

There are no major customer contributing over 10% of the Group's revenue during the year ended 31 December 2017 and 2016.

CONTRACTUAL ARRANGEMENTS

Structured Contracts

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

(a) Exclusive Business Cooperation Agreement

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

(i) corporate operation management;

(ii) business support;

(iii) business-related technical services;

(iv) internet support;

(v) business consultation;

(vi) intellectual property permission;

(vii) equipment or lease;

(viii) market consultation;

(ix) system integration;

(x) product research and development;

(xi) system maintenance; and

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

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

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

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

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

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

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

Note 1:

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

1. 成都潤運文化傳播有限公司, a company established in the PRC with limited liability and is held as to 43.03% and 41.34% by 深圳星美聖典文化傳媒集團有限公司 and 星美國際影院有限公司, respectively;

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

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

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

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

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

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

Note 2:

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

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

Note 3:

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

1. 深圳星美聖典文化傳媒集團有限公司;

Reasons for using contractual arrangements

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

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

Significance of business of the PRC Subsidiaries to the Group

The Group is engaged in the movie theatre operation through the Structured Contracts. For the year ended 31 December 2017, the revenue and assets from this segment account for approximately 88.1% and 77.3% of the total revenue and total assets of the Group, respectively.

The risk associated with the contractual arrangements

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

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

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

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

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

Actions taken by the Company to mitigate the risks

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

No Material Change

Save as disclosed in note 56 to the financial statements, there has been no material change in the Structured Contracts and/or the circumstances under which they were adopted up to the date of this report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 15 March 2017, Chengdu Runyun, a subsidiary of the Company, entered into the capital increase agreements (the "Capital Increase Agreements") with Zhongtai Specialty Financing Holdings Limited, Hesheng No.1 (Shenzhen) Investment Centre (Limited Partnership), Dongzheng Guiding (Shanghai) Investment Partnership (Limited Partnership) and CCB International (Shenzhen) Investment Co., Ltd (collectively, the "Investors") respectively, pursuant to which the Investors have conditionally agreed to make an aggregate capital contribution of RMB2,500,000,000 (the "Capital Increase"), in exchange of a total of 15.625% of the enlarged equity interest of Chengdu Runyun.

Chengdu Runyun is a subsidiary of the Company and is principally engaged in operation and management of movie theatre business. The Company has obtained written approval for the Capital Increase pursuant to Rule 14.44 of the Listing Rules from the controlling shareholder of the Company which holds more than 50% of the issued share capital of the Company giving the right to attend and vote at a general meeting. Following the completion of the Capital Increase under the Capital Increase Agreements, the ownership interests of the Group in Chengdu Runyun has been diluted from 100% to 84.375%. As the ownership interests of the Group in Chengdu Runyun has been diluted from 100% to 84.375%, the Capital Increase constitutes a deemed disposal of the Company pursuant to Rule 14.29 of the Listing Rules.

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

During the year ended 31 December 2017, the Company purchased 11,000,000 shares of its own ordinary shares of the Company of HK$0.10 each share at the highest and lowest prices of HK$0.74 and HK$0.66 per share respectively ("Shares Repurchase"). The Company conducted the Shares Repurchase because the Board considered that the then value of the Company's shares was consistently undervalued, and the Board believed that the then financial resources of the Company would enable it to conduct the Shares Repurchase while maintaining a solid financial position for the continuation of the Company's business in the financial year.

Detail information of the purchase, sales or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year ended 31 December 2017 were disclosed in note 40 of the consolidated financial statements.

PUBLIC FLOAT

As at 31 December 2017, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Board.

PRE-EMPTIVE RIGHTS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. As a responsible corporation, to the best knowledge of the Directors, the Group has complied with all relevant laws and regulations regarding environmental protection during the year ended 31 December 2017. Further details about the environmental and social responsibility which will be published in separate report to be uploaded on the websites of the Company and the Stock Exchange within three months after the publication of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS
The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. To the best knowledge of the Directors, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2017.

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

RETIREMENT BENEFITS SCHEMES
Details of the Group's retirement benefit schemes are set out in note 13 to the consolidated financial statements on page 79.

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

As at 31 December 2017, the Group and the Company did not have any other significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD
Details of significant events occurring after the date of statement of financial position are set out in note 56 to the consolidated financial statements on page 135.

FIVE YEAR FINANCIAL SUMMARY
A summary of the results and the assets and liabilities of the Group for the last four financial years and for the year ended 31 December 2017 is set out on page 136 of the annual report.

AUDITOR
Messrs Deloitte Touche Tohmatsu ("Deloitte") will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Deloitte as the auditor of the Company.

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

On behalf of the Board
WAI Yee Tai
Chairman

Hong Kong, 29 March 2018

Corporate Governance Report

OVERVIEW OF CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board believed that effective internal control and corporate governance practices are essential for the sustainable growth for the Group and for safeguarding and maximizing the interest of the shareholders.

The Company has established a corporate governance framework comprising principally the Bye-laws and internal control handbook of the Company to implement the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2017, the Company complied with the code provisions (the "Code Provisions") of the CG Code, except for the deviations from Code Provisions A.6.7 and E.1.2 as set out in Appendix 14 to the Listing Rules which are explained below:

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

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

   Mr. CHENG Chi Chung and Mr. KONG Dalu (executive Directors), Dr. YAP Allan (ex non-executive Director), Mr. LI Fusheng, Mr. PANG Hong and Mr. WONG Shui Yeung (independent non-executive Directors) were unable to attend the special general meeting of the Company held on 2 June 2017 due to their other business engagements.

   Mr. CHENG Chi Chung and Mr. KONG Dalu (executive Directors), Dr. YAP Allan (ex non-executive Director), Mr. LI Fusheng, Mr. PANG Hong and Mr. WONG Shui Yeung (independent non-executive Directors) were unable to attend the annual general meeting of the Company held on 2 June 2017 (the "2017 AGM") due to their other business engagements.

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

   Mr. CHENG Chi Chung (executive Director and the ex Chairman), Mr. LI Fusheng (independent non-executive Director and the chairman of the remuneration committee), Mr. PANG Hong (independent non-executive Director and the chairman of the nomination committee) and Mr. WONG Shui Yeung (Independent non-executive director and the Chairman on the audit committee) were unable to attend the 2017 AGM due to their other business engagements. Mr. YANG Rongbing, an executive Director and who took the chair at the 2017 AGM and Mr. HUNG Ka Hai Clement, non-executive Director, was of sufficient calibre and knowledge for answering questions at the 2017 AGM.

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

BOARD OF DIRECTORS

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

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

The Company has received annual confirmations of independence from all the independent non-executive Directors that, save as disclosed in the annual report, they did not have any business or financial interest with the Company or its subsidiaries and were independent as at 31 December 2017 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the existing independent non-executive Directors are independent.

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

Minutes are recorded in sufficient details which included the matters considered by the Board at the meeting and decisions reached, including any concerns raised by Directors whose dissenting view were expressed.

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

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

The Board shall be responsible for:

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

The management shall be responsible for:

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

NON-EXECUTIVE DIRECTORS

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

The company has 3 independent non-executive Directors representing over one-third of the total number of the Board members and it is in compliance with the requirement of Rule 3.10 of the Listing Rules. Each of them has, pursuant to Rule 3.13 of the Listing Rules, provided an annual confirmation of his independence to the Company and the Company also considers that all independent non-executive Directors are to be independent.

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

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

TRAINING AND CONTINUOUS SUPPORT

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

Meanwhile, directors' training is an ongoing process. Pursuant to Code Provision A.6.5 of the CG Code, the directors should participate in continuous professional development to develop their knowledge and skills. During the year ended 31 December 2017, the Directors are provided with updates on the Company's performance to enable the Board as a whole and each Director to discharge their duties and have a proper understanding of the Company's business under the applicable laws and regulations. The Company would also keep the Directors updated with the latest information regarding the developments and changes in the Listing Rules and other regulatory requirements.

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

The participation by the Directors for the year ended 31 December 2017 is as follows:–

Name of Directors	Reading Regulatory Updates	Visit/Meeting Key Management
Executive Directors		
WAI Yee Tai (Appointed on 5 September 2017)	✓	✓
YANG Rongbing	✓	✓
KOH Kok Sim (Appointed on 1 September 2017 and resigned on 9 March 2018)	✓	✓
CHENG Chi Chung	✓	✓
KONG Dalu (Appointed on 6 April 2017)	✓	✓
PAN Jen Kai (Appointed on 9 March 2018)	N/A	N/A
Non-Executive Directors		
YAP Allan (resigned on 28 November 2017)	✓	✓
HUNG Ka Hai Clement (Appointed on 16 January 2017 as independent non-executive director and re-designated on 15 March 2017)	✓	✓
Independent Non-Executive Directors		
PANG Hong	✓	✓
LI Fusheng	✓	✓
WONG Shui Yeung (Appointed on 13 April 2017)	✓	✓
LI Wing Yin (Resigned on 16 January 2017)	✓	✓

Company Secretary

Mr. Wong Wing Shun ("Mr. Wong") was appointed as the Company Secretary on 31 July 2017.

Mr. Wong, aged 42, has more than 18 years of experience in finance and accounting. Mr. Wong also has company secretarial services experience. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered and Certified Accountants.

The Company Secretary is responsible for facilitating the Board process, as well as communications among Board members. For the financial year ended 31 December 2017, the Company Secretary has complied with paragraph 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

DIRECTORS' AND OFFICERS' INSURANCE

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

ATTENDANCE RECORDS AND MEETINGS

The attendance records of each Director of various meeting of the Company during the year ended 31 December 2017 are set out as below:

	Annual General Meetings	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
No. of Meetings	1	7	2	3	3
Executive Directors					
WAI Yee Tai (Appointed on 5 September 2017)	0	2	0	0	0
YANG Rongbing	1	7	0	0	0
KOH Kok Sim (Appointed on 1 September 2017 and resigned on 9 March 2018)	0	0	0	0	0
CHENG Chi Chung	0	7	0	0	0
KONG Dalu (Appointed on 6 April 2017)	0	0	0	0	0
PAN Jen Kai (Appointed on 9 March 2018)	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors					
YAP Allan (resigned on 28 November 2017)	0	0	0	0	0
HUNG Ka Hai Clement (appointed on 16 January 2017 as independent non-executive director and re-designated as non-executive director on 15 March 2017)	1	5	2	3	3
Independent Non-Executive Directors					
PANG Hong	0	5	2	3	3
LI Fusheng	0	2	2	3	3
WONG Shui Yeung (Appointed on 13 April 2017)	0	3	1	0	0
LI Wing Yin (resigned on 16 January 2017)	0	0	0	0	0

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD COMMITTEES

Audit Committee

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

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

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2017 and has discussed with the Company's auditors about auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

The Audit Committee held 2 meetings during the year ended 31 December 2017 to consider the full year audit report for the financial year ended 31 December 2016 and interim report for the six months ended 30 June 2017. The attendance records of the meetings are as follows:

Name	Attendance
LI Wing Yin *(Chairman)* (Resigned on 16 January 2017)	0/2
PANG Hong	2/2
LI Fusheng	2/2
HUNG Ka Hai Clement	2/2
WONG Shui Yeung *(Chairman)*	1/2

Remuneration Committee

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

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

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

The Remuneration Committee held 3 meetings during the year ended 31 December 2017 to review the remuneration of Directors and senior management for the financial year ended 31 December 2017 and to make recommendations on the remuneration package of the newly appointed Directors. The attendance records of the meeting are as follows:

Name	Attendance
LI Fusheng *(Chairman)*	3/3
PANG Hong	3/3
LI Wing Yin (Resigned on 16 January 2017)	0/3
HUNG Ka Hai Clement	3/3

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of Directors and the members of the senior management by band for the year ended 31 December 2017 is set out as below:

Remuneration Band	Number of individuals
Nil to HK$1,000,000	9
HK$1,000,001 to HK$2,000,000	–
HK$2,000,001 to HK$3,000,000	2

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

Nomination Committee

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

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

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

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

The Nomination Committee held 3 meetings during the year ended 31 December 2017. The attendance records of the meetings are as follows:

Name	Attendance
PANG Hong *(Chairman)*	3/3
LI Fusheng	3/3
HUNG Ka Hai Clement	3/3
LI Wing Yin (Resigned on 16 January 2017)	–

ACCOUNTABILITY AND AUDIT

Remuneration of the Auditor

The remuneration in respect of audit and other services provided by auditor of the Group for the year ended 31 December 2017 are as follows:

	2017 HK$'000
Annual audit service	**12,500**
Other non-audit services	**185**

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

Below is the framework of risk management of the Company:

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Investor Relations and Communication with Shareholders

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

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

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

Shareholder's Rights

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

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

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

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

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

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

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

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

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

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

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

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

The Nomination Documents includes:

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

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

(3) Biography of the nominated candidate; and

(4) Any other relevant information of the proposal.

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of SMI Holdings Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 135, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 to the consolidated financial statements, which indicates that as of 31 December 2017, the Group's current liabilities exceeds its current assets by HK$3,050,152,000. The directors of the Company are considering and negotiating a number of financing measures as set forth in note 1 to improve the Group's liquidity and financial position and consider that the Group will have sufficient working capital to finance its operations and to fulfil its financial obligations as and when they fall due in the foreseeable future upon successfully implementing these measures. These conditions 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	How our audit addressed the key audit matter
Accounting judgment on the consolidation of entities engaged in theatre operation in the People's Republic of China (the "PRC")	
We identified the accounting judgment on the consolidation of entities engaged in theatre operation in the PRC (the "Relevant Entities") as a key audit matter due to critical judgment required by the management in determining that the Group, under certain contractual arrangements, has rights to variable returns from its involvement with the Group's entities engaged in theatre operation in the PRC and has the ability to affect those returns through its power over the Relevant Entities and is considered to control the Relevant Entities. In determining the extent of the Group's involvement and control over the Relevant Entities, the management considers a number of factors including whether the Group has: 1) exercised effective financial and operational control over the Relevant Entities; 2) exercised equity holders' voting rights of the Relevant Entities; 3) received substantially all of the economic interest returns generated by the Relevant Entities; 4) obtained an irrevocable and exclusive right to purchase the remaining entire equity interest in the Relevant Entities from the respective equity holders; and 5) obtained a pledge over the entire equity interest of the Relevant Entities from their respective equity holders as collateral securities to secure performance of the obligations of the Relevant Entities and their respective equity holders under the contractual arrangements. Note 4 to the consolidated financial statements set out more details about the aforesaid.	Our procedures in relation to the accounting judgment on the consolidation of entities engaged in theatre operation in the PRC included: • Conducting review on the contractual agreements in connection with the Group's control over the Relevant Entities; • Understanding how the Group controls the daily business operation of the Relevant Entities; • Understanding the management judgment in relation to the control over the Relevant Entities according to IFRS 10 Consolidated Financial Statements; and • Obtaining and conducting review of the legal opinion obtained from the Company's PRC external legal counsel, regarding whether the contractual arrangements are in compliance with the relevant current PRC laws and regulations and are legally binding and enforceable.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill - theatre operation segment	
We identified the impairment of goodwill - theatre operation segment as a key audit matter due to judgment and estimation involved in the discounted future cash flow model which was prepared and used by the management in considering impairment of goodwill. Impairment of goodwill is assessed by the management by comparing the recoverable amount and carrying amount of the relevant cash-generating units engaging in theatre operation 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 those cash-generating units. The recoverable amounts are determined at the higher of value in use and fair value less costs of disposal of the relevant cash-generating units, which the value in use calculation required significant assumptions on discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period in order to derive the net present value of the discounted future cash flow analysis. As disclosed in notes 4 and 17 to the consolidated financial statements, the Group reported goodwill in theatre operation segment amounting to HK$6,941,731,000 as at 31 December 2017, net of accumulated impairment losses of HK$412,634,000.	Our procedures in relation to management's evaluation of impairment assessment of goodwill - theatre operation segment included: • Understanding the Group's key control for the impairment assessment on goodwill; • Obtaining the discounted future cash flow analysis prepared by the management and checking its mathematical accuracy; • Evaluating the reasonableness of the key assumptions adopted by the management, including discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period; • Testing the accuracy and evaluating the relevance of key inputs adopted in the discounted future cash flow model against historical performance of the Group, including revenues, cost of sales and operating expenses, and with reference to the future strategic plans of the Group in respect of each cash-generating units; and • Reviewing the sensitivity analysis performed by the management on occupancy rates and discount rates to evaluate the potential impacts on the recoverable amount and impairment.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
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	5	**3,788,764**	3,351,186
Cost of theatre operation and sales		**(2,810,646)**	(2,144,264)
Gross profit		**978,118**	1,206,922
Other gains and income	7	**184,014**	163,581
Selling and marketing expenses		**(55,115)**	(64,747)
Administrative expenses		**(332,026)**	(278,829)
Other losses and expenses	8	**(429,561)**	(122,160)
Finance costs	9	**(599,250)**	(422,916)
Share of results of associates		**545**	11,246
(Loss) profit before taxation		**(253,275)**	493,097
Income tax expense	10	**(13,245)**	(85,993)
(Loss) profit for the year	11	**(266,520)**	407,104
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**288,683**	(254,137)
Share of other comprehensive income of associates		**–**	66
Reserve released upon disposal of subsidiaries		**–**	2,055
Other comprehensive income (expense) for the year		**288,683**	(252,016)
Total comprehensive income for the year		**22,163**	155,088
(Loss) profit for the year attributable to:			
Owners of the Company		**(153,734)**	403,724
Non-controlling interests		**(112,786)**	3,380
		(266,520)	407,104
Total comprehensive income (expense) attributable to:			
Owners of the Company		**98,194**	152,105
Non-controlling interests		**(76,031)**	2,983
		22,163	155,088
			(restated)
(Loss) earnings per share (HK cents)			
– Basic	15	**(5.65)**	14.91
– Diluted		**(5.65)**	14.86

