星美控股

SMI HOLDINGS GROUP LIMITED

星美控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 198)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the "Directors" or "Board") of SMI Holdings Group Limited (the "Company" or "SMI") presents the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Reporting Period"), together with the corresponding figures for the year ended 31 December 2017, as follows:

RESULTS HIGHLIGHTS

1. Revenue decreased by 55.87% to approximately HK$1,671,895,000 (2017: approximately HK$3,788,764,000).
2. Loss for the year approximately HK$5,082,189,000 (2017: loss for the year approximately HK$266,520,000).
3. Basic loss per share amounted HK160.61 cents.
4. The Board does not recommend the payment of a final dividend 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*	**1,671,895**	3,788,764
Cost of theatre operation and sales		**(1,945,378)**	(2,810,646)
Gross (loss)/profit		**(273,483)**	978,118
Other revenue		**78,236**	82,900
Selling and marketing expenses		**(20,203)**	(55,115)
Administrative expenses		**(375,010)**	(332,026)
Other gains and losses	*5*	**(3,576,790)**	(328,447)
Finance costs		**(910,189)**	(599,250)
Share of results of associates		**(685)**	545
Loss before taxation		**(5,078,124)**	(253,275)
Income tax expense	*6*	**(4,065)**	(13,245)
Loss for the year	*7*	**(5,082,189)**	(266,520)
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**(78,171)**	288,683
Other comprehensive (expense)/income for the year		**(78,171)**	288,683
Total comprehensive (expense)/income for the year		**(5,160,360)**	22,163
Loss for the year attributable to:			
Owners of the Company		**(4,368,695)**	(153,734)
Non-controlling interests		**(713,494)**	(112,786)
		(5,082,189)	(266,520)
Total comprehensive (expense)/income attributable to:			
Owners of the Company		**(4,434,929)**	98,194
Non-controlling interests		**(725,431)**	(76,031)
		(5,160,360)	22,163
Loss per share (HK cents)			
– Basic	*8*	**(160.61)**	(5.65)
– Diluted		**(160.61)**	(5.65)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment		**3,429,577**	4,104,792
Goodwill		**5,094,824**	7,094,692
Intangible assets		**22,622**	33,161
Purchased license rights		**50,913**	61,148
Prepaid lease payments – non-current portion		**32,752**	37,597
Interest in associates		**17,004**	17,835
Rental deposits		**55,065**	65,347
Other financial assets measured at amortised cost – non-current		**–**	202,755
Available-for-sale investments		**–**	66,347
Financial assets at fair value through profit or loss – non-current		**79,189**	147,941
Progress payments for construction of property, plant and equipment and other deposits		**1,156,930**	168,603
Deposits paid for acquisitions of entities		**972,881**	292,928
		10,911,757	12,293,146
Current assets			
Prepaid lease payments – current portion		**2,730**	4,234
Inventories		**289,950**	297,727
Film rights investment		**561,541**	810,617
Trade and other receivables	*10*	**3,613,315**	1,148,312
Amounts due from related parties		**64,774**	76,624
Financial instruments held for trading		**20,667**	61,961
Other loan receivable		**106,589**	126,000
Other financial assets measured at amortised cost – current		**105,125**	–
Financial assets at fair value through profit or loss – current		**87,000**	–
Pledged bank deposits		**134,358**	149,262
Bank balances and cash		**55,589**	97,165
		5,041,638	2,771,902

	Notes	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Current liabilities			
Trade and other payables	*11*	**4,826,550**	1,467,758
Amounts due to directors		**1,110**	–
Amount due to a shareholder		**984,840**	–
Amounts due to related parties		**1,747,552**	22,163
Finance lease payables		**33,387**	90,059
Bank borrowings – due within one year		**49,398**	45,411
Other borrowings – due within one year		**995,263**	1,336,112
Convertible notes		**909,000**	907,813
Derivative financial instruments		**49,000**	14,584
Bonds		**1,520,331**	1,528,170
Taxation payable		**382,301**	409,984
Bank overdraft		**12,976**	–
		11,511,708	5,822,054
Net current liabilities		**(6,470,070)**	(3,050,152)
Total assets less current liabilities		**4,441,687**	9,242,994
Non-current liabilities			
Finance lease payables		**21,089**	55,142
Bank borrowings – due after one year		**50,180**	29,081
Other borrowings – due after one year		**–**	631,662
Convertible notes		**628,905**	10,000
Bonds		**825,742**	330,989
Deferred tax liabilities		**9,462**	12,082
		1,535,378	1,068,956
Net assets		**2,906,309**	8,174,038
Capital and reserves			
Share capital		**1,360,021**	1,360,021
Reserves		**1,232,458**	5,771,790
Equity attributable to owners of the Company		**2,592,479**	7,131,811
Non-controlling interests		**313,830**	1,042,227
Total equity		**2,906,309**	8,174,038

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

SMI Holdings Group Limited ("the Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Room 1102, 11/F, The Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong, which is also Its principal place of business. The Company is an investment holding company.

In the opinion of the directors of the Company (the "Directors"), the immediate and ultimate controlling party of the Company is Mr. Qin Hui ("Mr. Qin").

