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星美控股

SMI HOLDINGS GROUP LIMITED
星美控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the "Directors" or "Board") of SMI Holdings Group Limited (the "Company" or "SMI") presents the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 (the "Reporting Period"), together with the corresponding figures for the year ended 31 December 2016, as follows:

RESULTS HIGHLIGHTS

1. Revenue increased by 13.1% to approximately HK$3,789 million (2016: approximately HK$3,351 million).

2. Loss for the year approximately HK$267 million (2016: profit for the year approximately HK$407 million).

3. Basic loss per share amounted HK5.65 cents.

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

Adjusted profit for the year was HK$149 million after excluding impairment loss of goodwill and assets.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
Revenue	*3*	**3,788,764**	3,351,186
Cost of theatre operation and sales		**(2,810,646)**	(2,144,264)
Gross profit		**978,118**	1,206,922
Other gains and income		**184,014**	163,581
Selling and marketing expenses		**(55,115)**	(64,747)
Administrative expenses		**(332,026)**	(278,829)
Other losses and expenses	*5*	**(429,561)**	(122,160)
Finance costs		**(599,250)**	(422,916)
Share of results of associates		**545**	11,246
(Loss) profit before taxation		**(253,275)**	493,097
Income tax expense	*6*	**(13,245)**	(85,993)
(Loss) profit for the year	*7*	**(266,520)**	407,104
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**288,683**	(254,137)
Share of other comprehensive income of associates		**–**	66
Reserve released upon disposal of subsidiaries		**–**	2,055
Other comprehensive income (expense) for the year		**288,683**	(252,016)
Total comprehensive income for the year		**22,163**	155,088
(Loss) profit for the year attributable to:			
Owners of the Company		**(153,734)**	403,724
Non-controlling interests		**(112,786)**	3,380
		(266,520)	407,104
Total comprehensive income (expense) attributable to:			
Owners of the Company		**98,194**	152,105
Non-controlling interests		**(76,031)**	2,983
		22,163	155,088
			(restated)
(Loss) earnings per share (HK cents)			
– Basic	*8*	**(5.65)**	14.91
– Diluted		**(5.65)**	14.86

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**2017** **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,104,792**	3,638,211
Goodwill		**7,094,692**	5,536,125
Intangible assets		**94,309**	123,303
Prepaid lease payments		**37,597**	39,855
Interests in associates		**17,835**	64,724
Rental deposits		**65,347**	59,845
Other financial assets		**202,755**	177,724
Available-for-sale investments		**66,347**	65,396
Financial assets designated as at fair value through profits or loss		**147,941**	–
Progress payments for construction of property, plant and equipment and other deposits		**168,603**	127,771
Deposits paid for acquisitions of entities		**292,928**	154,289
		12,293,146	9,987,243
CURRENT ASSETS			
Prepaid lease payments		**4,234**	2,999
Inventories		**297,727**	360,055
Film rights investment		**810,617**	397,643
Trade and other receivables	*10*	**1,148,312**	973,758
Amounts due from related parties		**76,624**	–
Held-for-trading investments		**61,961**	304,217
Other loan		**126,000**	150,000
Pledged bank deposits		**149,262**	121,642
Bank balances and cash		**97,165**	625,081
		2,771,902	2,935,395

	NOTES	2017 HK$'000	2016 HK$'000
CURRENT LIABILITIES			
Trade and other payables	*11*	**1,467,758**	1,047,294
Amounts due to related parties		**22,163**	20,967
Finance lease payables		**90,059**	88,662
Bank borrowings		**45,411**	38,906
Other borrowings		**1,336,112**	824,900
Convertible notes		**907,813**	1,007,572
Derivative financial instruments		**14,584**	55,686
Bonds		**1,528,170**	1,225,711
Taxation payable		**409,984**	357,853
		5,822,054	4,667,551
NET CURRENT LIABILITIES		**(3,050,152)**	(1,732,156)
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,242,994**	8,255,087
NON-CURRENT LIABILITIES			
Finance lease payables		**55,142**	96,279
Bank borrowings		**29,081**	–
Other borrowings		**631,662**	1,986,044
Convertible notes		**10,000**	–
Bonds		**330,989**	639,886
Deferred tax liabilities		**12,082**	14,025
		1,068,956	2,736,234
NET ASSETS		**8,174,038**	5,518,853
CAPITAL AND RESERVES			
Share capital		**1,360,021**	1,361,121
Reserves		**5,771,790**	3,910,003
Equity attributable to owners of the Company		**7,131,811**	5,271,124
Non-controlling interests		**1,042,227**	247,729
Total equity		**8,174,038**	5,518,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