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**4,104,792**	3,638,211
Goodwill	17	**7,094,692**	5,536,125
Intangible assets	18	**33,161**	40,931
Purchased license rights	18	**61,148**	82,372
Prepaid lease payments	19	**37,597**	39,855
Interests in associates	20	**17,835**	64,724
Rental deposits		**65,347**	59,845
Other financial assets	21	**202,755**	177,724
Available-for-sale investments	22	**66,347**	65,396
Financial assets designated as at fair value through profit or loss	23	**147,941**	–
Progress payments for construction of property, plant and equipment and other deposits	24	**168,603**	127,771
Deposits paid for acquisitions of entities	25	**292,928**	154,289
		12,293,146	9,987,243
CURRENT ASSETS			
Prepaid lease payments	19	**4,234**	2,999
Inventories	26	**297,727**	360,055
Film rights investment	27	**810,617**	397,643
Trade and other receivables	28	**1,148,312**	973,758
Amounts due from related parties	33	**76,624**	–
Held-for-trading investments	29	**61,961**	304,217
Other loan	30	**126,000**	150,000
Pledged bank deposits	31	**149,262**	121,642
Bank balances and cash	31	**97,165**	625,081
		2,771,902	2,935,395
CURRENT LIABILITIES			
Trade and other payables	32	**1,467,758**	1,047,294
Amounts due to related parties	33	**22,163**	20,967
Finance lease payables	34	**90,059**	88,662
Bank borrowings	35	**45,411**	38,906
Other borrowings	36	**1,336,112**	824,900
Convertible notes	37	**907,813**	1,007,572
Derivative financial instruments	37	**14,584**	55,686
Bonds	38	**1,528,170**	1,225,711
Taxation payable		**409,984**	357,853
		5,822,054	4,667,551
NET CURRENT LIABILITIES		**(3,050,152)**	(1,732,156)
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,242,994**	8,255,087

	NOTES	2017 HK$'000	2016 HK$'000
NON-CURRENT LIABILITIES			
Finance lease payables	34	**55,142**	96,279
Bank borrowings	35	**29,081**	–
Other borrowings	36	**631,662**	1,986,044
Convertible notes	37	**10,000**	–
Bonds	38	**330,989**	639,886
Deferred tax liabilities	39	**12,082**	14,025
		1,068,956	2,736,234
NET ASSETS		**8,174,038**	5,518,853
CAPITAL AND RESERVES			
Share capital	40	**1,360,021**	1,361,121
Reserves		**5,771,790**	3,910,003
Equity attributable to owners of the Company		**7,131,811**	5,271,124
Non-controlling interests		**1,042,227**	247,729
Total equity		**8,174,038**	5,518,853

The consolidated financial statements on pages 35 to 135 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

WAI Yee Tai
Director

YANG Rongbing
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 (note 51(i))	Other reserve HK$'000 (note 51(ii))	Contributed surplus HK$'000 (note 51(iii))	Translation reserve HK$'000 (note 51(iv))	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (note 51(v))	Share-based payment reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000 (note 50)	Total equity HK$'000
At 1 January 2016	1,350,743	1,487,498	(71,238)	1,463,670	(6,445)	35,381	54,741	12,393	4,415	900,144	5,231,302	(3,968)	5,227,334
Profit for the year	–	–	–	–	–	–	–	–	–	403,724	403,724	3,380	407,104
Other comprehensive expense	–	–	–	–	(251,619)	–	–	–	–	–	(251,619)	(397)	(252,016)
Total comprehensive (expense) income for the year	–	–	–	–	(251,619)	–	–	–	–	403,724	152,105	2,983	155,088
Approved final dividend for the year ended 31 December 2015	–	–	–	–	–	–	–	–	–	(147,231)	(147,231)	–	(147,231)
Issue of shares upon conversion	11,645	30,005	–	–	–	(564)	–	–	–	564	41,650	–	41,650
Issue of shares on exercise of share options	6,833	5,467	–	–	–	–	–	(7,508)	–	7,508	12,300	–	12,300
Lapse of share options	–	–	–	–	–	–	–	(4,885)	–	4,885	–	–	–
Shares repurchased	(8,100)	(57,187)	–	–	–	–	–	–	8,100	–	(57,187)	–	(57,187)
Transfer to statutory reserve	–	–	–	–	–	–	210,950	–	–	(210,950)	–	–	–
Acquisition of additional interests in a subsidiary (Note (a))	–	–	(2,194)	–	–	–	–	–	–	–	(2,194)	(31,562)	(33,756)
Arising from conversion of a subsidiary's convertible notes (Note (b))	–	–	19,724	–	–	–	–	–	–	–	19,724	24,619	44,343
Acquisition of additional interests in TicketChina Holdings Limited (Note (c))	–	–	6,068	–	–	–	–	–	–	–	6,068	(6,468)	(400)
Deemed capital contribution (Note (c))	–	–	14,587	–	–	–	–	–	–	–	14,587	–	14,587
Arising from acquisition of subsidiaries (Note 43(b)(ii))	–	–	–	–	–	–	–	–	–	–	–	260,903	260,903
Disposal of subsidiaries (Note 44(ii))	–	–	–	–	–	–	–	–	–	–	–	1,222	1,222
Changes in equity for the year	10,378	(21,715)	38,185	–	(251,619)	(564)	210,950	(12,393)	8,100	58,500	39,822	251,697	291,519
At 31 December 2016	1,361,121	1,465,783	(33,053)	1,463,670	(258,064)	34,817	265,691	–	12,515	958,644	5,271,124	247,729	5,518,853

Notes:

(a) After obtaining the control of SMI Culture & Travel Group Holdings Limited ("SMI Culture & Travel Group") (see note 43(b)(ii), the Group acquired 1.08% additional interest in SMI Culture & Travel Group from non-controlling interests. The consideration on acquisition of HK$33,756,000 were paid in cash. The difference of HK$2,194,000 between the carrying amount of non-controlling interests being acquired of HK$31,562,000 and the consideration paid of HK$33,756,000 has been debited to other reserve.

(b) Save as disclosed in note 37(i), the Convertible Note XIII was converted into the ordinary share of SMI Culture & Travel Group. The Group's interest in SMI Culture & Travel Group was diluted by 3.85%. The difference of HK$19,724,000 between the carrying amount of the Group's equity interests being disposed of HK$24,619,000 and the aggregate sum of liability component and embedded derivative of the Convertible Note XIII amounting to HK$44,343,000 has been credited to other reserve.

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

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000 (note 51(i))	Other reserve HK$'000 (note 51(ii))	Contributed surplus HK$'000 (note 51(iii))	Translation reserve HK$'000 (note 51(iv))	Convertible notes reserve HK$'000	Statutory reserve HK$'000 (note 51(v))	Share-based payment reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000 (note 50)	Total equity HK$'000
At 1 January 2017	1,361,121	1,465,783	(33,053)	1,463,670	(258,064)	34,817	265,691	-	12,515	958,644	5,271,124	247,729	5,518,853
Loss for the year	-	-	-	-	-	-	-	-	-	(153,734)	(153,734)	(112,786)	(266,520)
Other comprehensive income	-	-	-	-	251,928	-	-	-	-	-	251,928	36,755	288,683
Total comprehensive income (expense) for the year	-	-	-	-	251,928	-	-	-	-	(153,734)	98,194	(76,031)	22,163
Approved final dividend for the year ended 31 December 2016	-	-	-	-	-	-	-	-	-	(179,668)	(179,668)	-	(179,668)
Shares repurchased	(1,100)	(7,807)	-	-	-	-	-	-	1,100	-	(7,807)	-	(7,807)
Transfer to statutory reserve	-	-	-	-	-	-	2,188	-	-	(2,188)	-	-	-
Share-based payments	-	-	-	-	-	-	-	12,064	-	-	12,064	-	12,064
Acquisition of additional interests in a subsidiary (Note (d))	-	-	6,804	-	-	-	-	-	-	-	6,804	(92,776)	(85,972)
Arising from conversion of a subsidiary's convertible notes (Note (e))	-	-	(2,167)	-	-	-	-	-	-	-	(2,167)	68,074	65,907
Arising from placement of a subsidiary's shares (Note (f))	-	-	(19,912)	-	-	-	-	-	-	-	(19,912)	165,412	145,500
Acquisition of additional interests in a subsidiary by share placement (Note (g))	-	-	5,861	-	-	-	-	-	-	-	5,861	(5,861)	-
Arising from deemed disposal of partial interests of a subsidiary without losing control (Note (h))	-	-	1,947,318	-	-	-	-	-	-	-	1,947,318	735,680	2,682,998
Changes in equity for the year	(1,100)	(7,807)	1,937,904	-	251,928	-	2,188	12,064	1,100	(335,590)	1,860,687	794,498	2,655,185
At 31 December 2017	1,360,021	1,457,976	1,904,851	1,463,670	(6,136)	34,817	267,879	12,064	13,615	623,054	7,131,811	1,042,227	8,174,038

Notes:

(d) During the year ended 31 December 2017, the Group acquired 11.02% additional interest in SMI Culture & Travel Group from non-controlling interests, increasing its controlling interest from 64.49% to 75.51%. The consideration on acquisition of HK$85,972,000 were paid in cash. The difference of HK$6,804,000 between the carrying amount of non-controlling interests being acquired of HK$92,776,000 and the consideration paid of HK$85,972,000 has been credited to other reserve.

(e) Save as disclosed in notes 37(g) and 37(h), the Convertible Note XI and Convertible Note XII were converted into ordinary shares of SMI Culture & Travel Group. The Group's interest in SMI Culture & Travel Group was diluted by 5.62%. The difference of HK$2,167,000 between the carrying amount of the Group's equity interests being disposed of HK$68,074,000 and the aggregate sum of liability components and embedded derivatives of the Convertible Note XI and Convertible Note XII amounting to HK$65,907,000 has been debited to other reserve.

(f) During the year ended 31 December 2017, SMI Culture & Travel Group completed a placement of 214,285,000 new shares, with par value of HK$0.01, of SMI Culture & Travel Group at a price of HK$0.70 per share. The Group's interest in SMI Culture & Travel Group was diluted by 12.41%. The difference of HK$19,912,000 between the carrying amount of the Group's equity interests being disposed of HK$165,412,000 and the net proceeds received from the placement amounting to HK$145,500,000 has been debited to other reserve.

(g) During the year ended 31 December 2017, the Group disposed of the entire 100% equity interest in SMI Entertainment Limited ("SMIE") to SMI Culture Investment Holdings Limited ("SMI Culture Investment"), a wholly-owned subsidiary of SMI Culture & Travel Group, at total consideration of RMB150,000,000 (equivalent to HK$171,000,000) settled by cash consideration for RMB50,000,000 (equivalent to HK$57,000,000) and issue of SMI Culture & Travel Group' shares at consideration of RMB100,000,000 (equivalent to HK$114,000,000) to the Company. The disposal of SMIE to SMI Culture Investment is accounted for as business combination under common control. The Group's interest in SMI Culture & Travel Group increased by 5.19%. The difference of HK$5,861,000 between the carrying amount of non-controlling interests being acquired of and the share consideration has been credited to other reserve.

(h) During the year ended 31 December 2017, Chengdu Runyun Culture Broadcasting Limited (成都潤運文化傳播有限公司) ("Chengdu Runyun"), a subsidiary of the Company, entered into separate agreements with the independent investors (the "Investors") (the "Capital Injection Agreements"), pursuant to which the Investors have agreed to make capital contribution in exchange of a total of 15.63% of the enlarged equity interest of Chengdu Runyun. The capital contribution on 15.63% enlarged equity interest on Chengdu Runyun was completed in June 2017 and aggregate proceeds of RMB1,980,000,000 (equivalent to HK$2,403,772,000) settled by cash was received from the Investors upon completion. The Group has not lost control over Chengdu Runyun. The difference of HK$1,723,855,000 between the carrying amount of the Group's equity interests being deemed disposed of and the proceeds from capital contribution has been credited to other reserve. In July 2017, additional capital contribution of RMB230,000,000 (equivalent to HK$279,226,000) settled as cash was received from the Investors, the capital contribution accounted for as equity transaction and the difference of HK$223,463,000 between the capital contribution and carrying of non-controlling interest deemed disposed of was credited to other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(253,275)**	493,097
Adjustments for:		
Depreciation of property, plant and equipment	**671,193**	419,456
Interest expenses on borrowings	**576,854**	400,216
Amortisation of intangible assets	**10,656**	10,714
Amortisation of purchased license rights	**11,906**	2,319
Financial lease charges	**15,667**	15,110
Equity-settled share-based payments	**12,064**	–
Allowance for inventories	**9,819**	723
Impairment loss on intangible assets	**9,318**	3,326
Gain on disposal of available-for-sale financial assets in Photon Group classified as held for sale	**–**	(1,158)
Impairment loss on film rights investment	**6,490**	–
Amortisation of prepaid lease payments	**3,122**	3,074
Loss on disposal/write-off of property, plant and equipment	**664**	34,221
Share of results of associates	**(545)**	(11,246)
Bank interest income	**(1,832)**	(2,456)
Gain on disposal/deemed disposal of interests in associates	**(2,478)**	(27,810)
Unrealised (gain) losses on change in fair value of held-for-trading investments	**(11,706)**	17,373
Fair value change on derivative financial instruments	**(28,989)**	9,718
Allowance for doubtful debts	**370**	37
Impairment on other receivables	**52,472**	–
Interest income from associates, other financial assets, and financial assets designated as at fair value through profit or loss	**(15,400)**	(17,232)
Fair value change on financial assets designated as at fair value through profit or loss	**(57,941)**	–
Impairment loss on goodwill	**347,179**	46,556
Gain on disposal of a subsidiary	**–**	(251)
Operating cash flows before working capital changes	**1,355,608**	1,395,787
Decrease (increase) in inventories	**81,734**	(42,177)
(Increase) decrease in rental deposits	**(700)**	70,686
(Increase) decrease in trade and other receivables	**(136,242)**	619,344
Decrease in amount due from related parties	**–**	13,788
Decrease (increase) in held-for-trading investments	**253,962**	(125,573)
Decrease in deferred income	**–**	(90,786)
Increase (decrease) in trade and other payables	**9,711**	(689,213)
Increase in film rights investment	**(419,464)**	(188,108)
Cash generated from operations	**1,144,609**	963,748
Income taxes paid	**(3,109)**	(5,443)
Finance lease charges paid	**(15,667)**	(15,110)
Net cash generated from operating activities	**1,125,833**	943,195

	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES		
Repayment of loan from an associate	–	50,000
Repayment of other loan	24,000	–
Bank interest received	1,832	2,456
Other interest received	2,200	17,232
Proceeds from disposal of subsidiaries	14,233	52,785
Proceeds on disposal of interests in an associate	50,000	–
Acquisition of interests in an associate	–	(50,000)
Placement of pledged bank balances	(17,859)	(12,604)
Acquisition of subordinated asset-backed securities	–	(116,390)
Deposits paid for acquisitions of property, plant and equipment	(162,523)	(298,580)
Purchase of property, plant and equipment	(557,079)	(1,252,923)
Advance of loans to other parties	–	(150,000)
Advance to related parties	(76,624)	–
Deposits paid for acquisitions of entities	(282,365)	(215,349)
Acquisition of subsidiaries, net of cash acquired	(1,541,666)	(1,464,566)
Acquisition of SMI Culture & Travel Group	–	(120,517)
Investment in available-for-sales investments	(951)	(65,396)
Acquisition of financial assets designed as at fair value through profit or loss	(90,000)	–
Net cash used in investing activities	(2,636,802)	(3,623,852)
FINANCING ACTIVITIES		
Proceeds from other borrowings	173,625	1,915,231
Proceeds from placement of a subsidiary's shares	145,500	–
Proceeds from issue of convertible notes	–	65,000
Proceeds from bank borrowings raised	72,809	38,906
Proceeds from disposal of own-debt securities	–	407,365
Proceeds from issue of bonds	12,300	1,184,804
Proceeds from issue of shares upon exercise of share options	–	12,300
Proceeds from deemed disposal of partial interests of a subsidiary without losing control	2,682,998	–
Advance from related parties	1,196	2,431
Advance from lease financing	60,566	122,051
Repayment of finance lease payables	(113,180)	(16,055)
Repurchase of shares	(7,807)	(57,187)
Dividend paid	(179,668)	(147,231)
Interest paid	(540,178)	(323,927)
Repayments of bonds	(40,000)	(64,431)
Repayments of other borrowings	(1,166,111)	(399,264)
Repayments of bank borrowings	(41,516)	(364,863)
Redemption of convertible notes	(250)	–
Acquisition of additions interests in SMI Culture & Travel Group	(85,972)	(33,756)
Acquisition of additions interests in TicketChina Group	–	(400)
Net cash generated from financing activities	974,312	2,340,974
NET DECREASE IN CASH AND CASH EQUIVALENTS	(536,657)	(339,683)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	625,081	1,007,689
EFFECT OF FOREIGN EXCHANGE RATES CHANGES	8,741	(42,925)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	97,165	625,081

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

SMI Holdings Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. In the opinion of the directors of the Company (the "Directors"), the immediate and ultimate controlling party of the Company is Mr. Qin Hui ("Mr. Qin"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 50.

