星美文旅

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

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock code: 2366)

Annual Report 2018

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WU Chien-Chiang *(Chairman)*
Ms. YAO Qinyi
Mr. LI Kai *(appointed on 9 March 2018)*
Mr. KONG Dalu *(resigned on 9 March 2018)*
Mr. YUAN Xin
(resigned on 9 March 2018)
Mr. HUANG Zhengchao
(resigned on 13 February 2018)

Independent Non-executive Directors

Mr. RAO Yong
Mr. LIU Xianbo
Mr. ZHAO Xuebo

BOARD COMMITTEES

Audit Committee

Mr. RAO Yong *(Chairman)*
Mr. LIU Xianbo
Mr. ZHAO Xuebo

Remuneration Committee

Mr. RAO Yong *(Chairman)*
Mr. LIU Xianbo
Mr. ZHAO Xuebo

Nomination Committee

Mr. LIU Xianbo *(Chairman)*
Mr. RAO Yong
Mr. ZHAO Xuebo

AUTHORISED REPRESENTATIVES

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

COMPANY SECRETARY

Ms. MUI Ngar May *(resigned on 11 February 2018)*
Ms. LAI Wai Ha of Akron Advisory Limited,
external service provider
(appointed on 11 February 2018 and resigned on 8 June 2018)
Ms. LO Wai Sum *(appointed on 8 June 2018 and resigned on 3 September 2018)*
Mr. YUEN Kwok Kuen
(appointed on 3 September 2018)

AUDITOR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite A1, 9th Floor,
One Capital Place,
No.18 Luard Road,
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

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

As to PRC Law
Duan & Duan

As to Bermuda Law
Conyers Dill & Pearman

STOCK CODE

2366

WEBSITE

http://www.smiculture2366.com

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors of SMI Culture & Travel Group Holdings Limited (the "Company" or "SMI"), I would like to present to you the audited consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018.

The Group is principally engaged in the investment in the production and distribution of films, investment in the production and distribution of television dramas and creation, production and distribution of new media contents, production and distribution of online and film advertisements, agency operation for films, directors, scriptwriters and artists, tourism and online ticketing platform operation.

INDUSTRY REVIEW

In 2018, the Chinese film and television market continued to develop rapidly. According to the statistics of National Film Bureau, box office revenue of the country during the year was RMB60.976 billion, representing a year-on-year increase of 9.06%. The total number of people watching movies was about 1.716 billion, representing an increase of 5.93% over the same period last year. A total of 404 films were released while domestic films accounted for 62.15% of total box office revenue. There were 16 films with box office revenue over RMB1 billion, including 9 domestic films. There were 82 films with box office revenue over RMB100 million, including 44 domestic films. Looking at 2018, domestically produced films led in box office receipts which climbed sharply from 2017.

The operation of ticketing platform illustrates the conviction we have in its power in driving consumers to cinemas, as well as the overall consumer-entertainment market in China.

BUSINESS OUTLOOK

The Board considers that the potential of cultural entertainment and tourism consumption in the domestic market will continue to be substantial in the future. It believes that given the rich resources and the Group's proven management ability, future business performance and competitiveness are poised for further growth, thereby generating considerable investment returns to Shareholders.

Overall, our past achievements will better enable us to capitalize on the exciting years ahead -- starting with our optimistic outlook for 2019.

APPRECIATION

Besides, my sincerest gratitude is extended to the management and staff for their dedicated efforts, and to the business partners and shareholders for their staunch support. They have made it possible for the Group to overcome hardship and achieve outstanding performance. Lastly, I would like to wish the Group continuing success in the future.

On behalf of the Board
SMI Culture & Travel Group Holdings Limited
WU Chien-Chiang
Chairman of the Board of Directors

29 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

Television program related business

During the year, we continued to recognize the income from several fictions editing/publishing rights.

Film investment

The Group's business development benefited from the prosperity of the Chinese film and television market. In 2018, the Group continued to focus on film and television investment, the performance of the Group's main business is expected to continue to develop. During the year, we sold a movie publishing right of "Ghost Eyes" and recognized other movie income.

Meanwhile, the investment of the 48-episode TV series "Forging Knife 2" was launched in February 2018 and post-production was completed in May 2018. It is expected to be broadcasted in 2019.

Ticketing system and IT technical service

Since the acquisition of the business which was engaged in operation of ticketing platform and provision of IT technical service in 2017, with the ascending trend of box office, based on the total movie tickets sold for the year ended December 31, 2018, revenue from our overall online ticketing business increased significantly.

REVIEW OF OPERATIONS

During the financial year ended 31 December 2018, the Group recorded a turnover of approximately HK$65.3 million (2017: approximately HK$134.9 million). Loss for the financial year was approximately HK$497.3 million (2017: loss of approximately HK$133.9 million), administrative expenses was approximately HK$23.7 million (2017: approximately HK$34.6 million), impairment loss for intangible assets was approximately HK$13.3 million (2017: approximately HK$9.3 million), no provision for inventories was made (2017: provision for inventories was approximately HK$9.8 million), finance costs was approximately HK$122.4 million (2017: approximately HK$71.7 million), fair value gain of the embedded derivatives was approximately HK$14.6 million (2017: gain of approximately HK$29.0 million) and income tax expense was approximately HK$0.9 million (2017: approximately HK$14.4 million).

LIQUIDITY AND FINANCIAL RESOURCES

In terms of overall liquidity and financial resources, as at 31 December 2018, the Group's cash level stood at HK$1.7 million (2017: HK$6.1 million). The balances are mainly denominated in Hong Kong Dollar and Renminbi.

Gearing ratio (expressed as a percentage of the Group's total borrowings net of pledged deposits over total equity) was approximately 213.7% as at 31 December 2018 (2017: approximately 75.3%).

BORROWING STRUCTURE

As at 31 December 2018, the total borrowings of the Group amounted to HK$562,798,000 (31 December 2017: HK$572,123,000). Particulars of loan notes, convertible loan notes and embedded derivatives and debentures of the Group as at 31 December 2018 are set out in notes 26-28 to the consolidated financial statements.

MORTGAGES AND CHARGES

As at 31 December 2018, the Group had no significant mortgages and charges.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

EVENTS AFTER THE REPORTING DATE

There is no significant event took place subsequent to the end of the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total staff of 23 (2017: 36). Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonus payments are discretionary and determined according to the Group's performance and the performance of the individual employees. Benefits include retirement schemes, medical and dental insurance and share option scheme.

FINAL DIVIDEND

The Directors have not recommended the payment of a dividend for the financial year ended 31 December 2018 (2017: Nil).

PROSPECTS

Since the beginning of 2018, China's economy was driven from high-speed growth stage to high-quality development stage, the cultural and entertainment industry will enter a new era, seeking for the balance between outward expansion and scale increment is required. But it should be noted that competition will intensify and the Group's development path will be full of challenge. Around production, distribution and promotion of movies infrastructure, the Group has made a new investment in the beginning of 2019, include but not limit to movie, TV drama, online drama & various types of short video content production & incubation, focus on premium items development, fine art trendy, high quality, competitive content development.

In 2019, the Group will invest at least not less than 3 movies, not less than 200 episodes TV series & online drama. Regarding the business development and operation, we committed that as best as we can, the Group will keep at profitable operation. Meanwhile, with utilization of the Group's own advantage, strengthen the development of oversea market and the cooperation with those premium brand media in Hong Kong, Macau and Taiwan.

Looking forward to the future, the Board of Directors will, on one hand, continue to leverage the advantage of industry resources, actively develop high-quality film and television projects, reinforce the level of investment and keep the release of influential works in the industry to achieve good performance for the Group; on the other hand, under the development blueprint, the Group will continue to expand the revenue sources of IP development, online ticketing services and tourism, enhance the Group's brand value and improve its strength in resource integration and operation.

Biographies of Directors

EXECUTIVE DIRECTORS

Mr. WU Chien-Chiang ("Mr. Wu"), aged 63, appointed as an Independent Non-executive Director on 11 September 2013 and re-designated as an executive Director and appointed as chairman of the Board on 28 July 2017. He has experience of operating media and entertainment business in Taiwan for more than 30 years. He holds offices and positions in the following companies: (i) a director and the general manager of Era Communications Co., Limited; (ii) the chairman and the general manager of Satellite Entertainment Communication Co., Limited; (iii) the chairman and the general manager of Goldsun Communications Co., Limited; (iv) the general manager of Media-Chain International Marketing Co., Limited; (v) the chairman of Era Integrated Marketing Co., Limited; and (vi) the publisher of Trend Media & Publication Limited.

Ms. YAO Qinyi ("Ms. Yao"), aged 37, appointed as an Executive Director on 24 November 2016. She holds a bachelor degree in the department of Electronic Information Engineering from Xi'an Shiyou University in 2004.

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

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

Mr. LI Kai ("Mr. Li"), aged 57, appointed as an executive Director on 9 March 2018. Mr. Li graduated from the Postgraduate School of the China Academy of Social Sciences and has over 20 years of experience in corporate management both in the PRC and the United States.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. RAO Yong ("Mr. Rao"), aged 60, has been an Independent Non-executive Director since 20 January 2017. He graduated from Guangxi University of Finance and Economics* (廣西財經學院), with a diploma of Business Finance in June 1980. He also obtained a master degree of Economic Management from Party School of Guangdong Province* (廣東省黨校). Mr. Rao is a certified public accountant and an auditor in the PRC.

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

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

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

* *For identification purposes only*

Biographies of Directors

Mr. LIU Xianbo ("Mr. Liu"), aged 55, has been an Independent Non-executive Director since 27 August 2013. He holds a law degree from Jiangxi University and a graduate of Southwest University of Political Science & Law in civil and commercial law in the PRC. Mr. Liu has been a practicing lawyer in the PRC for more than 20 years, specializing in finance, real estate, economics, contracts, civil dispute, liquidation and bankruptcy, criminal defence. He currently works at China Commercial Law Co. in the PRC.

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

Mr. ZHAO Xuebo ("Mr. Zhao"), aged 54, has been an Independent Non-executive Director since 28 July 2017. Mr. Zhao is currently a professor and a graduate tutor of the Faculty of Journalism and Communication and a part-time tutor of the Faculty of Economics and Management at Communication University of China. Mr. Zhao graduated from Shanxi University and obtained a bachelor degree in philosophy in 1986. He then obtained a master degree in law and a doctoral degree in literature from Communication University of China in 1998 and 2006 respectively. Mr. Zhao has over 30 years of experience in administrative and business management. From 2006 to 2010, he was the director of the dean office and the director of propaganda department of the party committee of Nanguang College, Communication University of China, as well as the deputy director of the Cultural and Creative Industrial Park Administrative Committee of Communication University of China. From 2016 to present, he is also the general manager of Beijing CUC Elite Education Co. Ltd.

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

SENIOR MANAGEMENT

The senior management of the Group comprises the executive Directors who held office during the year ended 31 December 2018.

Corporate Governance Report

CORPORATE GOVERNANCE

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

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

During the financial year ended 31 December 2018, the Company was in compliance with the code provisions set out in the CG Code except the following deviations:

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

Code provision E.1.2 of the CG Code requires the chairman of the Board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the chairman could not attend the annual general meeting of the Company held on 31 May 2018.

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

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

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code for Securities Transactions") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Confirmations have been sought from the Directors that they have complied with the required standards set out in the Model Code for Securities Transactions throughout the period from 1 January 2018 or their respective dates of appointment as Directors to 31 December 2018. The Board has also adopted the Model Code for Securities Transactions as guidelines for relevant employees in respect of their dealings in the securities of the Company.

THE BOARD

Role of Directors

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

Composition

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

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

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

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

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

Independent Non-executive Directors

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

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

Appointment and Re-election of Directors

In accordance with the CG Code and the Bye-laws of the Company ("Bye-Laws"), all Directors (including independent non-executive Directors) are subject to retirement by rotation once every three years. Composition of the Board will be reviewed regularly to ensure that it covers a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' profile is set out on pages 08 to 10.

