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星美文旅

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

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 2366)

2018 FINAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue decreased by 52% to approximately HK$65.3 million (2017: approximately HK$134.9 million)
- Gross profit decreased by 181% to approximately HK$-45.4 million (2017: approximately HK$55.9 million)
- Loss for the year is approximately HK$497.3 million (2017: Loss for the year was approximately HK$133.9 million)
- Basic loss per share in 2018 is 37.79 HK cents and basic loss per share in 2017 was 14.29 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 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*3*	**65,274**	134,948
Cost of sales		**(110,691)**	(79,085)
Gross (loss)/profit		**(45,417)**	55,863
Other revenue		**10**	79
Other expenses		**(9,619)**	(8,150)
Provision for impairment losses (recognized)/ reversed in respect of:			
– goodwill	*10*	**(95,721)**	(11,885)
– intangible assets	*11*	**(13,268)**	(9,318)
– other receivables	*14*	**4,479**	(52,472)
– film rights investments	*13*	**(159,021)**	(6,490)
– trade receivables	*14*	**(42,668)**	–
– amount due from a shareholder		**1,493**	–
– amount due from a related party		**344**	–
Fair value change of the embedded derivatives		**14,585**	28,989
Provision for inventories	*12*	**–**	(9,819)
Selling expenses		**(5,638)**	(41)
Administrative expenses		**(23,660)**	(34,583)
Finance costs	*4*	**(122,364)**	(71,650)
Loss before income tax expense		**(496,465)**	(119,477)
Income tax expense	*5*	**(870)**	(14,437)
Loss for the year	*6*	**(497,335)**	(133,914)

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Loss for the year attributable to:			
Owners of the Company		**(497,333)**	(133,063)
Non-controlling interests		**(2)**	(851)
		(497,335)	(133,914)
		HK cents	*HK cents*
Loss per share	*8*		
– Basic *(Hong Kong cents)*		**(37.79)**	(14.29)
– Diluted *(Hong Kong cents)*		**N/A**	N/A
Loss for the year		**(497,335)**	(133,914)
Other comprehensive (expense)/income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(5,917)**	29,840
Other comprehensive (expense)/income for the year		**(5,917)**	29,840
Total comprehensive expense for the year		**(503,252)**	(104,074)
Total comprehensive expense attributable to:			
Owners of the Company		**(503,250)**	(103,223)
Non-controlling interests		**(2)**	(851)
		(503,252)	(104,074)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**837**	2,387
Goodwill	*9*	**–**	95,721
Intangible assets	*11*	**88,113**	115,223
		88,950	213,331
Current assets			
Inventories	*12*	**185,909**	185,926
Film rights investments	*13*	**561,540**	810,617
Trade and other receivables	*14*	**331,747**	323,327
Amount due from a shareholder		**56,289**	91,918
Amounts due from a related party		**27,836**	35,746
Cash and cash equivalents		**1,717**	6,128
		1,165,038	1,453,662
Current liabilities			
Trade and other payables	*15*	**236,520**	124,080
Amounts due to directors		**2,208**	943
Amounts due to fellow subsidiaries		**19,350**	13,320
Tax provisions		**162,175**	156,952
Loan notes		**450,000**	448,725
Convertible loan notes		**110,000**	108,813
Embedded derivatives		**–**	14,585
		980,253	867,418

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Net current assets		**184,785**	586,244
Total assets less current liabilities		**273,735**	799,575
Non-current liabilities			
Debenture		**2,798**	–
Deferred tax liabilities		**9,300**	13,671
		12,098	13,671
Net assets		**261,637**	785,904
Capital and reserves			
Share capital		**13,160**	13,160
Other reserves		**250,146**	774,411
Equity attributable to owners of the Company		**263,306**	787,571
Non-controlling interests		**(1,669)**	(1,667)
Total equity		**261,637**	785,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement and going concern assumption