In preparing the consolidated financial statements, the Directors have given careful consideration of the future liquidity of the Group in light of the fact that the Group incurred a net current liabilities of HK$3,050,152,000 as at 31 December 2017. The consolidated financial statements have been prepared on a going concern basis because:

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

(ii) As announced by the Company on 27 March 2018, SMI International Cinemas Limited ("SMII"), a wholly owned subsidiary of the Company, entered into the sale and purchase agreement with an independent third party whereby SMII (as the vender) agreed to dispose 5% of equity interest in Chengdu Runyun to the purchaser at a consideration of RMB1,000,000,000, payable upon completion of the disposal. Upon completion of the disposal, the ownership interests of the Group in Chengdu Runyun will be reduced from 84.375% to 79.375% without losing control over Chengdu Runyun. The consideration is payable upon completion of the disposal and the Directors expected that the disposal will be completed in April 2018;

(iii) On 26 March 2018, the Group obtained a credit loan facility from a financial institution of maximum amount up to HK$300,000,000 for working capital purpose of the Group. The facility is unsecured, interest bearing at 6% per annum and payable in full by 30 September 2019. The drawdown of any facility amount is subject to certain condition precedents including due diligence of credit assessment of the Group. The Group has applied to draw the entire facility amount. The Directors expected that approval will be granted in April 2018;

(iv) In March 2018, three independent third party investors subscribed the Company's 2-year convertible notes with principal amount of HK$430,000,000, US$60,000,000 and US$30,000,000. These convertible notes bear interest rate at 7.5% per annum and are redeemed in whole or in part at an amount that would yield an annual return of 11% thereon calculated from the issue date. The Directors expected that the convertible notes will be issued in April 2018;

(v) On 28 March 2018, the Group signed a subscription agreement with a PRC registered financial institution for the issue of a 9.75% fixed rate bond with principal amount of US$70,000,000 and two years fixed term and is extendable to the third anniversary date; and

(vi) As announced by the Company on 27 March 2018, the Group has received subscription offers from financial institutions regarding the issuance of bonds with an aggregate principal amount of not more than RMB1,000,000,000 with a term of not more than three years. It is proposed that the bonds are to be listed on the Shenzhen Stock Exchange.

1. GENERAL AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Based on the current status of these negotiations, the Directors are confident that the Group will secure sufficient funds to support the Group's working capital requirements for the next twelve months from the date of approval of these consolidated financial statements.

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

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

Amendments to IFRS that are mandatory effective for the current year

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As Part of the Annual Improvements to IFRSs 2014 – 2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 55. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 55, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendments, Curtailment or Settlements[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014 – 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

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

- For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

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

New and revised IFRSs in issue but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

- Debt instruments classified as trade and other receivables, amounts due from related parties, other loan, pledged bank deposits and bank balances and cash carried at amortised cost as disclosed in notes 28, 33, 30 and 31, respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 22: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, the differences between cost less impairment and fair value would be adjusted to retained profits as at 1 January 2018;

- Other financial assets as disclosed in note 21 currently measured at amortised cost, are measured at fair value through profit or loss ("FVTPL") at subsequent accounting periods upon the application of IFRS 9. Upon initial application of IFRS 9, fair value changes representing the differences between amortised cost and fair value would be adjusted to retained profits as at 1 January 2018;

- At 1 January 2018, the Group also revoked the designation of measurement of financial assets designated as at fair value through profit or loss and held-for-trading investments measured at FVTPL under IFRS 9 as these financial assets are required to be measured at FVTPL under IFRS 9; and

- Except for financial assets which are subject to expected credit loss model under IFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade and other receivables and other loan. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

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

New and revised IFRSs in issue but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

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

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

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

New and revised IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$4,753,040,000 as disclosed in note 45. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$77,311,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

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

Business combinations

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

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

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

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

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

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

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

Goodwill

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating units group of cash-generating units in which the Group monitors goodwill).

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise in the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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

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

Revenue recognition

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Promotional service income is recognised when services are provided.

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

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

Property, plant and equipment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

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

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

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

Purchased license rights

Purchased license rights are stated at costs less accumulated amortisation and any accumulated impairment losses. In periods where revenue is generated from a purchased license right, amortisation is recognised at a rate calculated to write off the costs in proportion to the expected revenue from the licensing of the right. In periods where no revenue is generated from the purchased license right, amortisation for the purchased license rights is recognised on a straight-line basis over their estimated useful lives.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets other than goodwill (Continued)

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

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

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

Inventories

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

Film rights investment

Film rights investment represent films invested by the Group. The investments are governed by the relevant agreements entered into between the Group and the production houses whereby the Group is entitled to benefits generated from the distribution of the related films based on the percentage of capital invested in the films. Film rights investment are stated at cost less accumulated amortisation and any identified impairment loss.

Amortisation of film rights investment is charged to profit or loss based on the proportion of actual income earned during the year to the total estimated income from the exhibition of the film attributed to the Group, according to the respective film investment agreements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessee

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

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

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs and termination benefits

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

Short-term and other long-term employee benefits

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Government grants

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

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

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets and is included in the "other gains and income" line item. Fair value is determined in the manner described in note 53.

AFS investments

AFS investments are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at FVTPL. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

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

Financial instruments (Continued)

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Financial liabilities

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

Convertible notes

Convertible loan notes contain equity component

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible notes (Continued)

Convertible loan notes contain debt and derivative components

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

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

Transaction costs that relate to the issue of the convertible loan notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible loan notes using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

When an existing financial liability's terms are modified and such modification results in the discounted present value of the cash flows under the new terms including any fees paid net of any fees received is at least 10 per cent different from the discounted present values of the remaining cash flows of the original financial liability, it is accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability or equity instrument or compound instrument with the difference, being the carrying amount of the financial liability extinguished and the fair value of the financial liability, recognised in profit or loss.

Share-based payment arrangement

Equity-settled share-based payment transactions

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

The fair value of the equity-settled share based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in share-based payment reserve. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment arrangement (Continued)

Equity-settled share-based payment transactions (Continued)

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

Provisions

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policy

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

Consolidation of entities engaged in theatre operation in the PRC

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

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

Critical judgments in applying accounting policy (Continued)

Consolidation of entities engaged in theatre operation in the PRC (Continued)

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

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

As a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the Relevant Entities and has the ability to affect those returns through its power over the Relevant Entities and is considered to control the Relevant Entities. Consequently, the Company regards the Relevant Entities as consolidated structured entities under IFRSs and all existing ownership interests of these Relevant Entities are held by the Group. The Group has included the assets and liabilities and results of the Relevant Entities in the consolidated financial statements. The revenue generated from the Relevant Entities during the year ended 31 December 2017 and total assets and total liabilities attributable to the Relevant Entities as at 31 December 2017 amounted to HK$3,027,371,000 (2016: HK$2,951,319,000), HK$12,200,855,000 (2016: HK$9,984,349,000) and HK$3,161,164,000 (2016: HK$3,793,985,000), respectively.

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

Critical judgments in applying accounting policy (Continued)

Consolidation of entities engaged in theatre operation in the PRC (Continued)

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

Key sources of estimation uncertainty

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

Impairment loss for bad and doubtful debts

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

Where the actual result is different from the original estimate, such difference will impact the carrying values of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2017, the carrying amount of trade receivable and prepayment and other receivables were HK$760,407,000 and HK$375,941,000, respectively (2016: HK$623,592,000 and HK$335,629,000, respectively), net of impairment loss for bad and doubtful debts.

Estimated impairment of goodwill – theatre operation

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

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

Key sources of estimation uncertainty (Continued)

Estimated impairment of goodwill (Continued)

The carrying amount of goodwill at the end of the reporting period was HK$6,941,731,000 (2016: HK$5,383,164,000). Details of the impairment loss assessment are set out in note 17.

Property, plant and equipment and depreciation

The Directors determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different from those previously estimated, or it will write-off or write-down technically obsolete assets. The carrying amount of property, plant and equipment as at 31 December 2017 was approximately HK$4,104,792,000 (2016: HK$3,638,211,000).

Estimated useful lives of purchased license rights

The Directors estimate the useful lives of purchased license rights in order to determine the amount of amortisation expenses to be recognised in accordance with the accounting policy set out in note 3. The useful lives are estimated at the time the purchased license right is acquired based on historical experience, the expected usage, as well as market obsolescence arising from changes in market demands. The Directors also perform annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account market changes, prospective utilisation, market popularity and public acceptance of the assets concerned. Adjustments may need to be made to the carrying amounts of intangible assets should there be a material difference between the expected revenue and the actual results.

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

The Directors carry out a review on the scripts, synopses, publication rights and editing rights at each of the reporting period and provision is made when net realisable values of the scripts, synopses, publication rights and editing rights are estimated to be less than their carrying amounts. The Group engaged an independent qualified professional valuer to carry out the estimation of selling prices of the scripts, synopses, publication rights and editing rights with details set out in note 26. Where the net realisable value is different from the original estimate, additional allowance for inventories may be required. As at 31 December 2017, the carrying amount of scripts, synopses, publication rights, publishing rights and editing rights was HK$185,926,000 (2016: HK$226,849,000) (net of provision of HK$9,819,000 (2016: HK$723,000)).

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

Key sources of estimation uncertainty (Continued)

Impairment assessment of purchased license rights

The Directors carry out a review on purchased license rights at the end of each reporting period and impairment is made when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determination whether and how much purchased license rights are impaired involves management estimate of the recoverable amount, which is the lower of carrying amount and the recoverable amount. The Group engaged an independent qualified professional valuer to carry out the valuation. The recoverable amount calculation has been arrived on the market value basis with other key estimation included risk-free rate and market equity risk premium. As at 31 December 2017, the carrying value of purchased license rights was HK$61,148,000 (net of the accumulated impairment losses of HK$12,644,000) (2016: HK$82,372,000 (net of the accumulated impairment losses of HK$3,326,000)).

5. REVENUE

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

	2017 **HK$'000**	2016 HK$'000
Theatre operation	**3,027,371**	2,951,319
Retail business	**624,027**	383,123
Others	**137,366**	16,744
	3,788,764	3,351,186

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

6. SEGMENT INFORMATION

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

(a) Theatre operation – box office ticketing, advertising, events & field marketing services and other related services and sales of food & beverages and film products.

(b) Retail business – in-theatre counter sales and online shopping under 'SMI Living' brand and related business.

(c) Others – sales of editing rights, licensing income from purchased license rights from television program related business, investments in production and distribution of film rights and trading of marketable securities.

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

Segment results represents the profit earned or loss incurred by each segment without allocation of corporate-level income and expenses including certain finance costs, certain other gains and income and certain other losses and expense. Segment assets do not include assets of headquarters, other loan and other receivables of the headquarters. Segment liabilities do not include certain amounts due to related parties, other payables of headquarters, certain other borrowings, bonds and convertible notes.

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

For the year ended 31 December 2017

	Theatre operation HK$'000	Retail business HK$'000	Others HK$'000	Total HK$'000
REVENUE				
External and segment revenue	3,027,371	624,027	137,366	3,788,764
Segment results	103,649	27,027	(89,978)	40,698
Unallocated corporate income				2,478
Unallocated corporate expense				(296,451)
Loss before tax				(253,275)

6. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2016

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

Notes:

(a) Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the year ended 31 December 2017 and 2016.

(b) Segment results of "Theatre operation" for the year ended 31 December 2017 and 2016 include share of results of associates in related theatre operation. Segment results of "Other" for the year ended 31 December 2016 includes share of result of an associate in television program related business and film investment and distribution, the associate became the Group's subsidiary in October 2016.

Segment assets and liabilities

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

Segment assets

	2017 HK$'000	2016 HK$'000
Theatre operation	**12,200,855**	9,984,349
Retail business	**696,243**	589,375
Others	**1,830,683**	2,065,975
Total segment assets	**14,727,781**	12,639,699
Unallocated corporate assets	**337,267**	282,939
Consolidated assets	**15,065,048**	12,922,638

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

Segment liabilities

	2017 HK$'000	2016 HK$'000
Theatre operation	**3,161,164**	3,793,985
Retail business	**184,161**	22,599
Others	**1,225,756**	1,144,122
Total segment liabilities	**4,571,081**	4,960,706
Amounts due to related parties – corporate	**4,847**	20,967
Convertible notes – corporate	**809,000**	847,999
Bonds – corporate	**1,410,435**	1,420,066
Other borrowings – corporate	**–**	100,000
Corporate liabilities	**95,647**	54,047
Consolidated liabilities	**6,891,010**	7,403,785

Other segment information

For the year ended 31 December 2017

	Theatre operation HK$'000	**Retail business HK$'000**	**Others HK$'000**	**Total HK$'000**
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	**1,816,222**	**217,722**	**133,320**	**2,167,264**
Depreciation and amortisation	**675,982**	**11,841**	**9,054**	**696,877**
Interests in associates	**17,835**	**–**	**–**	**17,835**
Share of profits of associates	**545**	**–**	**–**	**545**
Finance costs	**253,866**	**–**	**345,384**	**599,250**
Other gains and income	**79,412**	**632**	**103,970**	**184,014**

For the year ended 31 December 2016

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

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

6. **SEGMENT INFORMATION (Continued)**

Other segment information (Continued)

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

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

There are no major customers contributing over 10% of the Group's revenue for the year ended 31 December 2017 and 2016.

7. **OTHER GAINS AND INCOME**

	2017 HK$'000	2016 HK$'000
Interest income from banks	1,832	2,456
Interest income from other financial assets	13,200	15,194
Interest income from financial assets designed as at fair value through profit or loss	2,200	–
Interest income from associates	–	2,038
Government grants (Note (a))	53,336	72,271
Gain on disposal of subsidiaries (Note 44)	–	1,409
Gain on deemed disposal of interest in an associate (Note (b))	–	27,810
Gain on disposal of interest in an associate	2,478	–
Dividend income from held-for-trading securities	348	3,249
Realised gain on disposal of held-for-trading investment	–	25,988
Unrealised gain on change in fair value of held-for-trading investments	11,706	–
Fair value change on financial assets designated as at fair value through profit or loss	57,941	–
Fair value charge on derivative financial instruments	28,989	–
Sundry income	11,984	13,166
	184,014	163,581

Notes:

(a) Government grants mainly represented the refund of the contributions to the National Film Development Trust (國家電影事業發展專項資金). The government grants were recognised as other income when conditions of these government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants as at 31 December 2017 and 2016. During the year ended 31 December 2017, HK$53,336,000 (2016: HK$72,271,000) was received from these grants.

(b) As disclosed in note 43(b)(ii), the Group acquired the controlling equity interests of SMI Culture & Travel Group, a former associate of the Group, from the open stock market in October 2016. Immediately after the acquisition, the carrying amount of equity interest in SMI Culture & Travel Group as associate of HK$164,188,000 at that date was treated as deemed disposal. A gain on deemed disposal of interest in SMI Culture & Travel Group as associate of HK$27,810,000 was recognised in profit or loss during the year ended 31 December 2016.

8. OTHER LOSSES AND EXPENSES

	2017 HK$'000	2016 HK$'000
Allowance for doubtful debts	370	37
Net exchange losses	5,287	7,875
Loss on disposal/write off of property, plant and equipment	664	34,221
Realised loss on disposal of held-for-trading investments	7,704	–
Unrealised loss on change in fair value of held-for-trading investments	–	17,373
Impairment on intangible assets	9,318	3,326
Impairment on film rights investment	6,490	–
Impairment on goodwill (note 17)	347,179	46,556
Impairment on other receivables	52,472	–
Fair value change on derivative financial instruments	–	9,718
Forfeited deposits	–	2,947
Sundry expenses	77	107
	429,561	122,160

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on borrowings:		
– bonds	176,397	67,996
– convertible notes	105,434	103,072
– bank borrowings	3,243	5,213
– other borrowings	259,025	195,546
– securities margin facilities	32,755	28,389
Finance charges	6,729	7,590
Finance lease charges	15,667	15,110
Total borrowing costs	599,250	422,916

10. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Tax charge (credit) comprises:		
Current tax		
– PRC Enterprise Income Tax ("EIT")	15,909	94,418
– Overprovision in prior years	–	(5,354)
	15,909	89,064
Deferred tax (note 39)		
– Current year	(2,664)	(3,071)
	13,245	85,993

10. INCOME TAX EXPENSE (Continued)

As stipulated in Cai Shui [2011] No. 112 and Xin Cai Fa Shui [2012] No. 1, enterprises newly established in Xin Jiang Ka Shi/Huoerguosi special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from their first profit-making year. These subsidiaries engaged in the encouraged industries as defined under the《新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄》which are entitled to such EIT exemption derived more than 25% of the Group's revenue during the years ended 31 December 2017. According to《企業所得稅優惠事項備案表》, the Group obtained the approval from the PRC tax bureau on 14 July 2015 for entitlement of EIT exemption from 1 June 2015 to 31 December 2019.