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

Chairman and Chief Executive Officer

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

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

Corporate Governance Report

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

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

Directors' Duties

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

Corporate Governance Function

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

The Board had considered the following corporate governance matters for the year ended 31 December 2018:

– Reviewed the policies and procedures adopted by the Company.

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

Board Delegation

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

Board Process

During the year ended 31 December 2018, the Board has scheduled meetings at regular interval and additional board meetings were held as and when necessary. The Directors participated in person or through electronic means of communication. The attendance of each Director at board meetings and general meetings during the year are set out as follows:

Name of Directors	Number of Board meetings attended/ Number of Board meetings eligible to attend	Number of general meetings attended/ Number of general meetings eligible to attend
Executive Directors		
Mr. WU Chien-Chiang *(Chairman)*	8/12	0/1
Ms. YAO Qinyi	11/12	1/1
Mr. LI Kai *(appointed on 9 March 2018)*	7/7	1/1
Mr. KONG Dalu *(resigned on 9 March 2018)*	0/5	N/A
Mr. YUAN Xin *(resigned on 9 March 2018)*	0/5	N/A
Mr. HUANG Zhengchao *(resigned on 13 February 2018)*	0/2	N/A
Independent Non-Executive Directors		
Mr. LIU Xianbo	12/12	1/1
Mr. RAO Yong	9/12	1/1
Mr. ZHAO Xuebo	10/12	1/1

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

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

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

BOARD COMMITTEES

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

Remuneration Committee

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

During the year ended 31 December 2018, the Remuneration Committee held two meetings, with attendance record as follows:

Name of Members	Number of meetings attended/ Number of meetings eligible to attend
Mr. RAO Yong *(Chairman)*	2/2
Mr. LIU Xianbo	2/2
Mr. ZHAO Xuebo	2/2

During the year ended 31 December 2018, the Remuneration Committee reviewed matters relating to remuneration packages of executive directors and senior management and new candidates as well as their service contracts (if any), remuneration of non-executives and made recommendation to the Board for approval. The model set out in code provision B.1.2(c)(ii) of the CG Code has been adopted by the Remuneration Committee.

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

	Number of Senior Management
Nil-HK$1,000,000	5
HK$1,000,001-HK$2,000,000	1

Audit Committee

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

During the year ended 31 December 2018, the Audit Committee held two meetings with attendance record as follows:

Name of Members	Number of meetings attended/ Number of meetings eligible to attend
Mr. RAO Yong *(Chairman)*	2/2
Mr. LIU Xianbo	2/2
Mr. ZHAO Xuebo	2/2

At the meetings, the Audit Committee has reviewed the audited financial statements for the financial year ended 31 December 2017 with senior management and the Company's external auditors and the interim report for the six months ended 30 June 2018. The Audit Committee has also reviewed the Group's accounting policies and practices, the Listing Rules and statutory compliance, risk management, internal controls and financial reporting matters. During the year, the Audit Committee met representatives of the auditors twice to discuss matters relating to fees and audit/review findings, etc.

Nomination Committee

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

The Nomination Committee assessed the candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively and independent factors under the Listing Rules, etc. and made recommendation to the Board for approval. The Nomination Committee reviewed the board diversity policy.

As at the date of this report, the Nomination Committee also nominated and the Board recommended Ms. YAO Qinyi, Mr. LIU Xianbo and Mr. ZHAO Xuebo, will retire by rotation at the forthcoming annual general meeting, and being eligible, will offer themselves for re-election by shareholders of the Company at the forthcoming annual general meeting.

During the year ended 31 December 2018, the Nomination Committee held two meetings with attendance record as follows:

Name of Members	Number of meetings attended/ Number of meetings eligible to attend
Mr. LIU Xianbo *(Chairman)*	2/2
Mr. RAO Yong	2/2
Mr. ZHAO Xuebo	2/2

Board Diversity Policy

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

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

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

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

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

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

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

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

DIRECTORS' TRAINING

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

The Directors who held office during the year ended 31 December 2018 have participated in continuous professional development and provided a record of training they received for the year ended 31 December 2018 to the Company. The management provided induction materials to the Directors appointed during the year.

The individual training record of each current Director who held office during the year ended 31 December 2018 is set out below:

Name of Directors	Attending or participating in seminars/ conference/ workshops relevant to rules and regulations and the Group's business/ directors' duties	Reading materials relating to rules and regulations and discharge of directors' duties and responsibilities
Mr. WU Chien-Chiang *(Chairman)*		✓
Ms. YAO Qinyi	✓	✓
Mr. LIU Xianbo		✓
Mr. RAO Yong		✓
Mr. ZHAO Xuebo		✓
Mr. LI Kai *(appointed on 9 March 2018)*		✓
Mr. KONG Dalu *(resigned on 9 March 2018)*		✓
Mr. YUAN Xin *(resigned on 9 March 2018)*		✓
Mr. HUANG Zhengchao *(resigned on 13 February 2018)*		✓

COMPANY SECRETARY

According to Rule 3.29 of the Listing Rules, Mr. YUEN Kwok Kuen had taken not less than 15 hours of relevant professional training for the year ended 31 December 2018.

AUDITOR'S REMUNERATION

The amount of fees charged by the auditor generally depends on the scope and volume of the auditor's work. For the year ended 31 December 2018, the remuneration to the auditor of the Company charged to income statement were approximately HK$3 million for audit services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

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

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2018 and of the Group's profits and cash flows for the year then ended. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgements and estimates made are prudent and reasonable. In preparing the financial statements for the financial year ended 31 December 2018, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with.

DISAGREEMENT BETWEEN THE BOARD AND THE INDEPENDENT AUDITOR

The Auditor stated in the Independent Auditor's Report (the "Independent Auditor's Report") in this annual report that they are unable to form an opinion as to whether the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate.

The action plan taken by the Company to address the audit modification are set out note 3(b) to the consolidated financial statements. The Group is also considering possible equity fund raising opportunities and other fund raising alternatives following the placing of shares of Raising Elite Limited was fallen through in March 2018. The Board considers that it is prudent to finance the funding needs of the Group in the form of equity as it will not increase the finance costs and interest burden of the Group. Accordingly, the Board consider the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate. However, the Auditor considered the successful outcomes of the plans and measures mentioned in note 3(b) are subject to uncertainties.

View of Audit Committee

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

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

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

The reporting responsibilities of external auditor of the Company are disclosed in "Independent Auditor's Report" set out on pages 36 to 38 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

During the year ended 31 December 2018, management has conducted regular review on the effectiveness of the risk management and internal control systems covering all material controls in area of financial and compliance controls and various functions for risks management. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems covering all material controls, including financial, operational and compliance controls and risk management for the year ended 31 December 2018. The Audit Committee is satisfied that the risk management and internal control systems maintained by the Group is sufficient to provide reasonable, but not absolute, assurance that the Group's assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and proper accounting records are maintained.

Risk management Framework

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

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

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

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

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

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

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

In respect of the year ended 31 December 2018, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

Dissemination of Inside Information

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

COMMUNICATION WITH SHAREHOLDERS

Effective Communication

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

During the year ended 31 December 2018, the Company held the AGM in May 2018 (the "2018 AGM").

The chairman of the 2018 AGM had explained the procedures for conducting a poll. At the 2018 AGM, separate resolution was proposed by the chairman of the meeting in respect of each separate issue, including re-election of retiring directors at the 2018 AGM, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The executive Directors and representatives of the external auditor Messrs. BDO Limited, attended the 2018 AGM and have effective communication with shareholders. The executive Directors attended the said general meeting to answer related questions.

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

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

The Company has established a shareholders' communications policy.

Shareholders' Rights

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

Shareholders to Convene a Special General Meeting

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

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

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

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

Putting Enquiries by Shareholders to the Board

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

Procedures for Putting forward Proposals by Shareholders at Shareholders' Meeting

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

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

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

Voting by Way of Poll

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

Constitutional Document

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

There is no significant change in the Company's constitutional documents during the year ended 31 December 2018.

Hong Kong, 29 March 2019

Report of the Directors

The Directors submit herewith their report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

A fair review of the business of the Company, a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company's business are provided in the "Management Discussion and Analysis" from pages 06 to 07 of this annual report. An analysis of the Group's performance during the year using financial key performance indicators is provided in "Financial Summary" on page 144 in this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in notes 5, 40 and 41 to the financial statements. The Group did not have any significant event after the year and up to the date of this annual report. Discussion on the Group's environmental policies and performance, compliance with laws and regulations and relationship with employees, customers and suppliers are set out in other sections in this Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year ended 31 December 2018 and up to the date of this annual report, we have complied with all the relevant rules, laws and regulations in Bermuda, the British Virgin Islands, the PRC and Hong Kong that have a significant impact on the Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

FINANCIAL STATEMENTS

The financial performance of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 39 to 143.

SHARE CAPITAL

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

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

There were no purchases, sales or redemption of the Company's listed securities by the Company and any of its subsidiaries during the year ended 31 December 2018.

RESULTS AND RESERVES

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 39 to 40 of the annual report. The movements in reserves are set out in the consolidated statement of changes in equity on page 43 of the annual report.

The Directors do not recommend the payment of a final dividend for the financial year ended 31 December 2018 (2017: Nil).

CHARITABLE DONATIONS

During the financial year ended 31 December 2018, no charitable donations were made by the Group (2017: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2018 is set out on page 144 of the annual report.

FIXED ASSETS

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

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors

Mr. WU Chien-Chiang *(Chairman)*
Ms. YAO Qinyi
Mr. LI Kai
(appointed on 9 March 2018)
Mr. KONG Dalu
(resigned on 9 March 2018)
Mr. YUAN Xin
(resigned on 9 March 2018)
Mr. HUANG Zhengchao
(resigned on 13 February 2018)

Independent Non-Executive Directors

Mr. RAO Yong
Mr. LIU Xianbo
Mr. ZHAO Xuebo

As at the date of this report, in accordance with Bye-Law 84(1) of the Bye-Laws, Ms. YAO Qinyi, Mr. LIU Xianbo, and Mr. ZHAO Xuebo will retire by rotation and being eligible, offer themselves for re-election at the AGM.

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

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

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

Save as disclosed herein, the Company is not aware of any other change in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2018 interim report.

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

As at 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange and as known to the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements, or contracts of significance, to which the Company or its subsidiaries, its parent company (if any) or its fellow subsidiaries (if any), was a party, and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Interests of the directors of the Company in competing businesses as at 31 December 2018 which are required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

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

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

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

PERMITTED INDEMNITY PROVISION

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

SHARE OPTION SCHEME

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

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

During the year ended 31 December 2018, no options were outstanding, granted, exercised, cancelled or lapsed under the new share option scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EQUITY-LINKED AGREEMENTS

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

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

The interests and short positions of those persons (other than a Director or chief executive of the Company disclosed above) in the shares and underlying shares of the Company as at 31 December 2018, which have been notified to the Company and recorded in the register required to be kept under Section 336 of the SFO or as known to the Company were as follows:

Long Position in shares and underlying shares of the Company

Name of substantial shareholders	Capacity	Number of shares interested	Approximate percentage of total issued shares as at 31 December 2018
SMI Investment (HK) Limited (Note 1)	Beneficial owner	829,185,517	63.01%

Note 1: SMI Investment (HK) Limited is wholly-owned by SMI Holdings Group Limited ("SMI Holdings"). SMI Holdings is owned directly or indirectly as to approximately 63.01% by Mr. Qin Hui himself. Accordingly, each of Mr. Qin Hui and SMI Holdings is deemed to be interested in the 829,185,517 shares held by SMI Investment (HK) Limited under the SFO.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other persons who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year, except for those disclosed in note 36 to the consolidated financial statements, the Group had no transactions with its related parties.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (where applicable) with respect to the connected transactions and continuing connected transactions entered into by the Company for the financial year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS

The aggregate turnover attributable to the Group's five largest customers accounted for approximately 91% (2017: 79%) and the largest customer accounted for approximately 47% (2017: 34%) of the Group's total turnover for the financial year ended 31 December 2018.