SMI Holdings Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. In the opinion of the directors of the Company (the "Director"), the immediate and ultimate controlling party of the Company is Mr. Qin Hui ("Mr. Qin"). The address of its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is at Suite 6701-2 & 13, The Center, 99 Queen's Road Central, Hong Kong. The Company is an investment holding company. The principal activities of its principal subsidiaries are operation of cinema and provision of cross-media services in the People's Republic of China (the "PRC").

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

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

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

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

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

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

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

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

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

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

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

Amendments to IFRS that are mandatory effective for the current year

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

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

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

Except for the above, the IASB has issued a number of new and revised standards, interpretations and amendments to standards which are not effective for the year and have not been early adopted by the Group.

3. REVENUE

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

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

4. SEGMENT INFORMATION (Continued)

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

For the year ended 31 December 2017

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

For the year ended 31 December 2016

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

4. SEGMENT INFORMATION (Continued)

Notes:

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

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

Segment assets and liabilities

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

Segment assets

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

Segment liabilities

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

4. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

The Group's subsidiaries which incorporated in Hong Kong and the PRC operate in Hong Kong and the PRC with revenue and profit derived from their operations in these geographical location.

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

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

5. OTHER LOSSES AND EXPENSES

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

6. INCOME TAX EXPENSE

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

As stipulated in Cai Shui [2011] No. 112 and Xin Cai Fa Shui [2012] No. 1, enterprises newly established in Xin Jiang Ka Shi/Huoerguosi special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from their first profit-making year. These subsidiaries engaged in the encouraged industries as defined under the《新疆困難地區重點鼓勵發展產業企業所得税優惠目錄》. These subsidiaries entitled to such EIT exemption derived more than 25% (2016: 70%) of the Group's revenue during the years ended 31 December 2017 and 2016. According to《企業所得税優惠事項備案表》, the Group obtained the approval from the PRC tax bureau on 14 July 2015 for entitlement of EIT exemption from 1 June 2015 to 31 December 2019.

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

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

7. (LOSS) PROFIT FOR THE YEAR

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

	2017	2016
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments (included in cost of sales)	**3,122**	3,074
Amortisation of intangible assets (included in cost of sales)	**22,562**	13,033
Auditor's remuneration	**12,500**	10,475
Film exhibition and related costs (included in cost of sales)	**825,646**	712,914
Cost of inventories sold (included in cost of sales)	**623,887**	296,528
Cost of film rights investment expensed (included in cost of sales)	**37,049**	–
Allowance for inventories (included in cost of sales)	**9,819**	723
Directors' emoluments	**14,215**	3,089
Depreciation of property, plant and equipment	**671,193**	419,456
Promotion and advertising expenses	**37,950**	42,963
Operating lease payments of premises		
– minimum lease payments	**400,056**	300,724
– contingent rent	**31,240**	34,215
	431,296	334,939
Other staff costs excluding directors' emoluments		
– salaries, bonus and allowances	**273,596**	315,376
– equity-settled share-based payments	**7,684**	–
– retirement benefit scheme contributions	**55,661**	60,143
	336,941	375,519

8. (LOSS) EARNINGS PER SHARE

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

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

Number of shares

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

The weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share for both current and prior year has been adjusted for the shares consolidation.