For the other PRC subsidiaries of the Company, the provision for EIT is based on a statutory rate of 25% (2016: 25%) of the estimated assessable profits of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

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

	2017 HK$'000	2016 HK$'000
(Loss) profit before taxation	**(253,275)**	493,097
Tax at the applicable income tax rate of 25% (2016: 25%)	**(63,319)**	123,274
Effect of share of results of associates	**(136)**	(2,811)
Tax effect of expenses not deductible for tax purpose	**122,011**	85,159
Tax effect of income not taxable for tax purpose	**(18,703)**	(19,483)
Tax effect of tax exemption granted to a subsidiary	**(225,210)**	(255,508)
Tax effect of tax losses not recognised	**182,602**	189,890
Utilisation of tax losses previously not recognised	**(5,425)**	(2,051)
Overprovision in prior years	**–**	(5,354)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**20,464**	(27,325)
Others	**961**	202
Tax charge for the year	**13,245**	85,993

11. (LOSS) PROFIT FOR THE YEAR

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

	2017 HK$'000	2016 HK$'000
Amortisation of prepaid lease payments (included in cost of sales)	**3,122**	3,074
Amortisation of intangible assets (included in cost of sales)	**10,656**	10,714
Amortisation of purchased license rights (included in cost of sales)	**11,906**	2,319
Auditor's remuneration	**12,500**	10,475
Film exhibition and related costs (included in cost of sales)	**825,646**	712,914
Cost of inventories sold (included in cost of sales)	**623,887**	296,528
Cost of film rights investment expensed (included in cost of sales)	**37,049**	–
Allowance for inventories (included in cost of sales)	**9,819**	723
Directors' emoluments (note 12)	**14,215**	3,089
Depreciation of property, plant and equipment	**671,193**	419,456
Promotion and advertising expenses	**37,950**	42,963
Operating lease payments of premises		
– minimum lease payments	**400,056**	300,724
– contingent rent	**31,240**	34,215
	431,296	334,939
Other staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**273,596**	315,376
– equity-settled share-based payments	**7,684**	–
– retirement benefit scheme contributions	**55,661**	60,143
	336,941	375,519

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

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

Name of director	Director fees HK$'000	Salaries and allowances HK$'000	Equity-settled share-based payments HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors					
Mr. WAI Yee Tai (Note (a))	–	1,000	862	–	1,862
Mr. YANG Rongbing	240	2,565	1,005	–	3,810
Mr. KOH Kok Sim (Note (b))	–	968	646	–	1,614
Mr. CHENG Chi Chung	240	2,420	862	–	3,522
Mr. KONG Dalu (Note (d))	260	1,315	1,005	–	2,580
Non-executive directors					
Mr. HUNG Ka Hai Clement (Note (e))	345	–	–	–	345
Dr. YAP Allan (Note (f))	–	–	–	–	–
Independent non-executive directors					
Mr. PANG Hong	168	–	–	–	168
Mr. LI Fusheng	168	–	–	–	168
Mr. WONG Shui Yeung (Note (c))	129	–	–	–	129
Mr. LI Wing Yin (Note (g))	17	–	–	–	17
For the year ended 31 December 2017	1,567	8,268	4,380	–	14,215
Executive directors					
Mr. CHENG Chi Chung	120	818	–	–	938
Mr. YANG Rongbing	240	1,260	–	–	1,500
Mr. ZHOU Lin (Note (i))	165	–	–	–	165
Non-executive directors					
Mr. ZHANG Yongdong (Note (i))	56	–	–	–	56
Mr. LI Xuan (Note (h))	33	–	–	–	33
Dr. YAP Allan (Note (f))	–	–	–	–	–
Independent non-executive directors					
Mr. KAM Chi Sing (Note (i))	56	–	–	–	56
Mr. PANG Hong	132	–	–	–	132
Mr. LI Fusheng	132	–	–	–	132
Mr. LI Wing Yin (Note (g))	77	–	–	–	77
For the year ended 31 December 2016	1,011	2,078	–	–	3,089

Notes:

(a) appointed on 5 September 2017

(b) appointed on 1 September 2017 and resigned on 9 March 2018

(c) appointed on 13 April 2017

(d) appointed on 6 April 2017

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

Notes: (Continued)

(e) appointed on 16 January 2017 as an independent non-executive director and re-designed as a non-executive director on 15 March 2017

(f) appointed on 26 April 2016 and resigned on 28 November 2017

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

(h) resigned on 26 April 2016

(i) retired/resigned on 2 June 2016

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

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

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

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

The five highest paid individuals in the Group during the year included five (2016: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three individuals for the year ended 31 December 2016 are set out below:

	2017 HK$'000	2016 HK$'000
Salaries and allowances	–	4,082
Retirement benefit scheme contributions	–	53
	–	4,135

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

	Number of individuals	
	2017	2016
HK$1,000,001 to HK$1,500,000	–	2
HK$1,500,001 to HK$2,000,000	–	1

During both years ended 31 December 2017 and 2016, no emoluments were paid by the Group to any of the Directors or the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13. RETIREMENT BENEFIT SCHEMES

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

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

14. DIVIDENDS

	2017 **HK$'000**	2016 HK$'000
Final dividend recognised as distribution during the year		
– HK$1.32 cents per ordinary share for the year ended 31 December 2016 (2016: HK$1.09 cents per ordinary share for the year ended 31 December 2015)	**179,668**	147,231

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2017.

15. (LOSS) EARNINGS PER SHARE

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

	2017 **HK$'000**	2016 HK$'000
(Loss) earnings for the purposes of calculating basic and diluted (loss) earnings per share	**(153,734)**	403,724

Number of shares

	2017	2016 (restated)
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,720,826,026**	2,707,230,941
Effect of dilutive potential ordinary shares:		
Share options	**–**	9,014,166
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,720,826,026**	2,716,245,107

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for both current and prior years has been adjusted for the shares consolidation as set out in note 40(ii).

For the years ended 31 December 2017, the effects of potential ordinary shares arising from all share options and convertible notes (2016: all convertible notes) are not included in calculating the diluted (loss) earnings per share as they had an anti-dilutive effect on the (loss) earnings per share for the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Theatre equipment HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2016	61,406	1,978,017	820,524	21,856	7,145	2,888,948
Acquisition of subsidiaries (note 43)	803	198,277	103,494	5,583	2,510	310,667
Additions	1,117,143	529,091	107,942	5,094	3,534	1,762,804
Disposals/write-off	–	(34,801)	(2,226)	–	–	(37,027)
Exchange differences	(53,389)	(185,806)	(79,941)	(2,036)	(750)	(321,922)
At 31 December 2016	1,125,963	2,484,778	949,793	30,497	12,439	4,603,470
Acquisition of subsidiaries (note 43)	–	84,297	111,288	4,818	–	200,403
Additions	–	524,679	149,126	10,130	6,191	690,126
Disposals/write-off	–	(37,376)	(229)	(102)	(624)	(38,331)
Exchange differences	86,982	217,213	79,477	2,452	851	386,975
At 31 December 2017	1,212,945	3,273,591	1,289,455	47,795	18,857	5,842,643
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	4,690	382,281	221,003	9,900	5,100	622,974
Charge for the year	2,221	264,312	145,171	7,550	202	419,456
Disposals/write-off	–	(179)	(340)	–	–	(519)
Exchange differences	(480)	(43,253)	(31,331)	(1,157)	(431)	(76,652)
At 31 December 2016	6,431	603,161	334,503	16,293	4,871	965,259
Charge for the year	30,655	309,848	320,271	7,135	3,284	671,193
Disposals/write-off	–	(37,376)	(103)	(26)	(162)	(37,667)
Exchange differences	1,563	97,033	38,818	1,216	436	139,066
At 31 December 2017	38,649	972,666	693,489	24,618	8,429	1,737,851
CARRYING AMOUNTS						
At 31 December 2017	1,174,296	2,300,925	595,966	23,177	10,428	4,104,792
At 31 December 2016	1,119,532	1,881,617	615,290	14,204	7,568	3,638,211

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

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

At 31 December 2017, the Group is in the process of obtaining the relevant property ownership certificates with respect to the leasehold land and buildings with carrying values of HK$340,341,000 (2016: HK$961,956,000). The Directors are in the opinion that the Group is entitled the relevant property ownership lawfully and validly occupy, or use the relevant properties.

The carrying amount of property, plant and equipment includes an amount of HK$222,414,000 (2016: HK$188,614,000) in respect of assets held under finance lease obligations.

As at 31 December 2017, HK$205,057,000 (2016: HK$24,456,000) of the leasehold land and buildings situated in the PRC was pledged as security for the Group's bank borrowings.

17. GOODWILL

	HK$'000
COST	
At 1 January 2016	3,375,078
Acquisition of subsidiaries – 79 individually immaterial group entities (note 43(b)(i))	2,286,012
Acquisition of a subsidiary – SMI Culture & Travel Group (note 43(b)(ii))	120,559
Disposal of subsidiary (note 44)	(36,804)
Exchange realignment	(156,252)
At 31 December 2016	5,588,593
Acquisition of subsidiaries – 51 individually immaterial group entities (note 43(a))	1,600,847
Exchange realignment	317,886
At 31 December 2017	7,507,326
IMPAIRMENT	
At 1 January 2016	5,912
Impairment recognised in profit of loss	46,556
At 31 December 2016	52,468
Impairment recognised in profit of loss	347,179
Exchange realignment	12,987
At 31 December 2017	412,634
CARRYING AMOUNTS	
At 31 December 2017	7,094,692
At 31 December 2016	5,536,125

For the purposes of impairment testing, goodwill has been allocated to 48 (2016: 34) groups of cash-generating units (CGUs), grouped by physical location and timing of their acquisition by the Group, operating in the theatre operation and other segments. The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these groups of CGUs are as follows:

	2017 HK$'000	2016 HK$'000
Theatre operation segment:		
Beijing Stellar Group	**15,431**	15,431
Stellar China Line Group	**1,344,794**	1,406,275
62 individually immaterial group entities (2015) (comprising 12 groups of CGUs)	**1,629,100**	1,675,446
79 individually immaterial group entities (2016) (comprising 18 groups of CGUs)	**2,351,559**	2,286,012
51 individually immaterial group entities (2017) (comprising 14 groups of CGUs)	**1,600,847**	–
	6,941,731	5,383,164
Retail business segment:		
TicketChina Group	**32,402**	32,402
Others segment:		
SMI Culture & Travel Group (2016)	**120,559**	120,559
	7,094,692	5,536,125

17. GOODWILL (Continued)

Theatre operation segment and retail business segment

During the year ended 31 December 2017, impairment losses of (i) HK$174,272,000 (2016: HK$46,556,000) of 5 (2016: 2) out of 12 groups of CGUs of 62 individually immaterial group entities' goodwill; (ii) HK$113,643,000 (2016: nil) of 3 (2016: nil) out of 18 groups of CGUs of 79 individually immaterial group entities' goodwill; and (iii) HK$59,264,000 (2016: nil) of the CGU of Stellar China Line Group's goodwill, have been recognised.

The recoverable amounts of the impaired 5 (2016: 2) out of 12 groups of CGUs of 62 individually immaterial group entities, 3 (2016: nil) out of 18 groups of CGUs of 79 individually immaterial group entities and the CGU of Stellar China Line Group were HK$774,287,000 (2016: HK$326,023,000), HK$573,483,000 (2016: nil) and HK$1,762,589,000 (2016: nil) respectively.

The recoverable amounts of the CGU of Beijing Stellar Group, the CGU of Stellar China Line Group, the 12 groups of CGUs of 62 individually immaterial group entities, and the 18 groups of CGUs of 79 individually immaterial group entities are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price during the period of respective CGUs. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. The estimated average occupancy rate of theatres, average number of shows of theatres and average ticket price of respective CGUs are based on the Group and industry historical data and expectations on market development of the PRC movie market in the foreseeable future.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the management and board of directors for the next five years with the remaining period's cash flows forecasted using a growth rate of 3% (2016: 3%). The rates used to discount the cash flows forecast from the subsidiaries of Beijing Stellar Group, Stellar China Line Group and 62 and 79 individually immaterial group entities are 14.09% (2016: ranging from 13.40% to 13.85%). At 31 December 2016, the rate used to discount the cash flows forecast from TicketChina Group was 19.05%.

In addition to impairment testing using the base case assumptions, separate sensitivity analyses were performed by either (i) increasing the discount rate of 1% from the base case; or (ii) decreasing the occupancy rate of 1% from the base case.

The sensitive tests using a lower occupancy rate by deduct 1% indicate that the impairment loss of (i) 5 out of 12 groups of CGUs of 62 individually immaterial group entities; (ii) 5 out of 18 groups of CGUs of 79 individually immaterial group entities; and (iii) Stellar China Line Group would have been increased by HK$12,269,000, HK$11,649,000 and HK$17,419,000 respectively.

The sensitive tests using a higher discount rate of plus 1% indicate that the impairment loss of (i) 6 out of 12 groups of CGUs of 62 individually immaterial group entities; (ii) 8 out of 18 groups of CGUs of 79 individually immaterial group entities; and (iii) Stellar China Line Group would have been increased by HK$96,963,000, HK$94,777,000 and HK$116,254,000 respectively.

17. GOODWILL (Continued)

Theatre operation segment and retail business segment (Continued)

The recoverable amount of 14 groups of CGUs of 51 individually immaterial group entities as at 31 December 2017 are the higher of their fair value less costs of disposal and their value in use. The Directors assessed that the recoverable amount of 14 groups of CGUs of 51 individually immaterial group entities are determined based on fair value less costs of disposal, which is higher than their value in use and are determined based on the recent transactions under market approach as at 31 December 2017. In the opinion of the Directors, the carrying amounts of goodwill of 14 groups of CGUs of 51 individually immaterial group entities do not exceed the recoverable amounts of 14 groups of CGUs of 51 individually immaterial group entities.

The recoverable amount of the CGU of TicketChina Group as at 31 December 2017 is the higher of its fair value less costs of disposal and its value in use. The Directors assessed that the recoverable amount of the CGU of TicketChina Group is determined based on fair value less costs of disposal, which is higher than its value in use and is determined based on the fair value per share of other benchmark quoted entities measured using quoted price in the active market as at 31 December 2017. In the opinion of the Directors, the carrying amount of the CGU of TicketChina Group does not exceed the recoverable amount of TicketChina Group.

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

Other Segment

As at 31 December 2017, the Directors assessed that the recoverable amount of CGU of SMI Culture & Travel Group's goodwill is determined based on fair value less cost of disposal, which is higher than its value in use and is determined based on the fair value per share of SMI Culture & Travel Group measured using quoted price in an active market as at 31 December 2017. In the opinion of the Directors, the carrying amount of SMI Culture & Travel Group does not exceed the recoverable amount of SMI Culture & Travel Group.

As at 31 December 2016, the key assumptions for the value in use calculations were those regarding the discount rates, growth rates, estimated revenue growth during the period. The Group estimated discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates were based on long-term average economic growth rate of the geographical area in which the businesses of the CGU operate. The estimated revenue growth were based on the Group and industry historical data and expectations on market development of the licensed films and television drama series in the foreseeable future.

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

18. INTANGIBLE ASSETS AND PURCHASED LICENSE RIGHTS

	Cinema operating know-how HK$'000	Purchased license rights HK$'000
COST		
At 1 January 2016	56,773	–
Arising from acquisition of a subsidiary (note 43(b)(ii))	–	88,017
Arising from disposal of a subsidiary (note 44(i))	(915)	–
Exchange realignment	(4,213)	–
At 31 December 2016	51,645	88,017
Exchange realignment	3,624	–
At 31 December 2017	55,269	88,017
AMORTISATION AND IMPAIRMENT		
At 1 January 2016	–	–
Amortisation expense	10,714	2,319
Impairment recognised in profit or loss	–	3,326
At 31 December 2016	10,714	5,645
Amortisation expense	10,656	11,906
Impairment recognised in profit or loss	–	9,318
Exchange realignment	738	–
At 31 December 2017	22,108	26,869
CARRYING AMOUNTS		
At 31 December 2017	33,161	61,148
At 31 December 2016	40,931	82,372

18. INTANGIBLE ASSETS AND PURCHASED LICENSE RIGHTS (Continued)

Cinema operating know-how were purchased as part of the acquisition of the 62 individually immaterial group entities operated in the theatre operation and was recognised at its fair value at the date of acquisition. Cinema operating know-how have finite useful lives and are amortised on a straight-line basis over 5 years.

Purchased license rights were purchased as part of the acquisition of SMI Culture & Travel Group and were recognised at its fair value at the date of acquisition. 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. Purchased license rights have useful lives of 9 years to 15 years.

The Directors have reviewed the recoverable amount of the purchased license rights with reference to their fair value less cost of disposal (2016: value in use) on 31 December 2017. The recoverable amount of the Group's purchased license rights at 31 December 2017 have been arrived at on the market value basis carried out by Grant Sherman Appraisal Limited (2016: value in use calculation with reference to the valuation carried out 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.

As at 31 December 2017, the fair value of purchased license rights is a level 3 recurring fair value measurement. Other key estimation included risk-free rate of 3.9% and market equity risk premium of 10.42%. As at 31 December 2016, the value in use of purchased license rights is estimated based on the discounted cash flows analysis based on assumptions about future net cash flows from these rights at a discount rate of 20.08%. Other assumptions for the future cash flow estimation, included forecast income and gross margin from the purchased license rights, are determined with reference to the marketability of the assets as well as the general market condition for the media industry.

An impairment loss of HK$9,318,000 for purchase license right was recognised in profit or loss during the year ended 31 December 2017 (2016: HK$3,326,000) due to continuous unsatisfactory results from licensing of these assets. The recoverable amount of the purchased license rights was HK$229,300,000 (2016: HK$87,163,000).

19. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
The Group's prepaid lease payments comprise:		
Leases in the PRC	**41,831**	42,854
Analysed for reporting purposes as:		
Current assets	**4,234**	2,999
Non-current assets	**37,597**	39,855
	41,831	42,854

20. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Listed investment:		
Cost of investment	–	301,860
Share of post-acquisition results and accumulated impairment losses	–	(137,672)
Deemed disposal of an associate (Note)	–	(164,188)
	–	–
Unlisted investments:		
Cost of investments	14,731	64,731
Share of post-acquisition results	2,454	442
Exchange realignment	650	(449)
	17,835	64,724
	17,835	64,724

Note: As disclosed in note 43(b)(ii), the Group acquired the controlling equity interests of SMI Culture & Travel Group, a former associate of the Group, from the open stock market in October 2016. Immediately after the acquisition, the carrying amount of equity interest in the associate of HK$164,188,000 at that date was treated as deemed disposal of the associate and a gain on deemed disposal of interest in the associate of HK$27,810,000 was recognised in profit or loss during the year ended 31 December 2016.

On 25 May 2017, the Group disposed of its entire equity interests in Goldwe Securities (Group) Limited to an independent third party at a cash consideration of HK$50,000,000. Gain on disposal of HK$2,478,000 was recognised in profit or loss in the current year.

Details of the Group's associates as at 31 December 2017 and 31 December 2016 are as follows:

Name	Place of incorporation/ establishment	Principal place of operation	Percentage of equity interest held by the Group/ profit sharing 2017	Percentage of equity interest held by the Group/ profit sharing 2016	Principal activities
廣州市華影星美影城有限公司 Guangzhou Huaying Stellar Cineplex Limited	PRC	PRC	46.55%	46.55%	Operation of cinema
北京世紀東都國際影城有限公司	PRC	PRC	40.85%	40.85%	Operation of cinema
國匯證券(集團)有限公司 Goldwe Securities (Group) Limited	Hong Kong	Hong Kong	–	25%	Investment activities

All of the associates are accounted for using equity method in the consolidated financial statements. The Directors consider there is no associate individually material to the Group.