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

PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 were audited by BDO Limited, who will retire at the next AGM and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of BDO as auditor of the Company will be proposed at the next AGM.

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

WU Chien-Chiang
Chairman

Hong Kong, 29 March 2019

Independent Auditor's Report

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

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of SMI Culture & Travel Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 39 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group due to the potential interaction of the uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements and there was no appropriate audit evidence for us to assess the extension or repayment of overdue loan notes and convertible loan notes as described in the "Basis for Disclaimer of Opinion" section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Uncertainties relating to going concern

As described in Note 3(b) to the consolidated financial statements, the Group reported loss attributable to the owners of the Company of HK$497 million and had a net operating cash outflow of approximately HK$22 million for the year ended 31 December 2018. As at the same date, the total issued loan notes and convertible loan notes by the Group amounted to HK$560 million were classified as current liabilities, while its unrestricted cash and cash equivalents amounted to HK$1.7 million only.

As at 31 December 2018 and up to the date of this report, the loan notes and convertible loan notes of the Group of HK$450 million and HK$110 million were matured but not redeemed respectively but the Group has not been able to obtain extensions or repayments of such balances prior to the date of this report. These overdue loan notes and convertible loan notes without extension would be immediately repayable if and when requested by the note holders. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position as the following:

(i) The Group has been actively negotiating with the note holders, Ever Ascend Investments Limited ("Ever Ascend") and Cheer Hope Holding Limited ("Cheer Hope") for renewal or extension of loan notes and convertible loan notes. Specifically, the Group is in active negotiations with the note holders to renew or extend the maturity dates of the loan notes and convertible loan notes. However, no renewal agreements or extension letters of the loan notes and convertible loan notes are in place as at the date of this report;

(ii) The immediate holding company of the Company, SMI Holdings Group Limited ("SMI Holdings") is currently under a debt restructuring proposal negotiation and it has been proactively negotiating and discussing with its lenders and creditors in relation to the possibility of providing additional funding to SMI Holdings as well as the possible settlement arrangements. In March 2019, SMI Holdings has entered into a letter of intent with Cheer Hope in respect of proposed debt settlement of SMI Holdings and its subsidiaries. However, the proposed debt settlement of SMI Holdings and its subsidiaries has not yet completed as at the date of this report.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures as set out in Note 3(b) to the consolidated financial statements, which are subject to uncertainties, including (i) the successful negotiations with the note holders for the renewal of or extensions for repayments of those loan notes and convertible loan notes, including those with overdue principals and interests; and (ii) the proposed debt settlement of SMI Holdings, the immediate holding of the Company, by Cheer Hope, the note holder, is materialised, the conversion of the involved debts into shares is completed, and provide adequate funds to the Group.

The uncertainties remain unresolved as of 31 December 2018 and their possible cumulative effects on the consolidated financial statements could be both material and pervasive.

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their net realisable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981 and for no other purpose. We do not assume responsibility toward or accept liability to any other person for the contents of this report.

However, because of the matter described in the "Basis for Disclaimer of Opinion" section of our report, there was no appropriate audit evidence for us to assess and provide a basis for an audit opinion on these consolidated financial statements.

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.

BDO Limited
Certified Public Accountants
Chow Tak Sing, Peter
Practising Certificate Number P04659
Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**65,274**	134,948
Cost of sales		**(110,691)**	(79,085)
Gross (loss)/profit		**(45,417)**	55,863
Other revenue	7	**10**	79
Other expenses		**(9,619)**	(8,150)
Provision for impairment losses (recognised)/ reversed in respect of:			
– goodwill	18	**(95,721)**	(11,885)
– intangible assets	19	**(13,268)**	(9,318)
– other receivables	40	**4,479**	(52,472)
– film rights investments	21	**(159,021)**	(6,490)
– trade receivables	40	**(42,668)**	–
– amount due from a shareholder		**1,493**	–
– amount due from a related party		**344**	–
Fair value change of the embedded derivatives	27	**14,585**	28,989
Provision for inventories	20	**–**	(9,819)
Selling expenses		**(5,638)**	(41)
Administrative expenses		**(23,660)**	(34,583)
Finance costs	8	**(122,364)**	(71,650)
Loss before income tax expense		**(496,465)**	(119,477)
Income tax expense	9	**(870)**	(14,437)
Loss for the year	10	**(497,335)**	(133,914)
Loss for the year attributable to:			
Owners of the Company		**(497,333)**	(133,063)
Non-controlling interests		**(2)**	(851)
		(497,335)	(133,914)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
		HK cents	HK cents
Loss per share			
– Basic (Hong Kong cents)	15	**(37.79)**	(14.29)
– Diluted (Hong Kong cents)	15	**N/A**	N/A
Loss for the year	10	**(497,335)**	(133,914)
Other comprehensive (expense)/income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(5,917)**	29,840
Other comprehensive (expense)/income for the year		**(5,917)**	29,840
Total comprehensive expense for the year		**(503,252)**	(104,074)
Total comprehensive expense attributable to:			
Owners of the Company		**(503,250)**	(103,223)
Non-controlling interests		**(2)**	(851)
		(503,252)	(104,074)

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**837**	2,387
Goodwill	17	**–**	95,721
Intangible assets	19	**88,113**	115,223
		88,950	213,331
Current assets			
Inventories	20	**185,909**	185,926
Film rights investments	21	**561,540**	810,617
Trade and other receivables	22	**331,747**	323,327
Amount due from a shareholder	23	**56,289**	91,918
Amount due from a related party	23	**27,836**	35,746
Cash and cash equivalents	24	**1,717**	6,128
		1,165,038	1,453,662
Current liabilities			
Trade and other payables	25	**236,520**	124,080
Amounts due to directors	23	**2,208**	943
Amounts due to fellow subsidiaries	23	**19,350**	13,320
Tax provisions		**162,175**	156,952
Loan notes	26	**450,000**	448,725
Convertible loan notes	27	**110,000**	108,813
Embedded derivatives	27	**–**	14,585
		980,253	867,418
Net current assets		**184,785**	586,244
Total assets less current liabilities		**273,735**	799,575
Non-current liabilities			
Debentures	28	**2,798**	–
Deferred tax liabilities	29	**9,300**	13,671
		12,098	13,671
Net assets		**261,637**	785,904

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	30	**13,160**	13,160
Other reserves		**250,146**	774,411
Equity attributable to owners of the Company		**263,306**	787,571
Non-controlling interests		**(1,669)**	(1,667)
Total equity		**261,637**	785,904

The consolidated financial statements on pages 39 to 143 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by

LI Kai
DIRECTOR

YAO Qinyi
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000 (Note a)	Capital reserve HK$'000 (Note b)	Exchange reserves HK$'000	Other reserve HK$'000 (Note c)	(Accumulated losses)/ Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	8,620	234,241	95	11,961	(1,514)	(395)	312,380	565,388	(816)	564,572
Loss for the year	–	–	–	–	–	–	(133,063)	(133,063)	(851)	(133,914)
Other comprehensive expense	–	–	–	–	29,840	–	–	29,840	–	29,840
Total comprehensive expense for the year	–	–	–	–	29,840	–	(133,063)	(103,223)	(851)	(104,074)
Shares issued for business acquisition (Note 35)	1,583	112,417	–	–	–	–	–	114,000	–	114,000
Shares issued for working capital	2,142	143,357	–	–	–	–	–	145,499	–	145,499
Shares issued upon exercise on conversion of convertible loan notes (Note 27)	815	65,092	–	–	–	–	–	65,907	–	65,907
Balance at 31 December 2017 as originally presented	13,160	555,107	95	11,961	28,326	(395)	179,317	787,571	(1,667)	785,904
Initial application of HKFRS 9 (Note 2)	–	–	–	–	–	–	(21,015)	(21,015)	–	(21,015)
Restated balance as at 1 January 2018	13,160	555,107	95	11,961	28,326	(395)	158,302	766,556	(1,667)	764,889
Loss for the year	–	–	–	–	–	–	(497,333)	(497,333)	(2)	(497,335)
Other comprehensive expense	–	–	–	–	(5,917)	–	–	(5,917)	–	(5,917)
Total comprehensive expense for the year	–	–	–	–	(5,917)	–	(497,333)	(503,250)	(2)	(503,252)
At 31 December 2018	13,160	555,107	95	11,961	22,409	(395)	(339,031)	263,306	(1,669)	261,637

Notes:

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

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax expense		**(496,465)**	(119,477)
Adjustments for:			
Interest income	7	**(10)**	(79)
Finance costs	8	**122,364**	71,650
Depreciation of property, plant and equipment	16	**1,569**	1,705
Expenses settled through share issuance		**–**	196
Amortisation of intangible assets	19	**13,842**	12,514
Provision for inventories	20	**–**	9,819
Fair value gains of the embedded derivatives	27	**(14,585)**	(28,989)
Provision for impairment loss (reversed)/ recognised on other receivables	40	**(4,479)**	52,472
Provision for impairment loss recognised on trade receivables	40	**42,668**	–
Provision for impairment loss recognised on goodwill	17	**95,721**	11,885
Provision for impairment loss recognised on film rights investments	21	**159,021**	6,490
Provision for impairment loss recognised on intangible assets	19	**13,268**	9,318
Reversal of provision for impairment loss of amount due from a related party		**(344)**	–
Reversal of provision for Impairment loss of amounts due from a shareholder		**(1,493)**	–
Loss on disposal of property, plant and equipment		**–**	372
Operating profit before working capital changes		**(68,923)**	27,876
(Increase)/decrease in trade and other receivables		**(62,357)**	100,296
Decrease/(increase) in film rights investments		**90,056**	(413,229)
Decrease in inventories		**17**	31,330
Decrease/(increase) in amount due from a related party		**6,764**	(25,924)
Increase in amounts due to fellow subsidiaries		**6,030**	–
Increase/(decrease) in trade and other payables		**6,843**	(9,748)
Cash used in operations		**(21,570)**	(289,399)
Income tax paid		**(18)**	–
NET CASH USED IN OPERATING ACTIVITIES		**(21,588)**	(289,399)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash acquired	35	**–**	626
Purchases of property, plant and equipment	16	**(19)**	(3,899)
Interest received	7	**10**	79
NET CASH USED IN INVESTING ACTIVITIES		**(9)**	(3,194)
CASH FLOWS FROM FINANCING ACTIVITIES	37		
Proceeds from issuance of debentures		**2,744**	–
Proceed from shareholder loan		**–**	69,758
Repayment from shareholder		**19,094**	–
Repayment of loan from a shareholder		**–**	(180,000)
Proceeds from fellow subsidiaries		**–**	93,220
Repayment to fellow subsidiaries		**–**	(69,205)
Cash advances from directors		**2,522**	3,939
Repayment to directors		**(1,257)**	(3,356)
Net proceeds from issuance of shares		**–**	13,206
Interest paid		**–**	(67,475)
NET CASH FROM/(USED IN) FROM FINANCING ACTIVITIES		**23,103**	(139,913)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,506**	(432,506)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**6,128**	408,794
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(5,917)**	29,840
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,717**	6,128

1. GENERAL

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

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

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

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

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)

HKFRS 9 – Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (i) classification and measurement; (ii) impairment and (iii) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings as of 1 January 2018 as follows (increase/(decrease)):

	HK$'000
Retained earnings	
Retained earnings as at 31 December 2017	179,317
Increase in expected credit losses ("ECLs") in trade and other receivables	(15,748)
Increase in ECLs in amount due from a shareholder	(3,777)
Increase in ECLs in amount due from a related party	(1,490)
	(21,015)
Retained earnings as at 1 January 2018	158,302

(i) Classification and measurement of financial instruments

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

(i) Classification and measurement of financial instruments *(continued)*

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised cost"); (ii) financial assets at fair value through other comprehensive income ("FVTOCI"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

Amortised cost would be applied to the Group's financial assets. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gains or losses on derecognition are recognised in profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

(i) Classification and measurement of financial instruments *(continued)*

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39	Carrying amount as at 1 January 2018 under HKFRS 9
			HK$'000	HK$'000
Trade and other receivables	Loans and receivables	Amortised cost	314,090	298,342
Amount due from a shareholder	Loans and receivables	Amortised cost	91,918	88,141
Amount due from a related party	Loans and receivables	Amortised cost	35,746	34,256
Cash and cash equivalents	Loans and receivables	Amortised cost	6,128	6,128

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" with the "expected credit loss ("ECL") model". HKFRS 9 requires the Group to recognise ECLs for trade and other receivables, amounts due from a shareholder and a related party and financial assets at amortised costs, earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current year.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the end of the reporting period; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

(ii) Impairment of financial assets *(continued)*

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's significant financial assets which are subject to the new ECL model include trade and other receivables, amounts due from a shareholder and a related party. The Group modified its impairment methodology under HKFRS 9 for these classes of financial assets.