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

9. DIVIDENDS

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

10. TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

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

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

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

10. TRADE AND OTHER RECEIVABLES (Continued)

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

	2017	2016
	HK$'000	*HK$'000*
Balance at the beginning of the year	**–**	–
Allowance for doubtful debts	**370**	37
Write-off as uncollectable	**(370)**	(37)
Balance at the end of the year	**–**	–

11. TRADE AND OTHER PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

BUSINESS REVIEW

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

Movie Theatre Business

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

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

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

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

SMI Living

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

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

PROSPECTS

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

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

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

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

FINANCIAL REVIEW

Turnover, Revenue and Profit for the year

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

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

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

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

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

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

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

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

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

Selling, Marketing and Administrative Expenses

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

Financial Costs

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

Financial Resources and Liquidity

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

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

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

Capital expenditures

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

Contingent liabilities

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

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

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Pledge of Assets

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

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

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

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

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

Employees

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

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

DIVIDEND

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

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's audited consolidated financial statements for the year ended 31 December 2017. The report includes a Material Uncertainty Related to Going Concern section, without modifying the audit opinion.

Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the consolidated financial statements, which indicates that as of 31 December 2017, the Group's current liabilities exceeds its current assets by HK$3,050,152,000. The directors of the Company are considering and negotiating a number of financing measures as set forth in note 1 to improve the Group's liquidity and financial position and consider that the Group will have sufficient working capital to finance its operations and to fulfil its financial obligations as and when they fall due in the foreseeable future upon successfully implementing these measures. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement."

CORPORATE GOVERNANCE CODE

OVERVIEW OF CORPORATE GOVERNANCE

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

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

THE CORPORATE GOVERNANCE CODE

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

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

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

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

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

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

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

Issuance of Convertible Bonds

On 15 December 2017, the Company entered into the subscription agreement with Cheer Hope Holdings Limited ("Cheer Hope"), pursuant to which Cheer Hope conditionally agreed to subscribe in cash for the 4% unsecured redeemable convertible bonds due 2018 ("CCB Convertible Bonds (2017)") in an aggregate principal amount of HK$300,000,000 due 2018.

The Company intends to use the net proceeds from the CCB Convertible Bonds (2017) for the repayment of the amount due under the 4% unsecured redeemable convertible bonds of HK$300,000,000 due 2017 and issued to Cheer Hope on 5 November 2015. For details, please refer to the announcement of the Company dated 19 December 2017.

Extension of Maturity Dates of Convertible Bonds

References are made to (i) the announcements of the Company dated 3 November 2015 and 12 November 2015 in relation to the subscription of convertible bonds in an aggregate principal amount of HK$275,000,000 due 2017 ("the Huarong Convertible Bonds"); (ii) the announcements of Company dated 16 November 2015 and 23 November 2015 in relation to the subscription of the convertible bonds in an aggregate principal amount of HK$224,000,000 due 2017 ("the Haitong Convertible Bonds") and (iii) the announcement of the Company dated 4 September 2012 in relation to the subscription of the convertible notes in an aggregate principal amount of HK$10,250,000 due 2017 ("the Convertible Notes") (each of the Huarong Convertible Bonds, the Haitong Convertible Bonds and the Convertible Notes are collectively referred to as the "Convertible Bonds").

During the Reporting Period, the Company entered into arrangements to extend the respective maturity dates of the Huarong Convertible Bonds, Haitong Convertible Bonds and Convertible Notes from (i) 11 November 2017 to 11 November 2018, (ii) 22 November 2017 to 22 November 2018 and (iii) 10 September 2017 to 10 September 2019, respectively. Save for the extension of the abovementioned maturity dates, all other terms and conditions of the Convertible Bonds remain unchanged. For details, please refer to the announcement of the Company dated 19 December 2017.

Material Events after the Reporting Period

Save as disclosed in this announcement, there are no material events affecting the Group after the end of the reporting period.

AUDIT COMMITTEE

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

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

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

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.smi198.com.

The 2017 annual report of the Company containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

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

By order of the Board
SMI Holdings Group Limited
WAI Yee Tai
Executive Director and Chairman

Hong Kong, 29 March 2018

As at the date of this announcement, the executive Directors are Mr. WAI Yee Tai (Chairman), Mr. YANG Rongbing (Chief Executive Officer), Mr. CHENG Chi Chung, Mr. PAN Jen Kai and Mr. KONG Dalu; the non-executive Director is Mr. HUNG Ka Hai Clement; and the independent non-executive Directors are Mr. PANG Hong, Mr. LI Fusheng and Mr. WONG Shui Yeung.