21. OTHER FINANCIAL ASSETS

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

(a) RMB100,000,000 (equivalent to HK$121,180,000) 5-year non-tradable zero coupon subordinated Securities as stipulated in the FY 2015 ABS Arrangement (see note 36(a) for details) as a collateral for having the FY 2015 Trust Loans made available to the Group under the FY 2015 Trust Loans Arrangement. The subordinated Securities will mature in December 2019.

At initial recognition, HK$37,117,000 loss arising from fair value adjustment has been recognised based on the principal amount of RMB100,000,000 (equivalent to HK$121,800,000) at an effective interest rate of 8.3% per annum. The amount was recognised against the carrying amount of the FY 2015 Trust Loans on initial recognition.

(b) RMB100,000,000 (equivalent to HK$111,160,000) 5-year non-tradable zero coupon subordinated Securities as stipulated in the FY 2016 ABS Arrangement (see note 36(b) for details) as a collateral for having the FY 2016 Trust Loans made available to the Group under the FY 2016 Trust Loans Arrangement. The subordinated Securities will mature in December 2020.

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

22. AVAILABLE-FOR-SALE INVESTMENTS

	2017 **HK$'000**	2016 HK$'000
At cost:		
– Unlisted private fund	**66,347**	65,396

The above unlisted investments in private fund are measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. The private fund incorporated in Singapore invests in equity securities in oversea companies.

23. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the year ended 31 December 2017, the Group subscribed for a convertible note issued by a company listed on the GEM of The Stock Exchange of Hong Kong, with principal amount of HK$90,000,000 which carries interest at 7.5% per annum payable quarterly in arrears with maturity in 2019 at redemption amount of 100% of the principal amount (the "7.5% 2019 CNR"). The 7.5% 2019 CNR can be converted at any time from the date of issue to the maturity date at initial conversion price of HK$0.3 per share, subject to adjustments in accordance with the terms and conditions of the 7.5% 2019 CNR. In addition, the issuer has the option to early redeem the 7.5% 2019 CNR at any time from the date of issue to the maturity date at full or partial of the principal amount outstanding under the 7.5% 2019 CNR together with all accrued interest.

23. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Group designated the entire 7.5% 2019 CNR as at fair value through profit or loss upon initial recognition with any gains or losses arising on remeasurement recognised in profit or loss. As at initial recognition, the fair value of the 7.5% 2019 CNR was HK$90,000,000 based on the subscription price. The fair value of the 7.5% 2019 CNR at the end of the reporting period is determined based the valuation provided by professional qualified valuer not connected with the Group, and measured using the Binomial Option Pricing Model. The inputs into the model at the end of the reporting period are as follow:

	31 December 2017
Stock price	HK$0.49
Conversion price	HK$0.30
Risk-free rate	1.31%
Expected volatility	49.31%
Time to maturity	1.68 years
Discount rate	14.64%

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

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

(i) The progress payments of HK$166,386,000 (2016: HK$50,022,000) paid to contractors. The Group has entered into agreements with these contractors for the interior renovation construction of leasehold improvements and theatre equipment in the theatres leased by the Group.

During the year ended 31 December 2017, HK$50,022,000 paid as at 31 December 2016 (2016: HK$328,684,000 paid as at 31 December 2015) was utilised as the additions of property, plant and equipment for the year.

(ii) At 31 December 2017, HK$2,217,000 (2016: HK$77,749,000) was paid for acquisition of other property, plant and equipment.

25. DEPOSITS PAID FOR ACQUISITIONS OF ENTITIES

The amounts represent the deposits paid to the agent, who has been entrusted by the Group to enter into sales and purchase agreements with certain vendors in the PRC for the proposed acquisitions of 11 (2016: 6) entities engaged in theatre operations in the PRC. At the end of the reporting period, the Group has entered into arrangement with the agent, who in turn has entered into various agreements with these vendors under which the vendors have conditionally agreed to sell to the agent (who in turn would then sell to the Group) the equity interests of those entities but the completion of the acquisitions are mainly subject to the completion of the due diligence and the approval from the relevant PRC government authorities.

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

During the year ended 31 December 2017, the entire amount of deposits paid of HK$154,289,000 as at 31 December 2016 was utilised for the acquisition of subsidiaries in the current year (see note 43(a) for details).

26. INVENTORIES

	2017 HK$'000	2016 HK$'000
Scripts, synopses, publication rights, publishing rights and editing rights	**185,926**	226,849
Food and beverages (excluding wine)	**37,699**	41,512
Wine	**58,776**	76,151
Electronic products	**6,748**	4,526
Others	**8,578**	11,017
	297,727	360,055

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

The Directors have reviewed the net realisable value of scripts, synopses, publication rights, publishing rights and editing rights with reference to a valuation carried out on 31 December 2017 by an independent qualified professional valuer, Grant Sherman Appraisal Limited. The valuation was performed on an individual basis for each script, synopsis and editing/publishing rights, taking into account market information on estimated selling prices adjusted for factors such as authorship, length of the works, historical trends on marketability of the work.

27. FILM RIGHTS INVESTMENT

	HK$'000
As at 1 January 2016	–
Addition arose from acquisition of subsidiaries	209,535
Addition during the year	188,108
As at 31 December 2016	397,643
Addition during the year	456,513
Recognised as expense included in cost of sales	(37,049)
Impairment	(6,490)
As at 31 December 2017	810,617

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

28. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables, net of allowance for doubtful debts	**760,407**	623,592
Rental and other deposits	**11,964**	14,537
Prepayments and other receivables, net of allowance for doubtful debts	**375,941**	335,629
	1,148,312	973,758

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.

28. TRADE AND OTHER RECEIVABLES (Continued)

Prepayments and remaining other receivables mainly consists of prepaid operating and administrative expenses and other cash advance to staff for business activities.

The Group's box office ticketing are mainly made in cash or through online ticket platform agents. The Group allows an average credit period of 90 days to its box office online ticket platform agents, advertising agents and wholesale customers.

The Group allows a credit period ranging from 90 to 180 days to its trade customers for contract sales of editing rights.

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

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

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

	2017 HK$'000	2016 HK$'000
0 to 30 days	299,793	222,392
31 to 90 days	253,538	127,153
91 to 180 days	73,723	263,420
181 days to 365 days	125,234	4,289
Over 1 year	8,119	6,338
	760,407	623,592

At 31 December 2017, trade receivables of HK$207,076,000 (2016: HK$274,047,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2017 HK$'000	2016 HK$'000
Overdue less than 90 days	73,723	263,420
Overdue 91 to 180 days	125,234	4,289
Overdue over 181 days	8,119	6,338
	207,076	274,047

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

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

28. TRADE AND OTHER RECEIVABLES (Continued)

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

	2017 HK$'000	2016 HK$'000
Balance at the beginning of the year	–	–
Allowance for doubtful debts	52,842	37
Write-off as uncollectable	(52,842)	(37)
Balance at the end of the year	–	–

29. HELD FOR TRADING INVESTMENTS

	2017 HK$'000	2016 HK$'000
Listed equity securities in Hong Kong	61,961	304,217

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

30. OTHER LOAN

As at 31 December 2017, the amount comprises a revolving loan to an independent third party of HK$126,000,000 (2016: 150,000,000) which is unsecured and interest-bearing at 8% (2016: 8%) per annum with repayment on demand clause.

31. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

As at 31 December 2017, the Group's pledged bank deposits of HK$149,262,000 (2016: HK$121,642,000) are denominated in RMB and pledged to secure FY 2016 Trust Loans as set out in note 36(b).

As at 31 December 2017, the bank balances and cash of the Group which are denominated in RMB amounted to HK$78,960,000 (2016: HK$142,743,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances carry interest at 0.01% to 0.2% (2016: 0.01% to 0.2%) per annum.

32. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	504,892	405,325
Customers' deposits and receipts in advance (Note (a))	74,352	214,074
Other tax payables	232,202	178,065
Amounts due to non-controlling interests of subsidiaries (Note (b))	–	590
Margin payables due to financial institutions (Note (c))	389,130	66,258
Accrued charges and sundry payables (Note (d))	267,182	182,982
	1,467,758	1,047,294

32. TRADE AND OTHER PAYABLES (Continued)

Notes:

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

(b) As at 31 December 2016, the amounts of HK$590,000 (2017: nil) are of non-trade nature, unsecured, interest-bearing at 7% per annum and repayable on demand.

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

(d) Accrued charges and sundry payables mainly consists of interest payables and accrued operating costs.

The credit period on purchases of goods and services is ranged from 30 to 60 days. Meanwhile, the average credit period on purchase of film rights investment is 90 days. The aging analysis of the Group's trade payables based on the invoice date at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
0 to 30 days	**286,567**	317,857
31 to 60 days	**137,027**	56,840
61 days to 1 year	**60,094**	10,366
Over 1 year	**21,204**	20,262
	504,892	405,325

33. AMOUNTS DUE FROM (TO) RELATED PARTIES

	2017 **HK$'000**	2016 HK$'000	**Maximum amount outstanding during the year** **HK$'000**
Amounts due from related parties			
星美影業有限公司 (Note)	**74,812**	–	**74,812**
深圳星美聖典文化傳媒集團有限公司 (「星美聖典」) (Note)	**1,812**	–	**1,812**
	76,624	–	**76,624**
Amounts due to related parties			
深圳星美聯合通訊有限公司 (Note)	**(8,178)**	(7,871)	
星美聖典 (Note)	**(13,985)**	(13,096)	
	(22,163)	(20,967)	

Note: Mr. Qin has control over these entities. The amounts are of non-trade nature, unsecured, interest-free and have no fixed repayment terms.

34. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Amounts payable under finance leases:				
Within one year	**98,488**	99,294	**90,059**	88,662
In the second to fifth years, inclusive	**60,082**	104,345	**55,142**	96,279
	158,570	203,639	**145,201**	184,941
Less: Future finance charges	**(13,369)**	(18,698)	**–**	–
Present value of finance lease obligations	**145,201**	184,941	**145,201**	184,941
Less: Amounts due for settlement within one year (shown under current liabilities)			**(90,059)**	(88,662)
Amounts due for settlement after one year			**55,142**	96,279

It is the Group's practice to lease certain of its theatre equipment under finance leases. The common lease term is 10 years. As at 31 December 2017, the average effective borrowing rate was 5.87% (2016: 6.90%) per annum. Interest rates are fixed at the contract date and thus expose the Group to fair value interest rate risk. The above lease obligations only include basic lease payments and do not include the contingent rental amounts, if any, which are to be determined generally by applying pre-determined percentages to future revenue less the basic rentals of the respective leases, as it is not possible in advance to calculate the amount of such additional rental.

All finance lease payables are denominated in RMB.

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

35. BANK BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans:		
– secured	**74,492**	38,906
	74,492	38,906

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

	2017 HK$'000	2016 HK$'000
Within one year	**45,411**	38,906
Between one to two years	**3,383**	–
Between two to five years	**10,149**	–
More than five years	**15,549**	–
	74,492	38,906
Less: Amount due for settlement within one year	**(45,411)**	(38,906)
Amount due for settlement after one year	**29,081**	–

35. BANK BORROWINGS (Continued)

All bank loans are denominated in RMB and carry interest benchmarking interest rate in People's Bank of China ("PBOC") with effective interest rates ranging from 5.9% to 6.5% (2016: 6.5%) per annum.

As at 31 December 2017, HK$205,057,000 (2016: HK$24,456,000) of the leasehold land and buildings situated in the PRC was pledged as security for the Group's bank borrowings.

36. OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Other loans		
– secured	1,967,774	2,509,644
– unsecured	–	301,300
	1,967,774	2,810,944

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

	2017 HK$'000	2016 HK$'000
Within one year	1,336,112	824,900
Between one to two years	631,662	1,192,916
Between two to five years	–	793,128
	1,967,774	2,810,944
Less: Amount due for settlement within one year	(1,336,112)	(824,900)
Amount due for settlement after one year	631,662	1,986,044

36. OTHER BORROWINGS (Continued)

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

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

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

Pursuant to the subscription agreement entered into between Financial Institution B and the Group, Financial Institution B has passed on all risks and rewards of the two tranches of the Securities to the Group as subscriber through the Synthetic Instrument. Accordingly, the Group has effectively repurchased the two tranches of the Securities via this arrangement and RMB647,000,000 (equivalent to HK$796,522,000) paid for the acquisition of the Synthetic Instrument is initially recognised as deduction against the FY 2015 Trust Loans liability.

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

As at 31 December 2017, the carrying amount of FY 2015 Trust Loans was HK$854,047,000 (2016: HK$1,031,456,000).

36. OTHER BORROWINGS (Continued)

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

As at 31 December 2017, the carrying amount of FY 2016 Trust Loans was HK$1,006,855,000 (2016: HK$1,478,188,000).

(c) During the year ended 31 December 2016, the Group obtained: 1) a short-term credit loan facility from a financial institution of maximum amount up to HK$680,000,000 for the purpose of acquisition of SMI Culture & Travel Group's equity interests. As at 31 December 2016, HK$75,724,000 (2017: nil) of the loan is drawdown by the Group which is unsecured, carrying interest rate of 24% per annum and repayable within 6 months; and 2) a short-term credit loan facility from the financial institution of HK$100,000,000 for the general business. As at 31 December 2016, HK$100,000,000 (2017: nil) of the loan is drawdown by the Group which is carrying interest rate of 24% per annum and repayable within 2 months. The entire other borrowings were fully repaid by the Group during the year ended 31 December 2017.

(d) As at 31 December 2016, other borrowings also included amount of HK$125,576,000 borrowed by SMI Culture & Travel Group from a financial institution, which was repayable within one year, unsecured and borne interest at fixed rate of 17.5% per annum. The entire other borrowing was fully repaid by SMI Culture & Travel during the year ended 31 December 2017.

(e) During the year ended 31 December 2017, the Group obtained a credit loan facility from a financial institution of maximum amount up to RMB150,000,000 (equivalent to HK$173,625,000) for the general business (the "FY 2017 Other Loan"). The facility is secured against the box office's receipts and receivables from the movie theatres operated by certain subsidiaries of the Company in the PRC and bears fixed interest at 9% per annum and fully repaid in January 2019. The Group has the option to early repay the principal of the borrowing in full or in part before the maturity date. As at 31 December 2017 the entire facility amount has been drawdown by the Group and RMB61,000,000 (equivalent to HK$70,608,000) was repaid.

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS

Shown in the consolidated statement of financial position as:

	2017 HK$'000	2016 HK$'000
Current liabilities	907,813	1,007,572
Non-current liabilities	10,000	–
	917,813	1,007,572

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

	2017 HK$'000	2016 HK$'000
Carrying amount at the beginning of year	1,007,572	823,207
Arising from acquisition of subsidiaries (note 43(b)(ii))	–	130,128
Issued during the year (note 37(g))	–	64,190
Interest charged (note 9)	105,434	103,072
Conversion into shares of the Company (note 37(b) & (c))	–	(41,650)
Conversion into shares of SMI Culture & Travel Group (note 37(g), (h) & (i))	(53,794)	(34,049)
Interest paid/payable	(141,149)	(37,326)
Repayment	(250)	–
	917,813	1,007,572

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

(a) The Company issued several 5-year 5% convertible notes ("Convertible Note II") with principal amount totalling of HK$10,250,000 on 11 September 2012 to certain independent third party investors. The Convertible Note II are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business day after the date of issue of the Convertible Note II up to and including the date which is 7 business days prior to the maturity date on 10 September 2017 at a conversion price of HK$1.00 per share, subject to anti-dilutive adjustments. If the Convertible Note II have not been converted, they will be redeemed at 100% of their principal amount on the maturity date. No early redemption is allowed. Interest of 5.0% per annum will be payable annually on the last business day of each calendar year.

The Convertible Note II contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 5.00% (2016: 5.94%).

During the year ended 31 December 2017, an independent third party investor extended the maturity date of the Convertible Note II from 10 September 2017 to 10 September 2018. All the other terms and conditions of the Convertible Note II remain unchanged and the independent third party investors can convert the Convertible Note II into ordinary shares of the Company up to the close of business date on 10 September 2018 at a conversion price of HK$5.00 per share, being adjusted with the anti-dilutive effect from the Company's share consolidation effective on 5 June 2017.

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition. The effective interest rate of the Convertible Note II liability component for the remaining period after the modification is revised to 5.00%.

As at 31 December 2017, Convertible Note II with principal amount of HK$10,000,000 (2016: HK$10,250,000) was outstanding.

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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

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

On 14 August 2016, the Convertible Note IV holders exercised the conversion rights to the extent of principal amount of HK$20,000,000 of the Convertible Note IV, to convert the Convertible Note IV at a conversion price of HK$0.34 per ordinary share, and a total of 58,823,529 conversion ordinary shares were then issued. As at 31 December 2017 and 2016, no Convertible Note IV was outstanding.

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

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

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(c) (Continued)

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

As at 31 December 2015, Convertible Note V with principal amount of US$2,528,000, equivalent to approximately HK$19,592,000 was outstanding. On 13 September 2016, the Convertible Note V holders exercised the remaining conversion rights of principal amount of US$2,528,000, equivalent to approximately HK$19,592,580, of the Convertible Note V, to convert the Convertible Note V at a conversion price of HK$0.34 per ordinary share, and a total of 57,625,235 conversion ordinary shares were then issued. As at 31 December 2017 and 2016, no Convertible Note V was outstanding.

(d) The Company issued a 2-year 4.0% convertible note ("Convertible Note VIII") with principal amount totalling of HK$300,000,000 on 5 November 2015 to an independent third party investor. The Convertible Note VIII are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business date from the issue date up to the close of business on the maturity date on 4 November 2017 at a conversion price of HK$0.77 per share, subject to anti-dilutive adjustments. If the Convertible Note VIII have not been converted, they will be redeemed at such amount that would yield an annual return of 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 4.0% per annum will be payable semi-annually on the last business day of every half calendar year.