Impairment on other receivables, amounts due from a shareholder and related party are measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

(ii) Impairment of financial assets *(continued)*

Impact of the ECL model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables assets have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for trade receivables as follows:

	Current	Less than 1 to 3 months past due	More than 3 months but less than 12 months past due	Over 1 year	Total
1 January 2018					
Expected credit loss rate (%)	2.11%	4.17%	6.19%	8.86%	
Gross carrying amount (HK$'000)	27,297	101,763	14,663	5,746	149,469
Loss allowance (HK$'000)	576	4,242	907	509	6,234

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were HK$6,234,000. The loss allowances further increased for HK$42,668,000 for trade receivables during the year ended 31 December 2018.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

(ii) Impairment of financial assets *(continued)*

Impact of the ECL model (continued)

(b) Impairment of other financial assets

Other financial assets at amortised cost of the Group include other receivables, amounts due from a shareholder and a related party. Applying the ECL model result in the recognition of ECL of HK$14,781,000 on 1 January 2018 and a reversal of ECL of HK$6,316,000 for the year ended 31 December 2018.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The general principle of HKFRS 9 is to apply the standard retrospectively in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. For the new classification and measurement requirements, the Group has elected for the exception from the requirement to restate comparative information as set out in the transitional provisions. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of 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 each performance obligation

Step 5: Recognise revenue when each performance obligation is satisfied

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

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

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

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. HKFRS 15 identifies 3 situations in which control of the promised goods or services is regarded as being transferred over time:

- when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

- when the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

- when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15, the entity recognises revenue for the sale of those goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

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

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations	Nature of change in accounting policy and impact on 1 January 2018
(i)	Sale of scripts, synopsis and editing/publishing rights	Customers obtain control of the scripts, synopsis and editing/ publishing rights when those items are delivered and the titles of those items have passed and have been accepted. Revenue is thus recognised upon when the customers accepted those items. There is generally only one performance obligation. Invoices are usually payable within 270 days.	**Impact** HKFRS 15 did not result in significant impact on the Group's accounting policies.
(ii)	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. There is generally only one performance obligation. Invoices are usually payable within 270 days.	
(iii)	Agency fee income of selling ticket through ticketing platform	Revenue is recognised when the arrangement of provision of tickets completed. There is generally only one performance obligation.	
(iv)	IT technical service fee	Revenue is recognised when services are rendered. There is generally only one performance obligation.	

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

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

Note	Product/ service	Nature of the goods or services, satisfaction of performance obligations	Nature of change in accounting policy and impact on 1 January 2018
(v)	Film investment income represents the Group's share of box office sales from films exhibited in movie theatres.	Revenue from the film investment income is recognised when (i) the films are exhibited in movie theatres, (ii) the amount of revenue can be measured reliably and (iii) the collectability of the entitled proceeds is reasonably assured.	**Variable consideration** For contracts that contain variable consideration from investments in film rights, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

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

(a) Adoption of new/revised HKFRSs – effective on 1 January 2018 *(continued)*

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

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated.

The Group assessed the impacts of adopting HKFRS 15 on its consolidated financial statements. Based on the assessment, the adoption of HKFRS 15 has no significant impact on the Group's revenue recognition.

Except as described above regarding the impact of HKFRS 15 and HKFRS 9, the adoption of the above new/revised HKFRSs has no material impact on the Group's consolidated financial statements.

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

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

HKFRS 16	Leases[1]
HK(IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]

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

2 Effective for annual periods beginning on or after 1 January 2020

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

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

HKFRS 16 – Leases

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

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

HK(IFRIC) Int 23 – Uncertainty over Income Tax Treatments

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

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

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

HKAS 1 and HKAS 8 (Amendments) – Definition of Material

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

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

3. BASIS OF PREPARATION

(a) Statement of compliance

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

3. BASIS OF PREPARATION *(continued)*

(b) Basis of measurement and going concern assumption

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

For the year ended 31 December 2018, the Group reported loss attributable to the owners of the Company of HK$497 million and had a net operating cash outflow of HK$22 million. As at 31 December 2018, the total issued loan notes and convertible loan notes by the Group amounted to HK$560 million were classified as current liabilities, while its unrestricted cash and cash equivalents amounted to HK$1.7 million only.

As at 31 December 2018 and up to the date of this report, the loan notes and convertible loan notes of the Group of HK$450 million and HK$110 million were overdue respectively but the Group has not been able to obtain extensions or repayments of such balances prior to the date of this report. These overdue loan notes and convertible loan notes without extension would be immediately repayable if and when requested by the note holders.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve the Group's financial position which include, but are not limited to, the following:

(i) The Group has been actively negotiating with the note holders, Ever Ascend and Cheer Hope for renewal or extension of loan notes and convertible loan notes. Specifically, the Group is in active negotiations with the note holders to renew or extend the maturity dates of the loan notes and convertible loan notes; and

(ii) As announced by SMI Holdings, the immediate holding of the Company, SMI Holdings is currently under a debt restructuring proposal negotiation. It has been proactively negotiating and discussing with the lenders and creditors in relation to the possibility of providing additional funding to SMI Holdings as well as the possible settlement arrangements. In March 2019, SMI Holdings has entered into a letter of intent with Cheer Hope in respect of proposed debt settlement of SMI Holdings and its subsidiaries. The proposed debt settlement will be carried out by conversion of their debts or a portion thereof into equity of SMI Holdings;

SMI Holdings has agreed to provide adequate funds to the Group to meet in full its financial obligations as they fall due for the foreseeable future.

3. BASIS OF PREPARATION *(continued)*

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

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 31 December 2018. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2018. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the following:

(i) Successful negotiations with the note holders for renewal of or extensions for repayments of outstanding amounts, including those with overdue principals and interests; and

(ii) The proposed debt settlement of SMI Holdings by Cheer Hope is materialised, the conversion of the involved debts into shares is completed, and provide adequate funds to the Group.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts. The effects of these adjustments have not been reflected in these consolidated financial statements.

(c) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

(b) Subsidiaries

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

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

(c) Goodwill

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Goodwill *(continued)*

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

(d) Property, plant and equipment

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

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

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

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

Leasehold improvement	6 years or over the term of the lease, whichever is shorter
Furniture, fixtures and other assets	3 years – 6.5 years
Motor vehicles	5 years – 10 years

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Leasing

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

The Group as lessee

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

(f) Intangible assets (other than goodwill)

(i) Intangible assets

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

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

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

(ii) Impairment

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Intangible assets (other than goodwill)

(ii) Impairment (continued)

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

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

(g) (1) Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gains or losses on derecognition are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (1) Financial instruments (accounting policies applied from 1 January 2018) *(continued)*

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade and other receivables and other financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 270 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 1 year past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (1) Financial instruments (accounting policies applied from 1 January 2018) *(continued)*

(ii) Impairment loss on financial assets *(continued)*

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (1) Financial instruments (accounting policies applied from 1 January 2018) *(continued)*

(iii) ***Financial liabilities*** *(continued)*

Financial liabilities at fair value through profit or loss *(continued)*

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

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

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

(iv) Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled 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 classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (1) Financial instruments (accounting policies applied from 1 January 2018) *(continued)*

(iv) ***Convertible loan notes*** *(continued)*

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry dates, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the 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 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.

(v) ***Effective interest method***

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

(vi) ***Equity instruments***

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (1) Financial instruments (accounting policies applied from 1 January 2018) *(continued)*

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

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

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

(g) (2) Financial instruments (accounting policies applied until 31 December 2017)

(i) Financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (2) Financial instruments (accounting policies applied until 31 December 2017) *(continued)*

(i) Financial assets (continued)

Loans and receivables

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

(ii) Impairment loss on financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (2) Financial instruments (accounting policies applied until 31 December 2017) *(continued)*

(ii) Impairment loss on financial assets *(continued)*

For loans and receivables

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

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

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

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

(iii) Financial liabilities

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (2) Financial instruments (accounting policies applied until 31 December 2017) *(continued)*

(iii) Financial liabilities *(continued)*

Financial liabilities at fair value through profit or loss

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (2) Financial instruments (accounting policies applied until 31 December 2017) *(continued)*

(iii) ***Financial liabilities*** *(continued)*

Financial liabilities at amortised cost

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

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

(iv) ***Convertible loan notes***

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the conversion option derivative is recognised at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (2) Financial instruments (accounting policies applied until 31 December 2017) *(continued)*

(iv) Convertible loan notes *(continued)*

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is recognised to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

(v) Effective interest method

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

(vi) Equity instruments

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

(vii) Derecognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) (2) Financial instruments (accounting policies applied until 31 December 2017) *(continued)*

(vii) Derecognition (continued)

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

(h) Inventories

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

(i) Film rights investments

Film rights investments represent films invested by the Group.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) (1) Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) (1) Revenue recognition (accounting policies applied from 1 January 2018) *(continued)*

(i) Sales of editing rights

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.

(ii) Film investment income

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.

(iii) Licensing income from purchased licence rights

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.

(iv) Agency fee income

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

(v) IT technical service fee income

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

(vi) Other revenue

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Promotional service income is recognised when services are rendered.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) (2) Revenue recognition (accounting policies applied until 31 December 2017)

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

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

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

Film investment income represents the Group's share of box office sales from films exhibited in movie theatres, after the payment by the movie theatres of taxes and other governmental charges and deductions by movie theatres. The Group's share of profit is determined in accordance with the profit sharing ratio set out in the respective film investment agreements. Revenue from the film investment income is recognised when (i) the films are exhibited in movie theatres, (ii) the amount of revenue can be measured reliably and (iii) the collectability of the entitled proceeds is reasonably assured.

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

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

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

Promotional service income is recognised when services are rendered.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Contract assets and liabilities (accounting policies applied from 1 January 2018)

A contract asset represents the Group's right to consideration in exchange for goods that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 4(g)(1)(ii) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue. A contract liability would also be recognised if the group has an unconditional right to receive consideration before the group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(l) Income taxes

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Income taxes *(continued)*

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

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

(m) Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Foreign currencies *(continued)*

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

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

(n) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Termination benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see Note 4(c)), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Provisions and contingent liabilities

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

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

(q) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Related parties *(continued)*

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

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

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

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

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

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

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(a) Critical Judgements In Applying Accounting Policies

(i) Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption are set out in Note 3(b) to the consolidated financial statements.