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

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

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

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

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

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

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

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

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

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

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

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

(c) Functional and presentation currency

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

2. CHANGES IN ACCOUNTING POLICIES

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

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

HKFRS 9 – Financial Instruments

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

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

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

(i) Classification and measurement of financial instruments

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

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

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

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

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

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

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

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

(ii) Impairment of financial assets

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

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

Measurement of ECLs

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

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

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

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

Presentation of ECLs

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

Impact of the ECL model

(a) Impairment of trade receivables

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

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

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

(b) Impairment of other financial assets

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

(iii) Hedge accounting

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

(iv) Transition

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

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

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

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

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

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

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

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

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

Note	**Product/service**	**Nature of the goods or services, satisfaction of performance obligations**	**Nature of change in accounting policy and impact on 1 January 2018**
(i)	Sale of scripts, synopsis and editing/publishing rights	Customers obtain control of the scripts, synopsis and editing/publishing rights when those items are delivered and the titles of those items have passed and have been accepted. Revenue is thus recognised upon when the customers accepted those items. There is generally only one performance obligation. Invoice are usually payable within 270 days.	**Impact** HKFRS 15 did not result in significant impact on the Group's accounting policies.
(ii)	Purchased license rights related to the broadcasting rights of TV series, documentaries and similar products	Revenue from the licensing of broadcasting rights is recognised when the following criteria are met: (i) an agreement has been signed with a customer, (ii) master tapes have been delivered and (iii) it is probable that future economic benefits will flow to the Group. There is generally only one performance obligation. Invoice are usually payable within 270 days.	
(iii)	Agency fee income of selling ticket through ticketing platform	Revenue is recognised when the arrangement of provision of tickets completed. There is generally only one performance obligation.	
(iv)	IT technical service fee	Revenue is recognised when services are rendered. There is generally only one performance obligation.	

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

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

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

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

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

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

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

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

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

HKFRS 16 – Leases

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

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

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

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

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

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

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

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

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

(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 2018

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

For the year ended 31 December 2017

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

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

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

(b) Information about major customers

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

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

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

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

4. FINANCE COSTS

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

5. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

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

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

6. LOSS FOR THE YEAR

Loss for the year from continuing operations has been arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Cost of editing rights expensed recognised as cost of sales	**–**	66,455
Auditor's remuneration	**3,008**	4,422
Exchange losses, net (included in other expenses)	**9,845**	6,869
Director's emoluments	**2,522**	3,848
Other staff costs	**6,123**	6,016
Retirement benefits scheme contribution (excluding directors)	**225**	307
Depreciation for property, plant and equipment	**1,569**	1,705
Amortisation of intangible assets (included in cost of sales)	**13,842**	12,514
Minimum lease payment	**2,794**	5,262
And after crediting:		
Interest income (included in other income)	**10**	79

7. DIVIDENDS

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

8. LOSS PER SHARE

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

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

9. GOODWILL

	Ticketing platform *HK$'000*	IT technical service *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2017	–	–	–
Acquired through business combinations	41,862	65,744	107,606
At 31 December 2017 and 31 December 2018	41,862	65,744	107,606
Accumulated impairment losses			
At 1 January 2017	–	–	–
Provision for impairment losses recognised in the year *(note 10)*	–	11,885	11,885
At 31 December 2017	–	11,885	11,885
Provision for impairment losses recognised in the year *(note 10)*	41,862	53,859	95,721
At 31 December 2018	41,862	65,744	107,606
Net carrying amount			
At 31 December 2018	–	–	–
At 31 December 2017	41,862	53,859	95,721

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

10. IMPAIRMENT TESTING ON GOODWILL

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

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

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

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

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

11. INTANGIBLE ASSETS

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

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

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

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

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

12. INVENTORIES

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

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

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

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

14. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

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

15. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**8,325**	7,770
Accruals	**117,453**	11,610
Other payables	**110,742**	104,700
	236,520	124,080

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

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

	2018	2017
	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	**687**	5,593
More than 12 months but less than 24 months past due	**7,638**	2,151
	8,325	7,770

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Television program related business

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

Film investment

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

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

Ticketing system and IT technical service

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

Review of Operations

During the financial year ended 31 December 2018, the Group recorded a turnover of approximately HK$65.3 million (2017: approximately HK$134.9 million). Loss for the financial year was approximately HK$497.3 million (2017: loss of approximately HK$133.9 million), administrative expenses was approximately HK$23.7 million (2017: approximately HK$34.6 million), impairment loss for intangible assets was approximately HK$13.3 million (2017: approximately HK$9.3 million), provision for inventories was approximately HK$nil (2017: approximately HK$9.8 million), finance costs was approximately HK$122.4 million (2017: approximately HK$71.7 million), fair value gain of the embedded derivatives was approximately HK$14.6 million (2017: gain of approximately HK$29.0 million) and income tax expense was approximately HK$0.9 million (2017: approximately HK$14.4 million).

Liquidity and Financial Resources

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

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

Mortgages and Charges

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

Exposure to Foreign Exchange Risk

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

Final Dividend

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

Prospects

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

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

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

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 2018, the Company was in compliance with the code provisions set out in the CG Code except the following deviations:

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

Code provision E.1.2 of the CG Code requires the chairman of the board to invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. Due to other business commitments, the 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 2018 to 31 December 2018 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 2018.

AUDITOR'S DISCLAIMER OF OPINION

As disclosed in sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in extract of independent auditor's report contained on pages 37 to 39 of this announcement, the auditor of the Company (the "Auditor") did not express an audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 as a result of certain matters of uncertainties relating to going concern.

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 2018:

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of SMI Culture & Travel Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 8 to 110, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Disclaimer of Opinion

Uncertainties relating to going concern

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

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

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

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

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

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

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

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

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 2018 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, 2019

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