The Convertible Note VIII contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 10.00% (2016: 11.71%).

During the year ended 31 December 2017, the holder of Convertible Note VIII extended the maturity date of the Convertible Note VIII from 4 November 2017 to 4 November 2018. All the other terms and conditions of the Convertible Note VIII remain unchanged and the independent third party investors can convert the Convertible Note VIII into ordinary shares of the Company up to the close of business date on 4 November 2018 at a conversion price of HK$3.85 per share, being adjusted with the anti-dilutive effect from the Company's share consolidation effective on 5 June 2017.

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition. The effective interest rate of the Convertible Note VIII liability component for the remaining period after the modification is revised to 10.00%.

As at 31 December 2017 and 2016, Convertible Note VIII with principal amount of HK$300,000,000 was outstanding.

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(e) The Company issued several 2-year 4.0% convertible notes ("Convertible Note IX") with principal amount totalling of HK$275,000,000 on 12 November 2015 to an independent third party investor. The Convertible Note IX are denominated in Hong Kong dollars and entitle the holder to convert them into ordinary shares of the Company at any business date from and including the date falling six months from the issue date up to the close of business on the maturity date on 11 November 2017 at a conversion price of HK$0.77 per share, subject to anti-dilutive adjustments. If the Convertible Note IX have not been converted, they will be redeemed at such amount that would yield an annual return of 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 4.0% per annum will be payable semi-annually on the last business day of every half calendar year.

The Convertible Note IX contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 10.00% (2016: 12.30%).

During the year ended 31 December 2017, the holder of Convertible Note IX extended the maturity date of the Convertible Note IX from 11 November 2017 to 11 November 2018. All the other terms and conditions of the Convertible Note IX remain unchanged and the independent third party investors can convert the Convertible Note IX into ordinary shares of the Company up to the close of business date on 11 November 2018 at a conversion price of HK$3.85 per share, being adjusted with the anti-dilutive effect from the Company' share consolidation effective on 5 June 2017.

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition. The effective interest rate of the Convertible Note IX liability component for the remaining period after the modification is revised to 10.00%.

As at 31 December 2017 and 2016, Convertible Note IX with principal amount of HK$275,000,000 was outstanding.

(f) The Company issued several 2-year 4.0% convertible notes ("Convertible Note X") with principal amount totalling of HK$224,000,000 on 23 November 2015 to certain independent third party investors. The Convertible Note X are denominated in Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company at any business date from and including the date falling six months from the issue date up to the close of business on the maturity date on 22 November 2017 at a conversion price of HK$0.77 per share, subject to anti-dilutive adjustments. If the Convertible Note X have not been converted, they will be redeemed at such amount that would yield an annual return of 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 4.0% per annum will be payable semi-annually on the last business day of every half calendar year.

The Convertible Note X contains two components, a liability component and a conversion component. Since the conversion option would be settled by a fixed number of the Company's own equity instruments, the conversion option is presented in equity as convertible notes reserve. The effective interest rate of the liability component is 10.00% (2016: 12.45%).

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(f) (Continued)

During the year ended 31 December 2017, the holders of Convertible Note X extended the maturity date of the Convertible Note X from 22 November 2017 to 22 November 2018. All the other terms and conditions of the Convertible Note X remain unchanged and the independent third party investors can convert the Convertible Note X into ordinary shares of the Company up to the close of business date on 22 November 2018 at a conversion price of HK$3.85 per share, being adjusted with the anti-dilutive effect from the Company's share consolidation effective on 5 June 2017.

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition. The effective interest rate of the Convertible Note X liability component for the remaining period after the modification is revised to 10.00%.

As at 31 December 2017 and 2016, Convertible Note X with principal amount of HK$224,000,000 was outstanding.

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

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

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note XI is 11.40% (2016: 6.75%).

During the year ended 31 December 2017, Cheer Hope extended the maturity date of the Convertible Note XI from 8 August 2017 to 8 August 2018. All the other terms and conditions of the Convertible Note XI remain unchanged and Cheer Hope can convert the Convertible Note XI into ordinary shares of SMI Culture & Travel Group up to the close of business date on 8 August 2018 at a conversion price of HK$0.675 per share.

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(g) (Continued)

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition. The effective interest rate of the Convertible Note XI liability component for the remaining period after the modification is revised to 11.40%.

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

	Liability component HK$'000	**Conversion and other embedded derivatives** HK$'000	**Total** HK$'000
Issued during the year ended 31 December 2016	64,190	810	65,000
Interest charged	593	–	593
Interest paid/payable	(445)	–	(445)
Loss arising on change in fair value	–	19,954	19,954
As at 31 December 2016	64,338	20,764	85,102
Interest charged	3,635	–	3,635
Interest paid/payable	(3,225)	–	(3,225)
Converted during the year	(29,748)	(6,745)	(36,493)
Change in fair value	–	(8,559)	(8,559)
	35,000	5,460	40,460

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

	11 November 2016	**31 December 2016**	**10 February 2017**	**31 December 2017**
Stock price	HK$0.840	HK$0.860	HK$0.810	HK$0.750
Exercise price	HK$0.675	HK$0.675	HK$0.675	HK$0.675
Volatility	40.44%	37.73%	38.28%	22.00%
Option life	0.74 year	0.61 year	0.49 year	0.61 year
Risk-free interest rate	0.49%	0.82%	0.76%	1.39%

On 10 February 2017, Cheer Hope exercised the conversion rights to principal amount of HK$30,000,000 of the Convertible Note XI, to convert the Convertible Note XI at a conversion price of HK$0.675 per ordinary share, and a total of 44,444,444 conversion ordinary shares of SMI Culture & Travel group were then issued.

As at 31 December 2017, Conversion Note XI with principal amount of HK$35,000,000 (2016: HK$65,000,000) was outstanding.

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

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

At the date of the Company acquired SMI Culture and Travel Group (see note 43(b)(ii)), the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note XII is 12.09% (2016: 9.11%).

During the year ended 31 December 2017, Ever Ascend extended the maturity date of the Convertible Note XII from 25 October 2017 to 25 October 2018. All the other terms and conditions of the Convertible Note XII remain unchanged and Ever Ascend can convert the Convertible Note XII into ordinary shares of SMI Culture & Travel Group up to the close of business date on 25 October 2018 at a conversion price of HK$0.675 per share.

As the discounted present value of the cash flows under the new terms, including any fees paid and discounted using the original effective interest rate, was less than 10% different from the discounted present value of the remaining cash flows of the financial liability, the Directors consider the extension of the maturity date is non-substantial modifications that do not result in derecognition. The effective interest rate of the Convertible Note XI liability component for the remaining period after the modification is revised to 12.09%.

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

	Liability component HK$'000	Conversion and other embedded derivatives HK$'000	Total HK$'000
Arising from the acquisition	96,152	41,769	137,921
Interest charged	1,605	–	1,605
Interest paid/payable	(2,522)	–	(2,522)
Gain arising on change in fair value	–	(6,847)	(6,847)
As at 31 December 2016	95,235	34,922	130,157
Interest charged	9,110	–	9,110
Interest paid/payable	(6,486)	–	(6,486)
Converted during the year	(24,046)	(5,368)	(29,414)
Gain arising on change in fair value	–	(20,430)	(20,430)
	73,813	9,124	82,937

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(h) (Continued)

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

	Date of Acquisition	31 December 2016	15 March 2017	31 December 2017
Stock price	**HK$0.900**	HK$0.860	HK$0.790	HK$0.750
Exercise price	**HK$0.675**	HK$0.675	HK$0.675	HK$0.675
Volatility	**38.70%**	36.04%	37.55%	21.05%
Option life	**0.99 year**	0.82 year	0.62 year	0.82 year
Risk-free interest rate	**0.43%**	0.86%	0.65%	1.47%

On 15 March 2017, Ever Ascend exercised the conversion rights to principal amount of HK$25,000,000 of the Convertible Note XII, to convert the Convertible Note XII at a conversion price of HK$0.675 per ordinary share, and a total of 37,037,037 conversion ordinary shares of SMI Culture & Travel Group were then issued.

As at 31 December 2017, Conversion Note XII with principal amount of HK$75,000,000 (2016: HK$100,000,000) was outstanding.

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

The Convertible Note XIII contains two components, a liability component and a conversion option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in SMI Culture & Travel Group Holdings Limited 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.

37. CONVERTIBLE NOTES/DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(i) (Continued)

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

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

At the date of the Company acquired SMI Culture and Travel Group (see note 43(b)(ii)), the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the Convertible Note XIII is 8.94%.

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

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

On 21 November 2016, the Convertible Note XIII holder exercised the conversion rights to entire principal amount of HK$35,000,000 of the Convertible Note XIII, to convert the Convertible Note XIII at a conversion price of HK$0.675 per ordinary share, and a total of 51,851,851 conversion ordinary shares of SMI Culture & Travel Group were then issued. As at 31 December 2017 and 2016, no Conversion Note XIII was outstanding.

38. BONDS

	2017 HK$'000	2016 HK$'000
The bonds are repayable as follows:		
Within one year	**1,528,170**	1,225,711
Within a period of more than one year but not exceeding two years	**9,225**	330,533
Within a period of more than two years but not exceeding five years	**256,548**	177,270
Within a period of more than five years	**65,216**	132,083
	1,859,159	1,865,597
Less: Amount due for settlement within one year	**(1,528,170)**	(1,225,711)
Amount due for settlement after one year	**330,989**	639,886
Analysed as:		
Unsecured	**1,859,159**	1,865,597
	1,859,159	1,865,597

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

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

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

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

(d) In 2016, the Company issued three 2-year 8.5% bonds to independent third parties with aggregate principal amounts of HK$1,124,805,000. The effective interest rates of the bonds range from 8.79% to 10.25%. During the year ended 31 December 2017, the Company had early redeemed bond of HK$40,000,000.

(e) In 2017, the Company issued one 7-year 6% bond with principal amount of HK$5,000,000 at effective interest rate of 9.59% and two 3-year 5% bonds with aggregate principal amounts of HK$10,000,000 at effective interest rate of 12.36% to independent third parties.

(f) SMI Culture & Travel Group issued a 1-year bond to an independent third party with aggregate principal amount of HK$315,000,000 in August 2016 with fixed coupon rate of 5% per annum each, with the corporate guarantee by the Company. The bond will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the Bond is 9.85%. In November 2016, SMI Culture & Travel Group has early redeemed bond of HK$64,431,000.

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

38. BONDS (Continued)

(g) SMI Culture & Travel Group issued a 1-year bond to Ever Ascend, an independent third party with aggregate principal amount of HK$200,000,000 in August 2016 with fixed coupon rate of 5% per annum, with the guarantee by the Company. The bond will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the bond is 11.00%.

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

39. DEFERRED TAX LIABILITIES

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

	Intangible assets HK$'000	Fair value adjustments on lease contracts HK$'000	Total HK$'000
At 1 January 2016	14,706	3,792	18,498
Credit to profit or loss in the year (note 10)	(2,558)	(513)	(3,071)
Disposal	(229)	–	(229)
Exchange realignment	(1,173)	–	(1,173)
At 31 December 2016 and 1 January 2017	10,746	3,279	14,025
Credit to profit or loss in the year (note 10)	(2,151)	(513)	(2,664)
Exchange realignment	721	–	721
At 31 December 2017	9,316	2,766	12,082

At the end of the reporting period, the Group has unused tax losses of HK$1,827,703,000 (2016: HK$1,118,995,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$1,510,394,000 (2016: HK$938,571,000) that will expire within 5 years. Other tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, for which deferred tax liabilities have not been recognised, is HK$2,743,520,000 (2016: HK$1,787,188,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

40. SHARE CAPITAL

Authorised:	Number of shares 2017	Number of shares 2016	Amount 2017 HK$'000	Amount 2016 HK$'000
At beginning of year				
Ordinary shares of HK$0.1 each	**20,000,000,000**	20,000,000,000	**2,000,000**	2,000,000
Shares consolidation (Note (ii))	**(16,000,000,000)**	–	**–**	–
At end of year				
Ordinary shares of HK$0.1 each	**–**	20,000,000,000	**–**	2,000,000
Ordinary shares of HK$0.5 each	**4,000,000,000**	–	**2,000,000**	–
Issued and fully paid:				
At beginning of year				
Ordinary shares of HK$0.1 each	**13,611,209,583**	13,507,427,488	**1,361,121**	1,350,743
Issue of conversion shares	**–**	116,448,764	**–**	11,645
Share options exercised	**–**	68,333,331	**–**	6,833
Shares bought back (Note (i))	**(11,000,000)**	(81,000,000)	**(1,100)**	(8,100)
Shares consolidation (Note (ii))	**(10,880,167,667)**	–	**–**	–
At end of the year				
Ordinary shares of HK$0.1 each	**–**	13,611,209,583	**–**	1,361,121
Ordinary shares of HK$0.5 each	**2,720,041,916**	–	**1,360,021**	–

Notes:

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

During the year ended 31 December 2017, the Company paid in aggregate HK$7,807,000 to buy back 5,000,000, 3,000,000 and 3,000,000 ordinary shares of HK$0.1 each from the Stock Exchange on 4 May, 15 May and 19 May respectively, at highest price of HK$0.73 and lowest price of HK$0.68 per share, and the excess paid over the par value of the shares was debited to the Company's share premium account. The share capital of HK$1,100,000 was transferred to capital redemption reserve for cancellation after the end of the report period.

(ii) On 10 May 2017, the Board of Directors of the Company proposed consolidation of every five existing shares of HK$0.1 each in the issued and unissued share capital of the Company into one consolidated share of HK$0.5 each in the issued and unissued share capital (the "Proposed Share Consolidation"). The Proposed Share Consolidation was approved by shareholders of the Company at the special general meeting on 2 June 2017 and became effective on 5 June 2017.

41. SHARE-BASED PAYMENT

Equity-settled share option scheme

On 30 September 2009, an ordinary resolution was proposed at the special general meeting to approve the adoption of a share option scheme ("Share Option Scheme") and termination of the operation of the old share option scheme. The resolution was approved by the shareholders and the Share Option Scheme became effective for a period of 10 years commencing on 30 September 2009.

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

On 12 October 2017, the Company granted 84,000,000 options (the "2017 Options") under the Share Option Scheme to eligible participants. The 2017 Share Options are vested when the Group acquired up to 370 entities engaged in operations of theatres. The 2017 Options are exercisable any time before maturity date provided that the maximum number of the 2017 Options which may be exercisable by each eligible participant each year during the exercise period shall not exceed half of the 2017 Options granted to the eligible participant. No 2017 Options are vested and/or exercised during the year ended 31 December 2017.

The estimated fair value of the options on the date of grant was HK$55,043,000. The 2017 Options are divided into 2 equal trenches in which Tranches (1) is exercisable within one year from the date of grant i.e. 12 October 2017 to 11 October 2018, and Tranches (2) is exercisable in the second year from the date of grant i.e. 12 October 2018 to 11 October 2019. The fair values of the 2017 Options were calculated using the Black-Scholes Model. The inputs into model were as follows:

	12 October 2017	
	Tranches (1)	Tranches (2)
Share price	HK$4.37	HK$4.37
Exercise price	HK$4.37	HK$4.37
Expected volatility	26.98%	35.95%
Risk-free rate	0.70%	1.00%
Expected dividend yield	1.51%	1.53%

The Group recognised total expense of HK$12,064,000 for the year ended 31 December 2017 in relation to the 2017 Options.

41. SHARE-BASED PAYMENT (Continued)

Equity-settled share option scheme (Continued)

A summary of the movements of the outstanding options during the year ended 31 December 2016 and 2017 under the Share Option Scheme is as follows:

			Changes during the year ended 31 December 2016				
Type of participants	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2016	Exercised in 2016	Lapsed in 2016	Balance as at 31.12.2016
Directors	19 July 2013	19 July 2013 to 18 July 2016	0.18	21,666,665	(21,666,665)	–	–
Employees	19 July 2013	19 July 2013 to 18 July 2016	0.18	46,666,666	(20,000,000)	(26,666,666)	–
Others participants	19 July 2013	19 July 2013 to 18 July 2016	0.18	39,999,999	(26,666,666)	(13,333,333)	–
				108,333,330	(68,333,331)	(39,999,999)	–

			Changes during the year ended 31 December 2017					
Type of participants	Date of grant	Exercise period	Exercise price per share HK$	Balance as at 1.1.2017	Granted in 2017	Exercised in 2017	Lapsed in 2017	Balance as at 31.12.2017
Directors	12 October 2017	12 October 2017 to 11 October 2018	4.37	–	15,250,000	–	–	15,250,000
	12 October 2017	12 October 2018 to 11 October 2019	4.37	–	15,250,000	–	–	15,250,000
Employees	12 October 2017	12 October 2017 to 11 October 2018	4.37	–	26,750,000	–	–	26,750,000
	12 October 2017	12 October 2018 to 11 October 2019	4.37	–	26,750,000	–	–	26,750,000
				–	84,000,000	–	–	84,000,000

42. PLEDGE OF ASSETS

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

(a) As described in note 16, the Group's leasehold land and buildings situated in the PRC amounting to HK$205,057,000 (2016: HK$24,456,000) was pledged to secure for certain bank borrowings granted to the Group.

(b) As described in notes 31, the Group's pledged bank deposits amounting to HK$149,262,000 (2016: HK$121,642,000) was pledged to secure the FY 2016 Trust Loans.

(c) As described in notes 36(a), 36(b) and 36(e), part of the box office's income generated by certain subsidiaries in coming years were pledged to secure for the FY 2015 Trust Loan, the FY 2016 Trust Loans and the FY 2017 Other Loan.

(d) As described in notes 21 and 36, the Group pledged its subordinated Securities as stipulated in the ABS Arrangement as a collateral for the FY 2015 Trust Loan and the FY 2016 Trust Loans.