(ii) Determination of functional currency

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

(iii) Income tax

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

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

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

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

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

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

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

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

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

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

As a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the Relevant Entity and has the ability to affect those returns through its power over the Relevant Entity and is considered to control the Relevant Entity. Consequently, the Company regards the Relevant Entity as consolidated structured entity under HKFRSs and all existing ownership interests of these Relevant Entity are held by the Group. The Group has included the assets and liabilities and results of the Relevant Entity in the consolidated financial statements. The revenue generated from the Relevant Entity during the year ended 31 December 2018 and total assets and total liabilities attributable to the Relevant Entity as at 31 December 2018 amounted to approximately HK$10,930,000 (2017: HK$2,546,000), approximately HK$55,263,000 (2017: HK$87,256,000) and approximately HK$72,204,000 (2017: $86,096,000), respectively.

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

(b) Key Sources of Estimation Uncertainty

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

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount, which is the lower of carrying amount and the value in use, of the cash-generating units to which goodwill has been allocated. The Group engaged the professional valuer to carry out the valuation of the cash-generating units. Calculation of recoverable amount by market approach requires valuation technique which used prices and other relevant information generated by market transactions involving identical and comparable group of assets and liabilities or business, and a suitable discount rate.

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

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

(ii) Impairment assessment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the recoverable amount, which is the lower of carrying amount and the value in use. The Group engaged the professional valuer to carry out the valuation. The value in use calculation requires the directors to estimate the future cash flows generated by intangible assets discounted to its present value by using a suitable discount rate.

(iii) Provision for inventories

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

(iv) Impairment assessment of film rights investments

Determining whether film rights investments are impaired requires an estimation of the recoverable amount, which is the lower of carrying amount and the value in use. The Group engaged the professional valuer to carry out the valuation. The value in use calculation requires the directors to estimate the future cash flows generated by film right investments discounted to its present value by using a suitable discount rate.

(v) Estimated impairment of trade and other receivables, amounts due from a shareholder and a related party

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

(v) Estimated impairment of trade and other receivables, amounts due from a shareholder and a related party (continued)

At each end of the reporting period, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

(vi) Fair value measurement

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

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

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

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

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

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

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

(vii) Estimated useful lives of intangible assets

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

6. REVENUE AND SEGMENT INFORMATION

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

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

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

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Segment revenue and results

For the year ended 31 December 2018

	Television program related business HK$'000	Film investment HK$'000	Ticketing system and IT technical service HK$'000	Total HK$'000
Revenue	2,258	52,086	10,930	65,274
Segment loss	(38,561)	(210,504)	(123,504)	(372,569)
Unallocated expenses				(16,117)
Fair value change of the embedded derivatives				14,585
Finance costs				(122,364)
Loss before income tax expense				(496,465)

6. REVENUE AND SEGMENT INFORMATION *(continued)*

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

For the year ended 31 December 2017

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

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

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

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Segment assets and liabilities

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

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Segment assets		
Television program related business	**317,626**	354,830
Film investment	**786,205**	1,022,726
Ticketing system and IT technical service	**60,236**	198,583
Segment assets	**1,164,067**	1,576,139
Unallocated	**89,921**	90,854
Consolidated total assets	**1,253,988**	1,666,993

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Segment liabilities		
Television program related business	**163,706**	161,192
Film investment	**103,671**	99,273
Ticketing system and IT technical service	**21,778**	39,140
Segment liabilities	**289,155**	299,605
Unallocated	**703,196**	581,484
Consolidated total liabilities	**992,351**	881,089

6. REVENUE AND SEGMENT INFORMATION *(continued)*

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

Included the unallocated asset, the balance as at 31 December 2018 mainly represented amount due from a shareholder of HK$56,289,000 (2017: HK$91,918,000).

Included the unallocated liabilities, the balance as at 31 December 2018 mainly represented convertible loan notes of HK$110,000,000 (2017: HK$108,813,000), embedded derivatives of Nil (2017: HK$14,585,000), loan notes HK$450,000,000 (2017: HK$448,725,000) and debentures HK$2,798,000 (2017: Nil).

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

For the year ended 31 December 2018

	Television program related business HK$'000	Film investment HK$'000	Ticketing system and IT technical service HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	–	10	–	–	10
Depreciation of property, plant and equipment	–	12	57	1,500	1,569
Amortisation of intangible assets	10,235	–	3,607	–	13,842
Impairment loss recognised in respect of goodwill	–	–	95,721	–	95,721
Impairment loss recognised in respect of intangible assets	–	–	13,268	–	13,268
Impairment loss recognised in respect of trade and other receivables	11,263	3,114	23,812	–	38,189
Impairment loss reversed in respect of amount due from a shareholder	–	–	–	1,493	1,493
Impairment loss reversed in respect of amount due from a related party	–	344	–	–	344
Impairment loss recognised in respect of film rights investments	–	159,021	–	–	159,021
Provision for inventories	–	–	–	–	–
Income tax expense/(credit)	565	3,906	(3,601)	–	870
Additions to property, plant and equipment	–	–	19	–	19

6. REVENUE AND SEGMENT INFORMATION *(continued)*

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

For the year ended 31 December 2017

	Television program related business HK$'000	Film investment HK$'000	Ticketing system and IT technical service HK$'000	Unallocated HK$'000	Total HK$'000
Interest income	–	79	–	–	79
Depreciation of property, plant and equipment	–	8	12	1,685	1,705
Amortisation of intangible assets	11,908	–	606	–	12,514
Impairment loss recognised in respect of goodwill	–	–	11,885	–	11,885
Impairment loss recognised in respect of intangible assets	9,318	–	–	–	9,318
Impairment loss recognised in respect of other receivables	–	52,472	–	–	52,472
Impairment loss recognised in respect of film rights investments	–	6,490	–	–	6,490
Provision for inventories	9,819	–	–	–	9,819
Income tax expense	11,489	2,643	305	–	14,437
Additions to property, plant and equipment	–	47	–	3,852	3,899

6. REVENUE AND SEGMENT INFORMATION *(continued)*

(d) Geographical information

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

	Revenue from external customers		Non-current assets	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Hong Kong	**–**	–	**51,620**	63,372
The People's Republic of China ("PRC")	**65,274**	134,948	**37,330**	149,959
	65,274	134,948	**88,950**	213,331

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

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

	2018 **HK$'000**	2017 HK$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Film investment income	**52,086**	254
Sales of editing rights	**–**	123,943
Licensing income from purchased licence rights	**2,258**	8,205
Agency fee income	**4,779**	634
IT technical service fee income	**6,151**	1,912
	65,274	134,948
Timing of revenue recognition:		
At a point in time	**65,274**	134,948
Transferred over time	**–**	–
	65,274	134,948

6. REVENUE AND SEGMENT INFORMATION *(continued)*

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

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11.

(f) Information about major customers

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

	2018 HK$'000	2017 HK$'000
Customer A – television program related business	**N/A**	47,481
Customer B – television program related business	**N/A**	38,150
Customer C – television program related business	**N/A**	23,281
Customer D – film investment	**30,637**	N/A
Customer E – film investment	**20,129**	N/A

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

The following table provides information about trade and other receivables from contracts with customers.

	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000
Trade and other receivables	**331,747**	307,579

7. OTHER REVENUE

	2018 HK$'000	2017 HK$'000
Interest income from bank deposits	**10**	79

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on loan notes (Note 26)	**100,912**	43,081
Interest on convertible loan notes (Note 27)	**21,221**	12,745
Interest on other borrowing	**–**	10,961
Interest on debentures	**231**	–
Handling charge for loan note extension	**–**	4,863
	122,364	71,650

9. INCOME TAX EXPENSE

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

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax	**–**	–
The PRC Enterprise Income Tax ("EIT")	**5,241**	14,437
	5,241	14,437
Under/(over) provision in respect of prior years:		
The PRC EIT	**–**	–
Deferred tax (Note 29)		
The PRC	**(4,371)**	–
Income tax expense	**870**	14,437

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. The Ordinance is effective from the year of assessment 2018-2019.

9. INCOME TAX EXPENSE *(continued)*

Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax regime (2017: a single tax rate of 16.5% was applied).

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2017: 25%).

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

	2018 **HK$'000**	2017 HK$'000
Loss before income tax expense	**(496,465)**	(119,477)
Tax at domestic rates applicable to profits or losses in the jurisdiction concerned	**(107,323)**	(13,921)
Tax effect of expenses not deductible for tax purpose	**85,402**	11,963
Tax effect of income not taxable for tax purpose	**–**	(32)
Tax effect of deferred tax assets not recognised	**6,124**	13,118
Tax effect of tax loss not recognised	**16,667**	3,309
Income tax expense	**870**	14,437

The weighted average applicable tax rate was 18.06% (2017: 9.86%).

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. As at 31 December 2018 and 2017, due to the accumulated loss in each of the PRC subsidiaries, there is no deferred tax liabilities arising as there are no undistributed profits.

10. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Cost of editing rights expensed recognised as cost of sales	–	66,455
Auditor's remuneration	3,008	4,422
Exchange losses, net (included in other expenses)	9,845	6,869

11. EMPLOYEE COSTS

	2018 HK$'000	2017 HK$'000
Employee costs (including directors' emoluments (Note 12)) comprise:		
Wages and salaries	8,830	9,673
Short-term non-monetary benefits	100	191
Contributions on defined contribution retirement plans	750	307
	9,680	10,171

12. DIRECTORS' EMOLUMENTS

Directors' emoluments is disclosed as follows:

	KONG Dalu HK$'000 (Note i)	YUAN Xin HK$'000 (Note ii)	HUANG Zhengchao HK$'000 (Note iii)	YAO Qinyi HK$'000	RAO Yong HK$'000 (Note iv)	ZHAO Xuebo HK$'000 (Note v)	LIU Xianbo HK$'000	WU Chien-Chiang HK$'000 (Note vi)	LI Kai HK'000 (Note vii)	Total HK$'000
For the year ended 31 December 2018										
Fees	–	20	–	–	240	240	240	240	195	1,175
Other emoluments										
Salaries and other benefits	127	–	–	1,220	–	–	–	–	–	1,347
Contributions to retirement benefits schemes	–	–	–	–	–	–	–	–	–	–
	127	20	–	1,220	240	240	240	240	195	2,522

12. DIRECTORS' EMOLUMENTS *(continued)*

Directors' emoluments is disclosed as follows: *(continued)*

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

Notes:

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

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

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

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

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

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

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

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

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

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments during the year ended 31 December 2018 (2017: Nil).

13. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, one (2017: three) was a director of the Company whose emoluments are included in the disclosures in Note 12 above. The emoluments of the remaining four (2017: two) individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**1,728**	1,179
Contributions to retirement benefits schemes	**127**	29
	1,855	1,208

Their emoluments were within the following bands:

	2018 Numbers of individuals	2017 Numbers of individuals
Nil to HK$1,000,000	**4**	2
HK$1,000,001 to HK$1,500,000	**–**	–

14. DIVIDENDS

No dividend has been paid or declared during each of the years ended 31 December 2018 and 2017. The Directors do not recommend the payment of a final dividend for 2018 (2017: Nil).

15. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company is based on the loss for the year of HK$497,333,000 (2017 loss for the year: HK$133,063,000) and the weighted average number of ordinary shares of 1,316,009,000 (2017: 931,112,000) in issue during the year.

