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)

2017 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue decreased by 75% to approximately HK$134.9 million (2016: approximately HK$548.4 million)
- Gross profit decreased by 73% to approximately HK$55.9 million (2016: approximately HK$208.1 million)
- Loss for the year is approximately HK$133.9 million (2016: Profit for the year was approximately HK$26.4 million)
- Basic loss per share in 2017 is 14.29 HK cents and basic earnings per share in 2016 was 2.81 HK cents

The board (the "**Board**") of directors (the "**Directors**") of SMI Culture & Travel Group Holdings Limited (the "**Company**") announces the consolidated financial results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

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	**134,948**	548,429
Cost of sales		**(79,085)**	(340,313)
Gross profit		**55,863**	208,116
Other revenue		**79**	36,174
Other expenses		**(8,150)**	(11,312)
Impairment losses recognised in respect of:			
– goodwill	10	**(11,885)**	–
– intangible assets	11	**(9,318)**	(13,713)
– other receivables	14	**(52,472)**	–
– film rights investments	13	**(6,490)**	–
Fair value change of the embedded derivatives		**28,989**	(61,696)
Provision for inventories	12	**(9,819)**	(4,155)
Selling expenses		**(41)**	–
Administrative expenses		**(34,583)**	(31,122)
Finance costs	4	**(71,650)**	(47,931)
(Loss)/profit before income tax expense		**(119,477)**	74,361
Income tax expense	5	**(14,437)**	(47,920)
(Loss)/profit for the year	6	**(133,914)**	26,441
(Loss)/profit for the year attributable to:			
Owners of the Company		**(133,063)**	22,961
Non-controlling interests		**(851)**	3,480
		(133,914)	26,441
		HK cents	*HK cents*
(Loss)/earnings per share			
– Basic (Hong Kong cents)		**(14.29)**	2.81
– Diluted (Hong Kong cents)		**N/A**	N/A

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**2,387**	390
Goodwill	*9*	**95,721**	–
Intangible assets	*11*	**115,223**	82,372
		213,331	82,762
Current assets			
Inventories	*12*	**185,926**	226,849
Film rights investments	*13*	**810,617**	397,643
Trade and other receivables	*14*	**323,327**	432,168
Amount due from a shareholder		**91,918**	2,376
Amounts due from a related party		**35,746**	9,824
Cash and cash equivalents		**6,128**	408,794
		1,453,662	1,477,654
Current liabilities			
Trade and other payables	*15*	**124,080**	67,977
Amounts due to directors		**943**	360
Amounts due to fellow subsidiaries		**13,320**	–
Tax provisions		**156,952**	141,142
Loan notes		**448,725**	445,531
Convertible loan notes		**108,813**	159,573
Embedded derivatives		**14,585**	55,685
Other borrowing		**–**	125,576
		867,418	995,844
Net current assets		**586,244**	481,810
Total assets less current liabilities		**799,575**	564,572
Non current liabilities			
Deferred tax liabitities		**13,671**	–
Net assets		**785,904**	564,572
Capital and reserves			
Share capital		**13,160**	8,620
Other reserves		**774,411**	556,768
Equity attributable to owners of the Company		**787,571**	565,388
Non-controlling interests		**(1,667)**	(816)
Total equity		**785,904**	564,572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance ("**Co**").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

2. CHANGES IN ACCOUNTING POLICIES

The Group has applied for the first time in current year the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual improvements to HKFRSs 2014 – 2016 cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

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

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

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

3. REVENUE AND SEGMENT INFORMATION

The Group's operating segments, determined based on the information reported to the chief operating decision maker ("**CODM**"), being the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Segment information reported externally was analysed on the basis of the following operating division, which are stated as follows:

- 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

(a) Segment revenue and results

An analysis of the Group's revenue and results by operating and reportable segment is as follows:

For the year ended 31 December 2017

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

For the year ended 31 December 2016

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

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

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

(b) Information about major customers

The aggregate revenue attributed to the Group's five largest customers accounted for approximately 79% (2016: approximately 93%) of the Group's total revenue and the largest customer accounted for approximately 34% (2016: approximately 43%) of the Group's total revenue for the financial year ended 31 December 2017.

4. FINANCE COSTS

	2017 *HK$'000*	2016 *HK$'000*
Interest on:		
Loan notes	**43,081**	23,360
Convertible loan notes	**12,745**	3,042
Other borrowing	**10,961**	21,529
Handling charge for loan note extension	**4,863**	–
	71,650	47,931

5. TAXATION

	2017	2016
	HK$'000	*HK$'000*
The tax charge comprises:		
Current tax:		
The PRC Enterprise Income Tax ("EIT")	**14,437**	53,274
Over-provision in prior year PRC EIT	**–**	(5,354)
Total income tax expense recognised in profit or loss	**14,437**	47,920

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Public of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