(e) As at 31 December 2017, all equity interests in SMI Culture & Travel Group and held-for-trading investments were used as contingent collaterals for the margin account facilities granted to the Group as required.

43. ACQUISITION OF SUBSIDIARIES

(a) For the year ended 31 December 2017

During the year ended 31 December 2017, the Group acquired the entire equity interests in fifty-one entities which are engaged in operation of theatres from independent third parties for an aggregated cash consideration of RMB1,432,000,000 (equivalent to approximately HK$1,719,546,000). The fifty-one entities are acquired so as to continue the expansion of the Group's theatre operation. The information for these acquisitions is disclosed on an aggregated basis as they are individually immaterial to the Group.

43. ACQUISITION OF SUBSIDIARIES (Continued)

(a) For the year ended 31 December 2017 (Continued)

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

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment	200,403
Inventories	2,260
Trade and other receivables (Note)	27,248
Bank balances and cash	23,591
Trade and other payables	(134,803)
Fair value of total identifiable net assets	118,699
Goodwill (note 17)	1,600,847
	1,719,546
Satisfied by:	
Cash	1,719,546
Net cash outflow on acquisition of subsidiaries:	
Cash consideration paid	(1,719,546)
Utilising deposits paid for acquisition of entities in prior years	154,289
Bank balances and cash acquired from the subsidiaries	23,591
	(1,541,666)

Note: The fair value of trade and other receivables at the date of acquisition also represented the gross contractual amounts.

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

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

Included in the loss for the year is loss of HK$23,336,000 attributable to the additional business generated by these subsidiaries. Revenue for the year includes HK$95,858,000 generated from these subsidiaries.

43. ACQUISITION OF SUBSIDIARIES (Continued)

(a) For the year ended 31 December 2017 (Continued)

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been HK$3,878,200,000, and loss for the year would have been HK$275,209,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

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

(b) For the year ended 31 December 2016

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

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

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

43. ACQUISITION OF SUBSIDIARIES (Continued)

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

(i) (Continued)

Note: The fair value of trade and other receivables at the date of acquisition also represented the gross contractual amounts.

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

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

Included in the profit for the year ended 31 December 2016 is HK$36,478,000 attributable to the additional business generated by these subsidiaries. Revenue for the year ended 31 December 2016 includes HK$252,314,000 generated from these subsidiaries.

Had the acquisition been completed on 1 January 2016, total group revenue for the year ended 31 December 2016 would have been HK$3,561,275,000, and profit for the year ended 31 December 2016 would have been HK$463,698,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had these subsidiaries been acquired at the beginning of the year ended 31 December 2016, the Directors have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination.

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

43. ACQUISITION OF SUBSIDIARIES (Continued)

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

(ii) (Continued)

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

	HK$'000
Fair value of net assets acquired:	
Property, plant and equipment	444
Intangible assets	88,017
Inventories	227,572
Trade and other receivables (Note)	992,131
Film rights investment	209,535
Bank balances and cash	93,382
Convertible notes	(130,128)
Derivative financial instruments	(55,452)
Other borrowings	(160,000)
Bonds	(509,550)
Trade and other payables	(209,710)
Net assets	546,241

	HK$'000
Goodwill arising on acquisition	
Consideration paid	213,899
Add:	
Non-controlling interests	260,903
Fair value of previously held interests	191,998
Less:	
Net assets acquired	(546,241)
Goodwill (note 17)	120,559
Satisfied by:	
Cash	213,899
Net cash outflow on acquisition of SMI Culture & Travel Group:	
Cash consideration paid	(213,899)
Bank balances and cash acquired from the SMI Culture & Travel Group	93,382
	(120,517)

Note: The fair value of trade and other receivables at the date of acquisition also represented the gross contractual amounts.

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

43. ACQUISITION OF SUBSIDIARIES (Continued)

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

(ii) (Continued)

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

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

Included in the profit for the year ended 31 December 2016 of the Group is a profit of HK$3,379,000 attributable to the additional business generated by these subsidiaries. Revenue for the year ended 31 December 2016 includes HK$16,744,000 generated from these subsidiaries.

Had the acquisition been completed on 1 January 2016, total group revenue for the year end 31 December 2016 would have been HK$3,894,675,000, and profit for the year end 31 December 2016 would have been HK$430,176,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had these subsidiaries been acquired at the beginning of the year ended 31 December 2016, the Directors have calculated depreciation of property, plant and equipment and amortisation of intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination.

44. DISPOSAL OF SUBSIDIARIES

(i) On 30 September 2016, the Group entered into an agreement to dispose of one wholly owned subsidiary to an independent third party. The subsidiary was principally engaged in the operation of cinema in the PRC. The disposal of subsidiary was completed during the year ended 31 December 2016, a net gain on the disposal of such subsidiary of HK$251,000 was recognised in profit or loss.

44. DISPOSAL OF SUBSIDIARIES (Continued)

(i) (Continued)

The aggregate net assets of the above subsidiary at its date of disposal are as follows:

	HK$'000
Cash consideration	44,837
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	2,287
Intangible assets	915
Goodwill	36,804
Inventories	4
Trade and other receivables	1,283
Bank balances and cash	11
Trade and other payables	(185)
Deferred tax liabilities	(229)
	40,890
Gain on disposal of the subsidiary	
Consideration	44,837
Net assets disposed of	(40,890)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	(3,696)
Gain on disposal of the subsidiary	251
Net cash inflow on disposal of the subsidiary	
Cash consideration	44,837
Bank balance and cash	(11)
	44,826

44. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) During the year ended 31 December 2015, the Company entered into an unconditional share transfer agreement with an independent third party to dispose of all the equity interest in the Photon Group. The disposal was completed on 30 April 2016.

The aggregate net assets of the Photon Group at its date of disposal are as follows:

	HK$'000
Cash consideration	22,250
Analysis of assets and liabilities over which control was lost:	
Intangible assets	25,120
Bank balances and cash	58
Trade and other payables	(3,667)
	21,511
Gain on disposal of the subsidiary	
Consideration	22,250
Net assets disposed of	(21,511)
Non-controlling interest	(1,222)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	1,641
Gain on disposal of the subsidiary	1,158
Net cash inflow on disposal of the subsidiary	
Cash consideration	22,250
Cash consideration to be received	(14,233)
Bank balance and cash	(58)
	7,959

45. LEASE COMMITMENTS

As at 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**452,680**	422,510
In the second to fifth years inclusive	**1,746,645**	1,659,832
After five years	**2,553,715**	2,702,369
	4,753,040	4,784,711

Operating lease payments represent rentals payable by the Group for its office, staff quarters and warehouses in Hong Kong, the office and certain cinema premises in the PRC.

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

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

46. CAPITAL COMMITMENTS

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

	2017 HK$'000	2016 HK$'000
(a) Amount contracted but not provided for in the consolidated financial statements in respect of:		
Renovation of cinema premises	**439,082**	202,093
Capital contribution to an investment classified as available-for-sale investment	**59,701**	67,845

As described in note 25, the management of the Group is engaged with various vendors to acquire 11 theatres (2016: 6) in the PRC with total deposits of HK$292,928,000 (2016: HK$154,289,000) paid to individual vendors under the memorandum of understandings entered into between the vendors and the Group. In the opinion of the Directors, the total amount of commitment on the acquisitions is subject to the results of due diligence works as at 31 December 2017 and not yet be conclusive.

47. CONTINGENT LIABILITIES

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

As at 31 December 2017 and 31 December 2016, the Group did not have any other significant contingent liabilities.

48. RELATED PARTY TRANSACTIONS

In addition to the related party balances disclosed in note 33, the Group has the following transactions with its related parties during the year:

(a) Mr. Qin, the controlling shareholder of the Group, provided a personal financial guarantee to the lenders to secure the Group's borrowings.

(b) 星美聖典 provided a corporate financial guarantee to the lenders to secure the FY 2016 Trust Loans.

(c) The compensation paid to key management personnel, the Directors, by the Group during the year was disclosed in note 12.

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Investments in subsidiaries (Note)	**4,656,606**	5,819,354
Interests in an associate	**–**	50,000
Available-for-sale investment	**66,347**	65,396
	4,722,953	5,934,750
Current assets		
Prepayments, deposits and other receivables	**42,755**	78,448
Other loan	**126,000**	150,000
Amounts due from related parties	**26,813**	169
Bank balances and cash	**10,489**	37,340
	206,057	265,957
Current liabilities		
Other payables	**86,511**	41,670
Financial guarantee obligation	**–**	103
Other borrowings	**–**	100,000
Convertible notes	**799,000**	847,999
Bonds	**1,079,445**	780,180
Amount due to subsidiaries	**315,797**	2,376
	2,280,753	1,772,328
Net current liabilities	**(2,074,696)**	(1,506,371)
Total assets less current liabilities	**2,648,257**	4,428,379
Non-current liabilities		
Convertible notes	**10,000**	–
Bonds	**330,989**	639,886
	340,989	639,886
	2,307,268	3,788,493
Capital and reserves		
Share capital	**1,360,021**	1,361,121
Reserves (note 51)	**947,247**	2,427,372
Total equity	**2,307,268**	3,788,493

Note: During the year ended 31 December 2016, the Company waived the amounts due from subsidiaries, amounting to HK$735,117,000 (2017: nil). It was treated as the deemed capital contribution.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries as at 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Able Charm Limited	HK	10,000,000 ordinary shares of HK$1 each	–	100%	Investment holding
Admiral Team Limited	The British Virgin Islands ("BVI")	1 ordinary share of US$1	–	100%	Investment holding
*Beijing Huilongguan Stellar Cineplex Management Co., Ltd. 北京回龍觀星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	100%	Operation of cinema
*Beijing Mingxiang International Cinema Mgt Co., Ltd. 北京名翔國際影院管理有限公司	PRC	Registered capital of RMB7,000,000	–	100%	Operation of cinema
*Beijing Shijiecheng Stellar Cineplex Management Co., Ltd. 北京世界城星美國際影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	100%	Operation of cinema
*Beijing Wangjing Stellar International Cinema Mgt Co., Ltd. 北京望京星美國際影城管理有限公司	PRC	Registered capital of RMB7,500,000	–	100%	Operation of cinema
Beijing Xingmeihui Catering Mgt Co., Ltd. 北京星美滙餐飲管理有限公司	PRC	Registered capital of RMB8,800,000	–	100%	Operation of cafe and sale of food and beverage in cinema
Beijing Zhong Xingmeihui Trading Co., Ltd. 北京中星美滙商貿有限公司	PRC	Registered capital of RMB10,000,000	–	90%	Operation of In-theatre counter sales and online shopping

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

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
Bravissimi Films (International) Limited	BVI	1 ordinary share of US$1	100%	–	Investment in production of film
Campbell Hall Limited	BVI	3 ordinary shares of US$1 each	–	100%	Investment holding
*Chengdu Runyun	PRC	Registered capital of RMB11,851,852	–	84.37%	Principally engaged in operation of cinema, and provisions of advertising and public relation services
Color Asia Pacific Limited	HK	1 ordinary share of HK$1	–	100%	Investment holding
GDL Nominee Limited	HK	2 ordinary shares of HK$1 each	–	100%	Investment holding
*Lanzhou Stellar Cineplex Limited 蘭州星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	100%	Operation of cinema
Market Dynamics (Hong Kong) Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	Provision of advertising and public relation services
North Hollywood Limited	BVI	1 ordinary share of US$1	100%	–	Investment holding

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

Name of subsidiary	Place of incorporation/ establishment	Issued/ paid up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
*Shanghai Jinshan Baibei Cineplex Mgt Co., Ltd. 上海金山星美百倍影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	100%	Operation of cinema
*Shanghai Lemo Stellar Cineplex Management Co., Ltd. 上海星美樂莫影院管理有限公司	PRC	Registered capital of RMB6,000,000	–	100%	Operation of cinema
*Shanghai Stellar Cineplex Management Co., Ltd. 上海星美影院管理有限公司	PRC	Registered capital of RMB12,000,000	–	100%	Operation of cinema
SMI Culture & Travel Group	Cayman Islands	1,316,009,000 ordinary shares of HK$0.01 each	–	62.67%	Provision of cross-media services including investment in the production and distribution of films and television programs and related services
SMI International Cinemas Limited	HK	10,000 ordinary shares of HK$1 each	–	100%	Investment holding
SMI Investment (HK) Limited	HK	1 ordinary share of HK$1	100%	–	Investment in securities
SMI Management (Beijing) Limited	HK	1 ordinary share of HK$1	–	100%	Provision of administrative services
SMI Management (HK) Limited	HK	1 ordinary share of HK$1	–	100%	Provision of administrative services
*Tianjin Stellar Cineplex Management Co., Ltd. 天津星美影城管理有限公司	PRC	Registered capital of RMB6,000,000	–	100%	Operation of cinema

* These subsidiaries are held by the Company under the Contractual Arrangements. The Directors are of the opinion that the Group has control over these companies. Future details of those are set out in note 4.

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

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

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
SMI Culture & Travel Group	Cayman Island	**37.3%**	35.5%	**(53,108)**	1,120	**345,110**	255,160
Chengdu Runyun	PRC	**15.6%**	–	**(62,171)**	–	**700,772**	–
Individually immaterial				**2,493**	2,260	**(3,655)**	(7,431)
				(112,786)	3,380	**1,042,227**	247,729

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

SMI Culture & Travel Group

	2017 HK$'000	2016 HK$'000
Current assets	**1,453,662**	1,477,654
Non-current assets	**213,331**	82,762
Current liabilities	**867,418**	995,844
Non-current liabilities	**13,671**	–
Equity attributable to owners of the company	**787,571**	565,388
Non-controlling interests	**(1,667)**	(816)

Current assets mainly consists of inventories of HK$185,926,000 (2016: HK$226,849,000), film rights investments of HK$810,617,000 (2016: HK$397,643,000), trade and other receivables of HK$323,327,000 (2016: HK$432,168,000), amounts due from a related party/a shareholder of HK$127,664,000 (2016: HK$12,200,000) and bank balances and cash of HK$6,128,000 (2016: HK$408,794,000).

Current liabilities mainly consists of trade and other payables of HK$124,080,000 (2016: HK$67,977,000), amounts due to fellow subsidiaries/directors of HK$14,263,000 (2016: HK$360,000), tax payable of HK$156,952,000 (2016: HK$141,142,000), loan notes of HK$448,725,000 (2016: HK$445,531,000), convertible notes of HK$108,813,000 (2016: HK$159,573,000), derivatives of HK$14,585,000 (2016: HK$55,685,000) and other borrowing of nil (2016: HK$125,576,000).

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

Non-current assets mainly consists of property, plant and equipment of HK$2,387,000 (2016: HK$390,000), intangible assets of HK$115,223,000 (2016: HK$82,372,000) and goodwill of HK$95,721,000 (2016: nil).

	2017 HK$'000	2016 HK$'000
Revenue	134,948	548,429
(Loss) profit for the year	(133,914)	26,441
Other comprehensive income (expenses)	29,840	(1,391)
Net cash outflow from operating activities	(289,399)	(309,014)
Net cash (outflow) inflow from investing activities	(3,194)	1,049
Net cash (outflow) inflow from financing activities	(139,913)	696,990
Net cash (outflow) inflow	(432,506)	389,025

Chengdu Runyun

	2017 HK$'000
Current assets	833,261
Non-current assets	9,338,017
Current liabilities	4,076,514
Non-current liabilities	1,629,593
Equity attributable to owners of the company	4,465,171

Current assets mainly consists of prepaid lease payments of HK$4,234,000, inventories of HK$24,317,000, trade and other receivables of HK$736,202,000 and bank balances and cash of HK$68,508,000.

Current liabilities mainly consists of trade and other payables of HK$2,820,124,000, EIT and other PRC tax payable of HK$296,708,000, finance lease payable of HK$90,059,000, bank borrowings of HK$42,028,000 and amount due to group companies of HK$827,595,000

Non-current assets mainly consists of property, plant and equipment of HK$3,323,267,000, goodwill of HK$5,939,653,000, intangible assets of HK$33,161,000, prepaid lease payments of HK$37,597,000 and interest in associate of HK$4,339,000.

Non-current liabilities mainly consists of bank borrowings of HK$106,871,000, other borrowings of HK$1,455,498,000, finance lease payable of HK$55,142,000 and deferred tax liabilities HK$12,082,000.

	2016 HK$'000
Revenue	2,723,669
Profit for the year	163,744

51. RESERVES

THE COMPANY	Share premium HK$'000	Other reserve HK$'000 note (ii)(a)	Contributed surplus HK$'000	Convertible notes reserve HK$'000	Share-based payment reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	1,487,498	(36,615)	1,468,501	35,381	12,393	4,415	(151,626)	2,819,947
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(231,729)	(231,729)
Approved final dividend for the year ended 31 December 2015	–	–	–	–	–	–	(147,231)	(147,231)
Issue of shares upon conversion	30,005	–	–	(564)	–	–	564	30,005
Recognition of share options exercised	5,467	–	–	–	(7,508)	–	7,508	5,467
Lapse of share options	–	–	–	–	(4,885)	–	4,885	–
Repurchase of own shares	(57,187)	–	–	–	–	8,100	–	(49,087)
Changes in equity for the year	(21,715)	–	–	(564)	(12,393)	8,100	(366,003)	(392,575)
At 31 December 2016	1,465,783	(36,615)	1,468,501	34,817	–	12,515	(517,629)	2,427,372
At 1 January 2017	**1,465,783**	**(36,615)**	**1,468,501**	**34,817**	**–**	**12,515**	**(517,629)**	**2,427,372**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(1,305,814)**	**(1,305,814)**
Approved final dividend for the year ended 31 December 2016	**–**	**–**	**–**	**–**	**–**	**–**	**(179,668)**	**(179,668)**
Repurchase of own shares	**(7,807)**	**–**	**–**	**–**	**–**	**1,100**	**–**	**(6,707)**
Share-based payment	**–**	**–**	**–**	**–**	**12,064**	**–**	**–**	**12,064**
Changes in equity for the year	**(7,807)**	**–**	**–**	**–**	**12,064**	**1,100**	**(1,485,482)**	**(1,480,125)**
At 31 December 2017	**1,457,976**	**(36,615)**	**1,468,501**	**34,817**	**12,064**	**13,615**	**(2,003,111)**	**947,247**

(i) Share premium of the Company

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

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

51. **RESERVES (Continued)**

(ii) Other reserve

Other reserve of the Company and the Group comprises:

(a) The difference between the fair value of the 843,500,000 ordinary shares issued for the acquisition of the entire equity interest in Colour Asia Pacific Limited and the issued and fully paid up amount of such ordinary shares in 2009.