No adjustment has been made to basic loss per share presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of convertible loan notes outstanding, had an anti-dilutive on the basic loss per share amount presented.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Furniture, fixtures and other assets HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
At 1 January 2017	435	1,782	–	2,217
Additions	2,024	1,145	730	3,899
Acquired through business combination	–	239	–	239
Disposals/written-off	(357)	(138)	–	(495)
At 31 December 2017	2,102	3,028	730	5,860
Additions	–	19	–	19
Disposals/written-off	(2,102)	–	–	(2,102)
At 31 December 2018	–	3,047	730	3,777
Accumulated depreciation and impairment				
At 1 January 2017	192	1,635	–	1,827
Depreciation	1,183	413	109	1,705
Acquired through business combinations	–	64	–	64
Eliminated on disposals	(85)	(38)	–	(123)
At 31 December 2017	1,290	2,074	109	3,473
Depreciation	812	611	146	1,569
Eliminated on disposals	(2,102)	–	–	(2,102)
At 31 December 2018	–	2,685	255	2,940
Carrying amount				
At 31 December 2018	–	362	475	837
At 31 December 2017	812	954	621	2,387

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

17. GOODWILL

	Ticketing platform HK$'000	IT technical service HK$'000	Total HK$'000
Cost			
At 1 January 2017	–	–	–
Acquired through business combinations	41,862	65,744	107,606
At 31 December 2017 and 31 December 2018	41,862	65,744	107,606
Accumulated impairment losses			
At 1 January 2017	–	–	–
Provision for impairment losses recognised in the year (Note 18)	–	11,885	11,885
At 31 December 2017	–	11,885	11,885
Provision for impairment losses recognised in the year (Note 18)	41,862	53,859	95,721
At 31 December 2018	41,862	65,744	107,606
Net carrying amount			
At 31 December 2018	–	–	–
At 31 December 2017	41,862	53,859	95,721

Goodwill acquired in the business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. As at 31 December 2018 and 2017, the goodwill arose from the acquisition of CGUs which are engaged in operation of ticketing platform and provision of IT technical service.

18. IMPAIRMENT TESTING ON GOODWILL

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

	2018 HK$'000	2017 HK$'000
Ticketing platform	**41,862**	–
IT technical service	**53,859**	11,885
	95,721	11,885

The recoverable amount of ticketing platform is determined based on fair value less costs of disposal using market approach by reference to transaction price of similar items, whether from recent transactions or using market multiples and guideline public company method. Other key estimation included intended price to gross merchandise value of 1.20 (2017: 1.37) and estimated cost of disposal of 5% (2017: 5%).

In 2017, the recoverable amounts of IT technical service are determined from value in use calculation based on cash flow projection from formally approved budgets covering a five year period, followed by estimation of management on future business. The pre-tax discount rate used for value in use calculation is 21% per annum, which reflects specific risks relating to the relevant CGU. In 2018, the remaining 2 service agreements of IT technical service were early terminated. No new service agreements were entered by the Group with other customers since then. As such, there is no future cash flow available for the relevant CGU. The full goodwill impairment of HK$53,859,000 was made for IT technical service in 2018.

Goodwill impairment of HK$95,721,000 (2017: HK$11,855,000) was made for IT technical service and Ticketing platform due to the recently intensively competitive environment within which the CGU operates.

19. INTANGIBLE ASSETS

	Ticketing platform HK$'000	Purchased license rights HK$'000	Total HK$'000
Cost			
At 1 January 2017	–	1,201,485	1,201,485
Acquired through business combination	54,683	–	54,683
At 31 December 2017 and 31 December 2018	54,683	1,201,485	1,256,168
Amortisation and impairments			
At 1 January 2017	–	1,119,113	1,119,113
Amortisation	608	11,906	12,514
Impairment	–	9,318	9,318
At 31 December 2017	608	1,140,337	1,140,945
Amortisation	3,607	10,235	13,842
Impairment	13,268	–	13,268
At 31 December 2018	17,483	1,150,572	1,168,055
Carrying amount			
At 31 December 2018	37,200	50,913	88,113
At 31 December 2017	54,075	61,148	115,223

19. INTANGIBLE ASSETS *(continued)*

Ticketing platform belongs to Ticketing system and IT technical service segment. Purchased license right belongs to Television program related business segment.

Ticketing platform represents fair value of the identifiable value of online ticketing platform of the newly acquired component in 2017, SMI Entertainment Limited and its subsidiaries ("SMI Entertainment Group") (Note 35). The fair value of the system as at acquisition date have been arrived at market value basis carried by GW Financial Advisory Services Limited, an independent valuer who holds a recognised and relevant professional qualification and has relevant experience in the valuation of the similar assets.

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

The directors of the Company have reviewed the recoverable amount of the purchased license rights with reference to their fair value less cost to sell on 31 December 2018 and 2017. The fair value of purchased license rights is a level 3 recurring fair value measurement. The fair value of the Group's purchased license rights at 31 December 2018 and 2017 has been arrived at on the market value basis carried out by Grant Sherman Appraisal Limited, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the valuation of similar assets. Other key estimation included risk-free rate of 3.31% (2017: 3.90 %) and market equity risk premium of 11.08% (2017: 10.42%). No impairment loss was recognised for purchased license rights for the year ended 31 December 2018 (2017: An impairment loss of HK$9,318,000 for purchased license right was recognised due to continuous unsatisfactory results from licensing of these assets).

The directors of the Company have reviewed the recoverable amount of the ticketing platform with reference to their fair value less cost to sell on 31 December 2018 and 2017. The fair value of ticketing platform is a level 3 recurring fair value measurement. The fair value of the Group's ticketing platform at 31 December 2018 and 2017 has been arrived at on the market value basis carried out by Grant Sherman Appraisal Limited, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the valuation of similar assets. Other key estimation included indicated price to gross merchandise volume of 1.20 (2017: 1.37) and estimated cost of disposal of 5% (2017: 5%). An impairment loss of HK$13,268,000 for ticketing platform was recognised due to continuous unsatisfactory results from ticketing platform and IT technical service business (2017: No impairment loss was recognised for the ticketing platform for the year ended).

20. INVENTORIES

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

The directors of the Company have reviewed the net realisable value of the inventories with reference to their fair value less cost to sell at 31 December 2018 and 2017. The fair value of the Group's inventories at 31 December 2018 and 2017 have been arrived at on market value basis carried out by Grant Sherman Appraisal Limited, an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the valuation of similar assets.

No impairment loss was recognized for inventories for the year ended 31 December 2018 (2017: An impairment loss of HK$9,819,000 was recognised for the year ended 31 December 2017 due to the continuous unsatisfactory results from sales of those works).

21. FILM RIGHTS INVESTMENTS

	HK$'000
At 1 January 2017	397,643
Addition	456,513
Recognised as an expense included in cost of sales	(37,049)
Provision for impairment loss	(6,490)
At 31 December 2017	810,617
Addition	–
Recognised as an expense included in cost of sales	(90,056)
Provision for impairment loss	(159,021)
At 31 December 2018	**561,540**

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

An impairment loss of HK$159,021,000 was recognised for the year ended 31 December 2018 (2017: HK$6,490,000) due to expected loss over the recoverable amount.

22. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**200,970**	149,469
Less: Provision for impairment loss	**(48,902)**	–
	152,068	149,469
Other receivables	**218,932**	217,093
Less: Provision for impairment loss	**(57,507)**	(52,472)
	161,425	164,621
Prepayments and deposits	**18,254**	9,237
	331,747	323,327

The Group allows a credit period ranging from 0 days to 270 days to its trade customers. The following is an ageing analysis of trade receivables based on the payment due dates:

	2018 HK$'000	2017 HK$'000
Current	**48,986**	27,297
Less than 1 to 3 months past due	**–**	101,763
More than 3 months but less than 12 months past due	**293**	14,663
Over 1 year	**102,789**	5,746
	152,068	149,469

As at 31 December 2018, trade receivables of HK$103,082,000 (2017: HK$122,172,000) were past due and impairment made. No interest is charged on the overdue trade receivables.

The other classes within trade receivables do not contain impaired assets.

The Group and the Company recognised impairment loss based on the accounting policy stated in Notes 4(g)(1)(ii) and 4(g)(2)(ii).

Further details on the group's credit policy and credit risk arising from trade and other receivables, amount due from a shareholder and a related party are set out in Note 40(a).

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

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

The Group and the Company recognised impairment loss based on the accounting policy stated in Notes 4(g)(1)(ii) and 4(g)(2)(ii).

24. CASH AND CASH EQUIVALENTS

As at 31 December 2018, bank balances carry market interest rates at 0.3% per annum.

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

25. TRADE AND OTHER PAYABLES

	2018 **HK$'000**	2017 HK$'000
Trade payables	**8,325**	7,770
Accruals	**117,923**	11,610
Other payables	**110,272**	104,700
	236,520	124,080

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

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

	2018 **HK$'000**	2017 HK$'000
Current or less than 1 month	**–**	26
1 to 3 months	**–**	–
More than 3 months but less than 12 months past due	**687**	5,593
More than 12 months but less than 24 months past due	**7,638**	2,151
	8,325	7,770

26. LOAN NOTES

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

	2018 HK$'000	2017 HK$'000
At the beginning of the year	**448,725**	445,531
Effective interest charged (Note 8)	**100,912**	43,081
Coupon interest paid/payable	**(99,637)**	(39,887)
	450,000	448,725

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

(a) The Company issued a 1-year note ("Note I") to Cheer Hope, an independent third party with aggregate principal amount of HK$315,000,000 in August 2016 with fixed coupon rate of 5% per annum each, with the guarantee by SMI Holdings, the immediate holding company of the Group. Note I will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the Note I is 19%. On the date of issuance, the fair value of the Note I was amounted to HK$311,287,000.

In 2016, loan notes of HK$64,431,000 has been early redeemed.

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

The Note I was matured but not redeemed in August 2018. The Note I will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 15% per annum thereon and there was no redemption during the year 2018.

(b) The Company issued a 1-year note ("Note II") to Ever Ascend, an independent third party with aggregate principal amount of HK$200,000,000 in August 2016 with fixed coupon rate of 5% per annum each, with the guarantee by SMI Holdings. Note II will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 10% per annum thereon. The effective interest rate of the Note II is 11.00%. On the date of issuance, the fair value of the Note II was amounted to HK197,667,000.

26. LOAN NOTES *(continued)*

(b) *(continued)*

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

The Note II was matured but not redeemed in August 2018. The Note II will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 15% per annum thereon and there was no redemption during the year 2018.

27. CONVERTIBLE LOAN NOTES AND EMBEDDED DERIVATIVES

(a) The Company issued 1-year 5% convertible loan note ("CLN I") with principal amount of HK$100,000,000 on 26 October 2016 to Ever Ascend. The CLN I are denominated in Hong Kong dollars and unsecured. The CLN I mature one year from the issue date at their principal amount or entitle the holder to convert it into ordinary shares of the Company at any business date from and including the date falling one year from the issue date up to the close of business on the maturity date 25 October 2017 at a conversion price of HK$0.675 per share, subject to adjustments and resets in accordance with the terms and conditions. If the CLN I has not been converted, they will be redeemed at such amount that would make up an aggregate internal rate of return on relevant amount at 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

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

The CLN I was matured but not redeemed in October 2018. The CLN I will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 15% per annum thereon and there was no redemption during the year 2018.

The CLN I contains two components, a liability component and a conversion option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

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

(a) *(continued)*

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

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2017	95,235	34,921	130,156
Interest charged	9,110	–	9,110
Interest paid/payable	(6,486)	–	(6,486)
Converted during the year	(24,046)	(5,367)	(29,413)
Gain arising on change in fair value	–	(20,430)	(20,430)
As at 31 December 2017 and 1 January 2018	73,813	9,124	82,937
Interest charged	12,846	–	12,846
Interest paid/payable	(11,659)	–	(11,659)
Gain arising on change in fair value	–	(9,124)	(9,124)
As at 31 December 2018	75,000	–	75,000

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component of the CLN I is 17.13% (2017:12.09%).

Due to the maturity of the CLN I, the remaining balance of embedded derivative component is recognised in profit or loss.

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

(a) *(continued)*

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

	31 December 2018	31 December 2017
Stock price	–	HK$0.750
Exercise price	–	HK$0.675
Volatility	–	21.05%
Option life	–	0.82 year
Risk–free interest rate	–	1.47%

The valuations of the liability component and conversion option and other embedded derivatives of the CLN I are determined with the involvement of Grant Sherman Appraisal Limited in 2017. In 2018, no valuation of the liability component and conversion option was performed since they were all matured and lapsed. The gains arising on change in fair value of conversion option is recognised in profit or loss in 2018.