6. LOSS/PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Loss/profit for the year from continuing operations has been arrived at after charging:		
Directors' emoluments	**3,848**	4,502
Other staff costs	**6,016**	6,697
Retirement benefits scheme contribution (excluding directors)	**307**	217
Auditors' remuneration	**4,422**	3,700
Depreciation for property, plant and equipment	**1,705**	257
Amortisation of intangible assets (included in cost of sales)	**12,514**	14,293
Cost of editing rights expensed (included in cost of sales)	**53,940**	21,233
Minimum lease payments	**5,262**	2,667
Exchange loss (included in other expense)	**6,869**	11,312
and after crediting:		
Interest income (included in other income)	**79**	1,641
Gain on disposal of subsidiaries (included in other income)	**–**	32,858
Promotion service income (included in other income)	**–**	1,509

7. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

8. (LOSS)/EARNINGS PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
(Loss)/Profit for the purposes of basic and diluted loss/earnings per share	**(133,063)**	22,961
	Number of share	Number of share
	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	**931,112**	815,866

9. GOODWILL

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

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

10. IMPAIRMENT TESTING ON GOODWILL

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

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

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

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

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

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

11. INTANGIBLE ASSETS

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

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

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

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

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

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

12. INVENTORIES

Inventories represent the cost of scripts, synopsis, 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.

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

13. FILM RIGHTS INVESTMENTS

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

14. TRADE AND OTHER RECEIVABLES

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

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

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

No interest is charged on the overdue trade receivables.

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

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

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

15. TRADE AND OTHER PAYABLES

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

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

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

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

16. DISPOSAL OF SUBSIDIARIES

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

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

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

17. BUSINESS ACQUISITION DURING THE YEAR

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

The provisional fair value of identifiable assets and liabilities of the cquire 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.

18. EVENTS AFTER THE REPORTING DATE

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

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

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

Review of Operations

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

Liquidity and Financial Resources

In terms of overall liquidity and financial resources, as at 31 December 2017, the Group's cash level stood at HK$6.1 million (2016: HK$408.8 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 75.3% as at 31 December 2017 (2016: approximately 139.3%).

Mortgages and Charges

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

Exposure to Foreign Exchange Risk

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

Acquisition of Subsidiaries/Goodwill

On 31 October 2017, the Group completed the acquisition of the entire issued share capital of SMI Entertainment Limited at a total consideration of RMB150 million. This acquisition has been accounted for using the acquisition method. SMI Entertainment Limited is incorporated in the British Virgin Islands with limited liability and is engaged in investment holding. SMI Performing Arts Co. Limited and TicketChina Limited (both companies were incorporated in Hong Kong with limited liability) are wholly-owned by SMI Entertainment Limited. The acquisition was for the purpose of expanding the Group's core business to online ticketing services. The online network of Ipiao can be integrated with the businesses of the Group and will bring along synergy effect to the Group's business integration and membership promotion. Details of the goodwill and acquisition are set out in notes 9 and 17 respectively to the consolidated financial statements.

Employees and Remuneration Policies

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

Final Dividend

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

Prospects

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

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

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

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

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 financial year.

CORPORATE GOVERNANCE

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

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

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

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

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

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

COMPLIANCE WITH MODEL CODE

The Company, having made specific enquiry, confirms that all Directors complied throughout the year from 1 January 2017 to 31 December 2017 with the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules. The relevant employees who, because of their office in the Company, are likely to be in possession of inside information, have been requested to comply with the provisions of the Model Code.

AUDIT COMMITTEE

The Audit Committee has reviewed with senior management and external auditor the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31 December 2017.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the report issued by BDO Limited, the independent auditor of the Group on the consolidated financial statement of the Group for the year ended 31 December 2017:

OPINION

We have audited the consolidated financial statements of SMI Culture & Travel Group Holdings Limited ("**the Company**") and its subsidiaries (together "**the Group**") comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention in the consolidated financial statements, which indicates that the Group has incurred a loss of approximately HK$133,914,000 for the year ended 31 December 2017 and at the end of reporting period, included in the current assets, the amount of HK$996,543,000 was the balance of inventories and film rights investments which are not readily convertible to cash. However, under the current liabilities, the amount of HK$572,123,000 was the balance of loan notes, convertible loan notes and embedded derivatives which will be matured in August 2018 and October 2018. As stated in notes to consolidated financial statement, these events and conditions, along with other matters as set forth in notes to consolidated financial statement 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.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

The results announcement, containing the relevant information required by the Listing Rules, is published on the Company's website at www.smiculture2366.com and the designated website of the Stock Exchange at www.hkexnews.hk. The Company's annual report for the financial year ended 31 December 2017 will be published on the above websites and despatched to the shareholders of the Company in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers, business partners and staff for their continued support to the Group.

By order of the Board
SMI Culture & Travel Group Holdings Limited
Yao Qinyi
Executive Director

Hong Kong, 29 March, 2018

As at the date of this announcement, the executive Directors are Mr. WU Chien-Chiang (Chairman), Mr. LI Kai and Ms. YAO Qinyi; and the independent non-executive Directors are Mr. RAO Yong, Mr. LIU Xianbo and Mr. ZHAO Xuebo.