Other than those set out above, the other reserve of the Group also comprises:

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

(c) During the year ended 31 December 2016, after obtaining the control of SMI Culture & Travel Group (see note 43(b)(ii)), the Group acquired 1.08% additional interest in SMI Culture & Travel Group from non-controlling interests, increasing its controlling interest from 63.41% to 64.49%. The consideration on acquisition of HK$33,756,000 were paid in cash. The difference of HK$2,194,000 between the carrying amount of non-controlling interests being acquired of HK$31,562,000 and the consideration paid of HK$33,756,000 has been debited to other reserve.

(d) Save as disclosed in note 37(i), the Convertible Note XIII was converted into the ordinary share of SMI Culture & Travel Group, the subsidiary of the Company. The Group's interest in SMI Culture and Travel Group was diluted by 3.85%. The difference of HK$19,724,000 between the carrying amount of the Group's equity interests being disposed of HK$24,619,000 and the aggregate sum of liability component and embedded derivative of the Convertible Note XII amount to HK$44,343,000 has been credited to other reserve.

(e) During the year ended 31 December 2016, the former shareholder TicketChina Holdings Limited waived the shareholder's loan of HK$14,587,000 and treated as the deemed capital contribution to the Group and credited to other reserve. At the same date, the Group acquired 35.8% additional interest in TicketChina Holdings Limited, a subsidiary of the Company, from non-controlling interests. The consideration on acquisition of HK$400,000 were paid in cash. The difference of HK$6,068,000 between the carrying amount of non-controlling interests being acquire of HK$6,468,000 and the consideration paid of HK$400,000 has been credited to other reserve.

(f) During the year ended 31 December 2017, the Group acquired 11.02% additional interest in SMI Culture & Travel Group from non-controlling interests, increasing its controlling interest from 64.49% to 75.51%. The consideration on acquisition of HK$85,972,000 were paid in cash. The difference of HK$6,804,000 between the carrying amount of non-controlling interests being acquired of HK$92,776,000 and the consideration paid of HK$85,972,000 has been credited to other reserve.

(g) Save as disclosed in notes 37(g) and 37(h), the Convertible Note XI and Convertible Note XII were converted into the ordinary share of SMI Culture & Travel Group. The Group's interest in SMI Culture & Travel Group was diluted by 5.62%. The difference of HK$2,167,000 between the carrying amount of the Group's equity interests being disposed of HK$68,074,000 and the aggregate sum of liability components and embedded derivatives of the Convertible Note XI and Convertible Note XII amounted to HK$65,907,000 has been debited to other reserve.

51. RESERVES (Continued)

(ii) Other reserve (Continued)

(h) During the year ended 31 December 2017, SMI Culture & Travel Group completed a placement of 214,285,000 shares, with par value of HK$0.01, of SMI Culture & Travel Group at a price of HK$0.70 per share. The Group's interest in SMI Culture & Travel Group was diluted by 12.41%. The difference of HK$19,912,000 between the carrying amount of the Group's equity interests being disposed of HK$165,412,000 and the net proceeds received from the placement amounted to HK$145,500,000 has been debited to other reserve.

(i) During the year ended 31 December 2017, the Group disposed the entire equity interest in SMIE, a wholly-owned subsidiary of the Company, to SMI Culture Investment, a wholly-owned subsidiary of SMI Culture & Travel Group, at total consideration of RMB150,000,000 (equivalent to HK$171,000,000) settled by cash consideration of RMB50,000,000 (equivalent to HK$57,000,000) and issue of SMI Culture & Travel Group' shares at consideration of RMB100,000,000 (equivalent to HK$114,000,000) to the Company. The disposal of SMIE to SMI Culture Investment is accounted as business combination under common control. The Group's interest in SMI Culture & Travel Group increased by 5.19%. The difference of HK$5,861,000 between the carrying amount of non-controlling interests being acquired of and the share consideration has been credited to other reserve.

(j) During the year ended 31 December 2017, Chengdu Runyun, a subsidiary of the Company, entered into the Capital Injection Agreements, which the Investors have agreed to make capital contribution in exchange of a total of 15.63% of the enlarged equity interest of Chengdu Runyun. The capital contribution on 15.63% enlarged equity interest on Chengdu Runyun was completed in June 2017 and aggregate proceeds of RMB1,980,000,000 settled by cash was received from the Investors upon completion. The Group has not lost control over Chengdu Runyun. The difference of HK$1,723,855,000 between the carrying amount of the Group's equity interests being deemed disposed and the proceeds from capital contribution has been credited to other reserve. In July 2017, additional capital contribution of RMB230,000,000 settled as cash was received from the Investors, the capital contribution accounted as equity transaction and the difference of HK$223,463,000 between the capital contribution and carrying of non-controlling interest deemed disposed was credited to other reserve.

(iii) Contributed surplus of the Company and the Group

The contributed surplus of the Group represented: (a) the balance of credit arising from the reduction of share capital and the cancellation of share premium in relation to the capital reorganisation in 1996; (b) less the amount transferred to accumulated losses in relation to capital reorganisation in the years ended 31 March 2003 and 2005; (c) the amount released from disposal of certain associates and distribution of dividend in prior years, and (d) the balance of credit arising from the reduction of share capital and the cancellation of share premium in relation to the Share Premium Reduction mentioned in note (i) above during the year ended 31 December 2014.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if: (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

51. RESERVES (Continued)

(iv) Translation reserve of the Group

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(v) Statutory reserve of the Group

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

52. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of borrowings and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained profits).

The Directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

53. FAIR VALUE MEASUREMENTS

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

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

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

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

The Group's investments in listed equity interests in held-for-trading investments are measured at fair value (Level 1 inputs) at the end of the reporting period. The Group's investments in financial assets designated as at fair value through profit or loss and derivative financial instruments are measured at fair value (level 3 inputs) at the end of the reporting period. There was no transfers between Level 1, 2 and 3 during the year.

The Group's investments in unlisted interests in available-for-sale investments are measured at fair value (Level 3 inputs) for impairment review assessment at the end of the reporting period.

The Directors consider that the carrying amounts of the other financial assets and financial liabilities recorded at amortised cost in the results and financial position of the Group approximate their respective fair values.

54. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

Financial instruments are fundamental to the Group's daily operations. The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(b) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Financial assets at fair value through profit or loss:		
– Held-for-trading investments	61,961	304,217
– Financial assets designated as at fair value through profit or loss	147,941	–
Available-for-sales investments	66,347	65,396
Loans and receivables (including cash and cash equivalents)	1,416,290	1,852,220
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
– Derivatives	14,584	55,686
Financial liabilities at amortised cost	5,846,520	6,376,272

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.

(c) Credit risk management

The carrying amount of financial assets designated as at fair value through profit or loss, deposits paid for acquisitions of property, plant and equipment, other financial assets, deposits paid for the acquisitions of entities, the pledged bank deposits, the bank balances and cash, trade and other receivables, and amounts due from related parties represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

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

The Group has concentration of credit risk as 44% (2016: 24%) of the total trade receivables were due from the Group's five largest customers with average credit period of 90 to 180 days. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual's receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. An internal credit assessment process assesses the potential borrower's credit quality and defines credit limits by borrowers. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

54. **FINANCIAL INSTRUMENTS (Continued)**

(c) **Credit risk management (Continued)**

In addition, the Group has concentration of credit risk as 34% and 100% (2016: 39% and 100%) of progress payments for construction of property, plant and equipment and deposits paid for acquisitions of entities, respectively, were due from the contractors and the agent (see note 24 and 25 for details). In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of progress payment approvals and other monitoring procedures to ensure that follow-up action is taken to the proper realisation of the progress payments and deposits. In addition, the Group reviews the progress on the renovation and due diligence works carrying out by the contractors and the agent during the reporting period, the continuous business relationship and the construction payables to contractors and the agent subsequent to the end of the reporting period, the underlying assets would be obtained by the Group from the vendors under the conditional sales and purchase agreements with the contractors and the agent and the financial background of the contractors and the agent to ascertain the recoverability of the amounts paid to the contractors and the agent.

As a result, the Directors consider that the Group's exposure to credit risk on the amounts paid to the contractors and the agent are significantly reduced.

The credit risk for bank deposits and bank balances exposure is considered minimal as such amounts are placed in banks in PRC and Hong Kong having reputation.

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

(d) **Interest rate risk management**

The Group's exposure to changes in interest rate risk is mainly attributable to its bank deposits in Hong Kong and the PRC and bank borrowings in the PRC. These bank deposits and bank borrowings bear interests at variable interest rates and expose the Group to cash flow interest rate risk. The Group is also exposed to fair value interest rate risk in relation to fixed-rate other loan, bank and other borrowings, and convertible notes. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

The Group's exposure to interest rate risk on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the bank deposit rate arising from bank deposits in Hong Kong and PBOC base interest rate arising from bank deposits and bank borrowings in the PRC. The bank deposits carried at prevailing market rates.

The following table details the Group's sensitivity to a 100 basis points increase and decrease in bank deposit rate, and a 100 basis points increase and decrease in PBOC base interest rate prescribed interest rate. 100 basis points are the sensitivity rate used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The sensitivity analysis includes only variable-rate bank deposits and bank borrowings assuming the amount of bank deposits and bank borrowings outstanding at the end of the reporting period was outstanding for the whole year.

If bank deposit rate had been 100 basis points (2016: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss (2016: post tax-profit) for the year ended 31 December 2017 would decrease/increase by HK$744,000 (2016: increase/decrease by HK$5,097,000).

If PBOC based interest rate had been 100 basis points (2016: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss (2016: post tax-profit) for the year ended 31 December 2017 would increase/decrease by HK$559,000 (2016: decrease/increase by HK$292,000).

54. FINANCIAL INSTRUMENTS (Continued)

(e) Price risk management

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments of different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange.

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

As at 31 December 2017, if the share price of the investment increases/decreases by 10%, loss after tax for the year (2016: profit after tax for the year) would have been approximately HK$5,174,000 lower/higher (2016: HK$25,402,700 higher/lower), arising as a result of the fair value gain/loss of the investment.

(f) Foreign currency risk management

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

(g) Liquidity risk management

The Directors consider that the Group's holding of bank balances and cash, bank deposits, together with net cash flow from operating activities and committed credit facilities, can provide adequate sources of funding to enable the Group to meet in full its financial obligations due for the foreseeable future and manage its liquidity position. In addition, the management of the Group expects to fund the remaining estimated capital expenditure and commitments of its business development in Hong Kong, Taiwan and the PRC through a proper balance between internal generated funds and credit facilities secured by the Group's assets.

Save as disclosed in note 1, the management of the Company have given careful consideration of the future liquidity of the Group in light of the fact that the Group incurred a net current liabilities of HK$3,050,152,000 as at 31 December 2017. The management of the Company considered that the Company could obtain adequate funds to meet in full its financial obligations as they fall due for the foreseeable future by obtaining full support by adequate funds provided by Mr. Qin and the proceeds from the other financing activities detailed in note 1.

The following table details the Group's remaining contractual maturities of non-derivative financial liabilities that exposed the Group to liquidity risk based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group could be required to pay. The table includes both interests and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount of interest payment is estimated based on the interest rate at the end of the reporting period.

54. FINANCIAL INSTRUMENTS (Continued)

(g) Liquidity risk management (Continued)

	Weighted average effective interest rate	On demand/ less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2017 HK$'000
2017							
Financial liabilities at amortised cost							
Trade and other payables							
– Trade and other payables	–	615,989	–	–	–	615,989	615,989
– Margin payables due to financial institutions	16%	389,130	–	–	–	389,130	389,130
Amount due to related parties	–	22,163	–	–	–	22,163	22,163
Finance lease payables	5.87%	98,488	37,053	23,029	–	158,570	145,201
Other borrowings	11.73%	1,532,598	823,875	–	–	2,356,473	1,967,774
Bank borrowings	6.53%	47,385	5,041	13,917	17,788	84,131	74,492
Convertible notes	11.58%	1,122,485	10,500	–	–	1,132,985	917,813
Bonds	8.59%	1,715,001	28,917	331,492	83,035	2,158,445	1,859,159
		5,543,239	905,386	368,438	100,823	6,917,886	5,991,721

	Weighted average effective interest rate	On demand/ less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2016 HK$'000
2016							
Financial liabilities at amortised cost							
Trade and other payables							
– Trade and other payables	–	566,028	–	–	–	566,028	566,028
– Margin payables due to financial institutions	12%	66,258	–	–	–	66,258	66,258
Amount due to related parties	–	20,967	–	–	–	20,967	20,967
Finance lease payables	6.90%	99,294	99,294	5,051	–	203,639	184,941
Other borrowings	10.01%	907,472	1,312,294	959,811	–	3,179,577	2,810,944
Bank borrowings	6.53%	38,906	–	–	–	38,906	38,906
Convertible notes	12.18%	1,108,424	–	–	–	1,108,424	1,007,572
Bonds	9.27%	1,371,613	434,148	242,340	167,822	2,215,923	1,865,597
		4,178,962	1,845,736	1,207,202	167,822	7,399,722	6,561,213

54. FINANCIAL INSTRUMENTS (Continued)

(g) Liquidity risk management (Continued)

The amounts included above for variable rate bank borrowings are subject to change if variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

The liquidity table as at 31 December 2016 summarises the maturity analysis of the bonds repayable on demand as at 31 December 2016 due to the Company did not fulfil certain terms of such bonds. As at the date of the Company's 2016 annual report, the lenders of bonds have provided their written consents to waive the relevant covenant terms of bonds. Based on the agreed scheduled repayments set out in the relevant bond agreements, the undiscounted cash flows which includes both interests and principal cash flows are set out below. Taking into account the Group's financial position, the directors believe that such bonds will be repaid in accordance with the scheduled repayment dates set out in the bond agreements.

	On demand/ less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
31 December 2016	67,402	832,665	–	–	900,067	786,905

The Company has fulfilled all terms of bonds outstanding as at 31 December 2017.

55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Amount due to related parties Note 33 HK$'000	Finance lease payables Note 34 HK$'000	Bank borrowings Note 35 HK$'000	Other borrowings Note 36 HK$'000	Convertible notes Note 37 HK$'000	Bonds Note 38 HK$'000	Total HK$'000
As at 1 January 2017	20,967	184,941	38,906	2,810,944	1,007,572	1,865,597	5,928,927
Repayment of principal and interest	–	(128,847)	(44,759)	(1,425,136)	(141,399)	(195,135)	(1,935,276)
Proceeds from other borrowings	–	–	–	173,625	–	–	173,625
Proceed from bank borrowings raised	–	–	72,809	–	–	–	72,809
Advance from lease financing	–	60,566	–	–	–	–	60,566
Proceeds from issue of bonds	–	–	–	–	–	12,300	12,300
Conversion of shares of a subsidiary	–	–	–	–	(53,794)	–	(53,794)
Advance from related parties	1,196	–	–	–	–	–	1,196
Finance cost	–	15,667	3,243	259,025	105,434	176,397	559,766
Exchange realignment	–	12,874	4,293	149,316	–	–	166,483
As at 31 December 2017	22,163	145,201	74,492	1,967,774	917,813	1,859,159	4,986,602

56. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2017, the Group had the following events:

(i) As announced by the Company on 27 March 2018, SMI International Cinemas Limited ("SMII"), a wholly owned subsidiary of the Company, entered into sale and purchase agreement with an independent third party whereby SMII (as the vender) agreed to disposal of 5% of equity interest in Chengdu Runyun to the purchaser at a consideration of RMB1,000,000,000, payable upon completion of the disposal. Upon completion of the disposal, the ownership interests of the Group in Chengdu Runyun will be reduced from 84.375% to 79.375% without losing control over Chengdu Runyun. The consideration is payable upon completion of the disposal and the Directors expected that the disposal will be completed in April 2018; and

(ii) As announced by the Company on 27 March 2018, the Group has received subscription offers from financial institutions regarding the issuance of bonds with an aggregate principal amount of not more than RMB1,000,000,000 with a term of not more than three years. It is proposed that the bonds are to be listed on the Shenzhen Stock Exchange.

57. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation. These reclassification have no effect on financial position, loss for the year or cash flows of the Group.

Financial Summary

A financial summary of the Group for the last five financial years is set out below:

	Year ended 31 December				
Results	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Revenue	1,471,684	1,650,146	2,924,086	3,351,186	**3,788,764**
Profit before taxation	172,596	209,077	446,859	493,097	**(253,275)**
Income tax expense	(56,878)	(83,692)	(78,498)	(85,993)	**(13,245)**
Profit before non-controlling interests	115,718	125,385	368,361	407,104	**(266,520)**
Non-controlling interests	(2,745)	5,607	(8,397)	(3,380)	**112,786**
Profit for the year	112,973	130,992	359,964	403,724	**(153,734)**

	As at 31 December				
Assets and liabilities	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Total assets	4,494,237	6,131,082	9,485,617	12,922,638	**15,065,048**
Total liabilities	(1,684,068)	(2,765,905)	(4,258,283)	(7,403,785)	**(6,891,010)**
Total equity	2,810,169	3,365,177	5,227,334	5,518,853	**8,174,038**