(b) The Company issued 1-year 5% convertible loan note ("CLN II") with principal amount of HK$65,000,000 on 11 November 2016 to Cheer Hope. The CLN II are denominated in Hong Kong dollars and unsecured. The CLN II mature one year from the issue date at their principal amount or entitle the holder to convert it into ordinary shares of the Company at any business date from and including the date falling one year from the issue date up to the close of business on the maturity date on 8 August 2017 at a conversion price of HK$0.675 per share, subject to adjustments and resets in accordance with the terms and conditions. If the CLN II has not been converted, they will be redeemed at such amount that would make up an aggregate internal rate of return on relevant amount at 10% per annum thereon calculated from the issue date to (and including) the maturity date. No early redemption is allowed. Interest of 5% per annum will be payable every six months from the issue date in arrears.

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

The CLN II was matured but not redeemed in August 2018. The CLN II will be redeemed at an amount that would make up an aggregate internal rate of return on the relevant amount at 15% per annum thereon and there was no redemption during the year 2018.

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

(b) *(continued)*

The CLN II contains two components, a liability component and a conversion option. The conversion option is not closely related to the liability component and is classified as a derivative because the conversion will not result in the Company issuing a fixed number of shares in settlement of a fixed amount of liability component. Conversion option is measured at fair value with change in fair value recognised in profit or loss.

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

	Liability component HK$'000	**Embedded derivative** HK$'000	**Total** HK$'000
As at 1 January 2017	64,338	20,764	85,102
Interest charged	3,635	–	3,635
Interest paid/payable	(3,224)	–	(3,224)
Converted during the year	(29,749)	(6,744)	(36,493)
Gain arising on change in fair value	–	(8,559)	(8,559)
As at 31 December 2017 and 1 January 2018	35,000	5,461	40,461
Interest charged	8,375	–	8,375
Interest paid/payable	(8,375)	–	(8,375)
Gain arising on change in fair value	–	(5,461)	(5,461)
As at 31 December 2018	35,000	–	35,000

At the date of issue, the liability component was recognised at fair value. The fair value component was calculated based on the present value of the contractually determined future cash flows discounted at the required yield, which was determined with reference average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The interest rate of the liability component of the CLN II is 23.93% (2017: 11.40).

Due to the maturity of the CLN II, the remaining balance of embedded derivative component is recognised in profit or loss.

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

(b) *(continued)*

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

	31 December 2018	31 December 2017
Stock price	**–**	HK$0.750
Exercise price	**–**	HK$0.675
Volatility	**–**	22.00%
Option life	**–**	0.61 year
Risk–free interest rate	**–**	1.39%

In 2017, the valuations of the liability component and conversion option and other embedded derivatives of the CLN II are determined with the involvement of Grant Sherman Appraisal Limited. In 2018, no valuation of the liability component and conversion option was performed since they were all matured and lapsed. The gains arising on change in fair value of conversion option is recognised in profit or loss account.

28. DEBENTURES

	2018 HK$'000	2017 HK$'000
The debentures are repayable as follows:		
Within a period of more than two year but not exceeding five years	**848**	–
Within a period of more than five years	**1,950**	–
	2,798	–

During the year 2018, the Company issued three debentures to non-related parties at an interest rate of 7% per annum which were repayable within five years to seven years and six months. As at 31 December 2017, there was no debenture.

29. DEFERRED TAX LIABILITIES

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

	Intangible asset – ticketing platform HK$'000
As at 1 January 2017	–
Acquisitions	13,671
As at 31 December 2017	13,671
Credited to profit or loss (Note 9)	(4,371)
As at 31 December 2018	9,300

30. SHARE CAPITAL

	Par value	**Number of shares** '000	**Share capital** HK$'000
Authorised:			
As at 1 January 2017, 31 December 2017 and 2018	HK$0.01	100,000,000	1,000,000
Issued and fully paid:			
As at 1 January 2017		861,910	8,620
Debt conversion rights exercised (Note (i))		81,481	815
		943,391	9,435
Other issues for cash during the year 2017:			
Shares issued for working capital (Note (ii))		214,285	2,142
Shares issued in settlement of acquisition (Note (iii))		158,333	1,583
As at 31 December 2017 and 31 December 2018		1,316,009	13,160

30. SHARE CAPITAL *(continued)*

Notes:

(i) Debt conversion rights exercised

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

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

(ii) Shares issued for working capital

In 2017, a placement of 214,285,000 shares, with par value of HK$0.01, of the Company at a price of HK$0.70 per share was issued to independent third parties for working capital.

(iii) Shares issued in settlement of acquisition

In 2017, a placement of 158,333,000 shares, with par value of HK$0.01, of the Company at a price of HK$0.75 per share was issued to SMI Holdings, in order to settle the proceed of business acquisition.

31. OTHER RESERVES

The Company	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2017	234,241	95	14,759	(207,577)	41,518
Debt converted	65,092	–	–	–	65,092
Shares issued for working capital	143,357	–	–	–	143,357
Shares issued in settlement of acquisition	112,417	–	–	–	112,417
Loss for the year	–	–	–	(29,882)	(29,882)
Balance at 31 December 2017 as originally presented	555,107	95	14,759	(237,459)	332,502
Initial application of HKFRS 9	–	–	–	(38,321)	(38,321)
Restated balance as at 1 January 2018	555,107	95	14,759	(275,780)	294,181
Loss for the year	–	–	–	(118,661)	(118,661)
As at 31 December 2018	555,107	95	14,759	(394,441)	175,520

32. LEASES

Operating leases – lessee

Operating lease payments represent rentals payable by the Group for its office premises. No leases are negotiated in 2018 (2017: one year). There is no contingent rental arrangement.

The lease payments recognised as an expense are as follows:

	2018 HK$'000	2017 HK$'000
Minimum leases payments	**2,794**	5,262

The total future minimum lease payments are due as follows:

	2018 HK$'000	2017 HK$'000
Not later than one year	**–**	2,277

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries		**390**	390
Amounts due from subsidiaries		**811,255**	828,650
		811,645	829,040
Current assets			
Prepayments, deposits and other receivables		**22,274**	26,549
Amount due from a shareholder		**56,289**	91,918
Cash and cash equivalents		**28**	647
		78,591	119,114
Current liabilities			
Accrual and other payables		**136,550**	29,426
Amounts due to directors		**2,208**	943
Loan notes		**450,000**	448,725
Convertible loan notes		**110,000**	108,813
Embedded derivatives		**–**	14,585
		698,758	602,492
Net current liabilities		**(620,167)**	(483,378)
Total asset less current liabilities		**191,478**	345,662
Non-current liabilities			
Debentures		**2,798**	–
Net assets		**188,680**	345,662
Capital and reserves			
Share capital	30	**13,160**	13,160
Other reserves	31	**175,520**	332,502
Total equity		**188,680**	345,662

LI Kai	**YAO Qinyi**
Director	*Director*

34. INTERESTS IN PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place/ country of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of issued share capital held by the Company				Principal activity
			2018		2017		
			Directly %	Indirectly %	Directly %	Indirectly %	
Quick Gain Enterprises Limited	British Virgin Island ("BVI")	USD1	100	–	100	–	Investment holding
Qin Jia Yuan Media Creation Co., Limited	BVI	USD1	–	100	–	100	Holding of adaption right
Qin Jia Yuan Creation Co., Limited	BVI	USD1	–	100	–	100	Holding of scripts and synopses
Hangwai Enterprise Limited	BVI	USD1	–	100	–	100	Holding of distribution rights
Hang Hung Yip International Limited	BVI	USD1	–	100	–	100	Holding of distribution rights
Vast Top Investments Limited	BVI	USD1	–	100	–	100	Holding of adaption right
Great Mean Enterprises Limited	BVI	USD1	–	100	–	100	Holding of adaption right
SMI Culture Workshop Company Limited	HK	HK$1	–	100	–	100	Film investment
Sharp Cheer Enterprises Limited	BVI	USD1	–	100	–	100	Holding of distribution rights
Green Team Culture Asset Limited	BVI	USD10,000	–	100	–	100	Holding of publication and adaption right

34. INTERESTS IN PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place/ country of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of issued share capital held by the Company				Principal activity
			2018		2017		
			Directly %	**Indirectly %**	Directly %	Indirectly %	
SMI Movie Company Limited	HK	HK$1	**–**	**100**	–	100	Film and TV program investment
必可視（北京）國際廣告傳媒有限公司	PRC	HK$12,000,000	**–**	**100**	–	100	Provision of TV program and production related service
天津星美雲視文化傳播有限公司	PRC	HK$15,000,000	**–**	**100**	–	100	Film and TV program investment
鋭達數碼科技（深圳）有限公司	PRC	RMB500,000	**–**	**100**	–	100	Software development and IT consultation
*廣州星美票務有限公司	PRC	RMB10,000,000	**–**	**–**	–	–	Sales of ticket through ticketing platform, software development and IT consultation

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

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

35. BUSINESS ACQUISITION

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

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

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

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

Since the acquisition date, SMI Entertainment Group has contributed HK$2,614,000 and HK$915,000 to Group's revenue and profit or loss. If the acquisition had occurred on 1 January 2017, Group revenue and loss would have been HK$151,933,000 and HK$127,854,000 respectively. This unaudited pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future performance.

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

36. RELATED AND CONNECTED PARTIES DISCLOSURES

(a) Related parties balances

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

(b) Related parties transactions

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

Name of related party	Related party relationship	Type of transaction	Transaction amount 2018 HK$'000	Transaction amount 2017 HK$'000
Stella Mega Films Co., Ltd （星美影業有限公司）	Common director	Film rights income	**–**	23,741
		Purchase of copyright	**5,927**	–
Beijing Mingxiang International Cinema Mgt. Co., Ltd. ("Beijing Mingxiang") （北京名翔國際影院管理有限公司）	Common shareholder	Service income of online ticketing	**2,438**	628
Chengdu Runyun Culture Broadcasting Company Limited ("Chengdu Runyun") （成都潤運文化傳播有限公司）	Common shareholder	Service income of online ticketing	**1,413**	–
SMI Holdings	Immediate parent	Acquisition of 100% equity interest of the SMI Entertainment Group	**–**	171,000

36. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(c) Connected party transactions

Name of connected party	Type of transaction	2018 HK$'000	2017 HK$'000
Beijing Mingxiang (北京名翔國際影院管理有限公司) (Note i)	Service income of online ticketing	**2,438**	628
Chengdu Runyun (成都潤運文化傳播有限公司) (Note ii)	Service income of online ticketing	**1,413**	–

Note:

(i) The Company and Beijing Mingxiang entered into the service agreement on 31 October 2017 regarding the marketing services provided by the Group to Beijing Mingxiang. The immediate parent of the Group, SMI Holdings indirectly holds approximately 63.31% of the total number of issued shares of the Group and indirectly controls 100% shareholding interest in Beijing Mingxiang. Hence, Beijing Mingxiang is a connected person of the Company by virtue of being an associate of SMI Holdings, the controlling shareholder of the Company, under the Listing Rules. Accordingly, the entering into of the Service Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The term of the transactions contemplated under the Service Agreement shall commence on the 31 October 2017 and end on 26 December 2026, both days inclusive.

The two-month cap mount for the period from 31 October 2017 to 31 December 2017 and the annual cap amount for the nine financial years ended 2026 for the service agreement are HK$880,000, HK$6,100,000, HK$8,100,000, HK$9,300,000, HK$10,700,000, HK$12,300,000, HK$14,200,000, HK$16,300,000, HK$18,700,000 and HK$21,500,000 respectively.

The extent of these connected transactions did not exceed the annual cap of HK$6,100,000 for the year ended 31 December 2018.

As at 31 May 2018, the Company singed the service termination agreement with Beijing Mingxiang regarding the marketing services provided by the Group to Beijing Mingxiang. Other than above, the Group does not have any business relationship with Beijing Mingxiang.

36. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(c) Connected party transactions *(continued)*

Note: *(continued)*

(ii) The Company and Chengdu Runyun entered into the service agreement on 1 June 2018 regarding the marketing services provided by the Group to Chengdu Runyun.

The immediate parent of the Group, SMI Holdings indirectly holds approximately 63.31% of the total number of issued shares of the Group and indirectly controls approximately 84.37% shareholding interest in Chengdu Runyun. Hence, Chengdu Runyun is a connected person of the Company by virtue of being an associate of SMI Holdings, the controlling shareholder of the Company, under the Listing Rules. Accordingly, the entering into of the Service Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The term of the transactions contemplated under the Service Agreement shall commence on the 1 June 2018 and end on 31 May 2021, both days inclusive.

The seven-month cap mount for the period from 1 June 2018 to 31 December 2018, annual cap amount for the two financial years and the five-month cap amount for the period from 1 January 2021 to 31 May 2021 for the Service Agreement is HK$3,600,000, HK$7,000,000, HK$8,100,000 and HK$3,900,000 respectively as set out in the announcement of the Company dated 1 June 2018.

The extent of these connected transactions did not exceed the annual cap of HK$3,600,000 for the year ended 31 December 2018 as set out in the announcement of the Company dated 1 June 2018.

36. RELATED AND CONNECTED PARTIES DISCLOSURES *(continued)*

(d) Compensation of key management personnel

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

	2018 HK$'000	2017 HK$'000
Wages and salaries	**2,522**	3,848
Contributions on defined contribution retirement plans	**–**	–
	2,522	3,848

37. NOTES SUPPORTING CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Bank balances and cash	**1,717**	6,128
Significant non-cash transactions are as follows:		
Investment activities		
Equity consideration for business combination	**–**	114,000
Financing activities		
Exercise of convertible right of convertible loan notes	**–**	65,906
Other borrowing	**–**	125,576
Loan interest paid by shareholder on behalf of the Group	**(14,251)**	–
	(14,251)	305,482

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

(b) Reconciliation of liabilities arising from financing activities:

	Loan notes (Note 26) HK$'000	Embedded derivatives (Note 27) HK$'000	Convertible loan notes (Note 27) HK$'000	Debentures (Note 28) HK$'000	Amounts due to fellow subsidiaries HK$'000	Amounts due to directors HK$'000	Trade and other payables HK$'000
At 1 January 2018	448,725	14,585	108,813	–	13,320	943	124,080
Changes from cash flows:							
Cash advances from directors	–	–	–	–	–	2,522	–
Repayment to directors	–	–	–	–	–	(1,257)	–
Proceed from issuance of debentures	–	–	–	2,744	–	–	–
Total changes from financing cash flows	–	–	–	2,744	–	1,265	–
Changes in fair value	–	(14,585)	–	–	–	–	–
Other changes:							
Interest expenses	1,275	–	1,187	54	–	–	119,848
Movement of cash flow related to operating activities	–	–	–	–	6,030	–	6,843
Loan interest paid by shareholder on behalf of the Group	–	–	–	–	–	–	(14,251)
Total other changes	1,275	–	1,187	54	6,030	–	112,440
At 31 December 2018	450,000	–	110,000	2,798	19,350	2,208	236,520

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

(b) Reconciliation of liabilities arising from financing activities: *(continued)*

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

38. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution scheme registered under a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Scheme Ordinance for all the eligible employees of the Group in Hong Kong. The assets of the MPF scheme are held separately from those of the Group in funds under the control of trustees. The retirement benefits cost charged to the profit or loss represents the contributions payable to the funds by the Group at rates specified in the rules of the scheme.

Employees of the Group in other jurisdictions currently participate in state-sponsored pension scheme or defined contribution schemes operated by the Government of such jurisdictions. The Group is required to contribute a certain percentage of their payroll to the schemes to fund the benefits. The only obligation of the Group with respect to the schemes is to make the required contributions.

During both years, there was no significant forfeited contribution, which arose upon employees leaving the retirement benefits schemes, available to reduce the contribution payable in the future years.

The retirement benefits scheme contributions, amounting to HK$319,000 (2017: HK$307,000) have been charged to profit or loss for the year and included in employee costs as set out in Note 11.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Financial assets measured at amortised cost (including cash and cash equivalents)	**412,992**	453,318
Financial liabilities		
Amortised cost	**820,876**	694,502
Embedded derivatives	**–**	14,585

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

(a) Financial instruments not measured at fair value

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

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

(b) Financial instruments measured at fair value

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

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

In 2017, the fair value of the embedded conversion option of convertible loan notes is estimated using a binomial option pricing model.

Significant unobservable inputs

Convertible Loan Note I (Note 27 (a))	**2018**	2017
Stock price	–	HK$0.750
Exercise price	–	HK$0.675
Volatility	–	21.05%
Option life	–	0.82 years
Risk-free interest rate	–	1.47%

Convertible Loan Note II (Note 27 (b))	**2018**	2017
Stock price	–	HK$0.750
Exercise price	–	HK$0.675
Volatility	–	22.00%
Option life	–	0.61 years
Risk-free interest rate	–	1.39%

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

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

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

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

	2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial liabilities at fair value through profit or loss				
Embedded conversion option of convertible loan note	–	–	–	–

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

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

40. FINANCIAL RISK MANAGEMENT

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

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

(a) Credit risk

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

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

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 29% (2017: 34%) and 93% (2017: 85%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively within the Television program related business, Film investment and Ticketing system and IT technical service segments.

40. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate (%)	Gross carrying amount HK$'000	Loss allowance HK$'000
Current	2.11%	50,040	1,054
Less than 1 to 3 months past due	N/A	–	–
More than 3 months but less than 12 months past due	95.55%	6,589	6,296
Over 1 year	28.79%	144,341	41,552
		200,970	48,902

Expected loss rates are based on actual loss experience in the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

40. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 4(g)2(ii)). No provision for impairment loss on trade receivable was recognised for the year ended 31 December 2017. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	At 31December 2017 HK$'000
Current	27,297
Less than 1 to 3 months past due	101,763
More than 3 months but less than 12 months past due	14,663
Over 1 year	5,746
	149,469

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

40. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 HK$'000	2017 HK$'000
Balance at 31 December under HKAS 39	–	–
Impact of initial application of HKFRS 9 (Note 2(a)(ii)(a))	6,234	–
Adjusted balance at 1 January	6,234	–
Impairment losses recognized, net	42,668	–
Balance at 31 December	48,902	–

Other receivables

Movement in the loss allowance account in respect of other receivables during the year is as follows:

	2018 HK$'000	2017 HK$'000
Balance at 31 December under HKAS 39	52,472	–
Impact of initial application of HKFRS 9	9,514	–
Adjusted balance at 1 January	61,986	–
Impairment loss (reversed)/recognised, net	(4,479)	52,472
Balance at 31 December	57,507	52,472

40. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Other receivables *(continued)*

As at 31 December 2018, other receivables is classified as financial asset at amortised cost. The measurement of loss allowance was therefore based on 12 months expected credit losses. Applying the ECL model result in the recognition of ECL of HK$9,514,000 on 1 January 2018 and a reversal of ECL of HK$4,479,000 for the year ended 31 December 2018.

As at 31 December 2018, an amount of HK$111,002,000 (2017: HK$116,784,000) prepaid for the acquisition of potential film rights was included in other receivables. The amount will be transferred to the film rights investments once the investment agreement is finalised.

Amounts due from a shareholder and a related party

As at 31 December 2018, amounts due from a shareholder and a related party are classified as financial asset at amortised cost. The measurement of loss allowance was therefore based on 12 months expected credit losses. Applying the ECL model result in the recognition of ECL of HK$5,267,000 on 1 January 2018 and a reversal of ECL of HK$1,837,000 for the year ended 31 December 2018.

(b) Liquidity risk

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

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

40. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

The Group	Weighted average effective interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
2018					
Non-derivatives:					
Trade and other payables	**–**	**236,520**	**236,520**	**–**	**236,520**
Amounts due to directors	**–**	**2,208**	**2,208**	**–**	**2,208**
Amounts due to fellow subsidiaries	**–**	**19,350**	**19,350**	**–**	**19,350**
Loan notes	**22.42**	**517,500**	**517,500**	**–**	**450,000**
Convertible loan notes	**19.29**	**126,500**	**126,500**	**–**	**110,000**
Debentures	**11.71**	**4,991**	**245**	**4,746**	**2,798**
		907,069	**902,323**	**4,746**	**820,876**
2017					
Non-derivatives:					
Trade and other payables	–	122,701	122,701	–	122,701
Amounts due to directors	–	943	943	–	943
Amounts due to fellow subsidiaries	–	13,320	13,320	–	13,320
Loan notes	10.14	478,364	478,364	–	448,725
Convertible loan notes	7.62	116,052	116,052	–	108,813
Debentures	–	–	–	–	–
		731,380	731,380	–	694,502

40. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk

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

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

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

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 50 (2017: 50) basis points in interest rates, with all other variables held constant, would decrease the Group's loss for the year and accumulated losses by approximately HK$9,000 (2017: decrease the Group's loss for the year and retained profits by approximately HK$31,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 50 (2017: 50) basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The analysis is performed on the same basis for 2018.

(d) Currency risk

The Group mainly operated in Hong Kong and PRC with most of the transactions settled in Hong Kong dollars or Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

40. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Equity price risk

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

Sensitivity analysis

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

	2018 **HK$'000**	2017 HK$'000
10% higher in Company's share price – Decrease in post-tax loss (2017: Decrease in post-tax loss)	**–**	9,819
10% lower in Company's share price – Increase in post-tax loss (2017: Increase in post-tax loss)	**–**	7,377

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

41. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the loan notes (Note 26), convertible loan notes (Note 27) and debentures (Note 28), cash and cash equivalents (Note 24) and equity attributable to owners of the Company, comprising share capital as disclosed in Notes 30 and reserves. The Group's risk management reviews the capital structure on an on-going basis. As part of this review, the directors considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group may balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts and the redemption of existing debts.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt is calculated as loan notes, convertible loan notes, embedded derivatives and debentures.

	2018 **HK$'000**	2017 HK$'000
Total debt	**562,798**	592,777
Equity attributable to the owners of the Company	**263,306**	787,570
Total debt and equity	**826,104**	1,380,347
Gearing ratio	**213.7%**	75.3%

Financial Summary

	Year ended 31 December 2014 HK$'000 (Restated)	Year ended 31 December 2015 HK$'000	Year ended 31 December 2016 HK$'000	Year ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**
STATEMENT OF PROFIT OR LOSS					
Revenue	37,442	191,390	548,429	134,948	**65,274**
(Loss)/profit before income tax expense	(517,539)	49,519	74,361	(119,477)	**(496,465)**
Income tax expense	(1,873)	(36,978)	(47,920)	(14,437)	**(870)**
(Loss)/profit for the year from discontinued operation	(43,843)	6,061	–	–	**–**
(Loss)/profit for the year	(563,255)	18,602	26,441	(133,914)	**(497,335)**
(Loss)/profit for the year attributable to:					
Owners of the Company	(560,689)	19,476	22,961	(133,063)	**(497,333)**
Non-controlling interests	(2,566)	(874)	3,480	(851)	**(2)**

	As at 31 December 2014 HK$'000	As at 31 December 2015 HK$'000	As at 31 December 2016 HK$'000	As at 31 December 2017 HK$'000	**As at 31 December 2018 HK$'000**
STATEMENT OF FINANCIAL POSITION					
Total assets	552,903	727,656	1,560,416	1,666,993	**1,253,988**
Total liabilities	(264,753)	(233,868)	(995,844)	(881,089)	**(992,351)**
Net assets	288,150	493,788	564,572	785,904	**261,637**
Equity attributable to owners of the Company	288,318	499,870	565,388	787,571	**263,306**
Non-controlling interests	(168)	(6,082)	(816)	(1,667)	**(1,669)**
Total equity	288,150	493,788	564,572	785,904	**261,637**