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC – Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)

3. REVENUE

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

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of IFRS 15:		
Theatre operation	**1,446,296**	3,027,371
Retail business	**140,797**	624,027
Others	**84,802**	137,366
	1,671,895	3,788,764

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

4. SEGMENT INFORMATION

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

(a) Theatre operation – box office ticketing, advertising, events & field marketing services and other related services and sales of food & beverages and film products.
(b) Retail business – in-theatre counter sales and online shopping under 'SIM Living' Brand and related business.
(c) Others – sales of editing rights, licensing income from purchased license rights from television program related business, investments in production and distribution of film rights and trading of marketable securities.

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

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

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

For the year ended 31 December 2018

	Theatre operation *HK$'000*	**Retail business** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
REVENUE				
External and segment revenue	**1,446,296**	**140,797**	**84,802**	**1,671,895**
Segment result	**(3,631,507)**	**(91,377)**	**(790,118)**	**(4,513,002)**
Unallocated corporate income				**25,157**
Unallocated corporate expenses				**(590,279)**
Loss before income tax expense				**(5,078,124)**

4. **SEGMENT INFORMATION (Continued)**

For the year ended 31 December 2017

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

Notes:

(a) Revenue reported above represents revenue generated from external customers. There are no inter-segment sales for the years ended 31 December 2018 and 2017.

(b) Segment results of "Theatre operation" for the years ended 31 December 2018 and 2017 include share of results of associates in related theatre operation.

Segment assets and liabilities

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

Segment assets

	2018 ***HK$'000***	2017 *HK$'000*
Theatre operation	**12,341,762**	12,200,855
Retail business	**1,151,633**	696,243
Others	**1,737,932**	1,830,683
Total Segment assets	**15,231,327**	14,727,781
Unallocated corporate assets	**722,068**	337,267
Consolidated assets	**15,953,395**	15,065,048

4. **SEGMENT INFORMATION (Continued)**

Segment liabilities

	2018	2017
	HK$'000	*HK$'000*
Theatre operation	**5,448,878**	3,161,164
Retail business	**630,456**	184,161
Others	**1,965,843**	1,225,756
Total Segment liabilities	**8,045,177**	4,571,081
Amounts due to related parties – unallocated	**7,066**	4,847
Amounts due to a shareholder	**984,840**	–
Convertible notes – unallocated	**1,427,905**	809,000
Derivative financial instruments	**49,000**	
Bonds – unallocated	**1,893,275**	1,410,435
Other borrowings – unallocated	**216,516**	–
Corporate liabilities	**423,307**	95,647
Consolidated liabilities	**13,047,086**	6,891,010

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

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

5. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Net exchange losses	**(10,641)**	(5,287)
Fair value change on financial instruments held-for-trading	**(46,313)**	11,706
Fair value change on financial assets designated as at fair value through profit or loss	**(52,025)**	57,941
Fair value change on derivative financial instruments	**29,287**	28,989
Gain on disposal of interest in an associate	**–**	2,478
Loss on disposal of property, plant and equipment	**(73)**	(664)
Realised loss on disposal of held-for-trading investments	**(20,655)**	(7,704)
Allowance for doubtful debts	**(255,709)**	(370)
Provision for impairment loss recognised on intangible assets	**–**	(9,318)
Provision for impairment loss recognised on film rights investment	**(159,021)**	(6,490)
Provision for impairment loss recognised on prepayment and other receivables	**(183,608)**	(52,472)
Provision for impairment loss recognised on progress payments for construction of property, plant and equipment and other deposits	**(95,627)**	–
Provision for impairment loss recognised on deposits paid for acquisition of entities	**(59,835)**	–
Provision for impairment loss recognised on other loan receivables	**(38,082)**	–
Provision for impairment loss reversed on amount due from related parties	**3,885**	–
Provision for impairment loss recognised on property, plant and equipment	**(684,385)**	–
Provision for impairment loss recognised on goodwill	**(2,000,000)**	(347,179)
Written off of prepaid lease payment	**(3,348)**	–
Others	**(640)**	(77)
	(3,576,790)	(328,447)

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Tax charge (credit) comprises:		
Current tax:		
– PRC Enterprises Income Tax ("EIT")	**6,685**	15,909
Deferred tax:		
– Current year	**(2,620)**	(2,664)
	4,065	13,245

As stipulated in Cai Shui [2011] No. 112 and Xin Cai Fa Shui [2012] No. 1, enterprises newly established in Xin Jiang Ka Shi/Huoerguosi special economic areas during the period from 2011 to 2020 could enjoy EIT exemption for five years starting from their first profit-making year. These subsidiaries engaged in the encouraged industries as defined under the《新疆困難地區重點鼓勵發展產業企業所得税優惠目錄》 which are entitled to such EIT exemption derived more than 25% of the Group's revenue during the years ended 31 December 2018. According to《企業所得税優惠事項備案表》, the Group obtained the approval from the PRC tax bureau on 14 July 2015 for entitlement of EIT exemption from 1 June 2015 to 31 December 2019.

For the other PRC subsidiaries of the Company, the provision for EIT is based on a statutory rate of 25% (2017: 25%) of the estimated assessable profits of the group entities as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

7. LOSS FOR THE YEAR

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

	2018	2017
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments (included in cost of sale)	**2,801**	3,122
Amortisation of intangible assets (included in cost of sale)	**10,480**	10,656
Amortisation of purchased license right (included in cost of sale)	**10,235**	11,906
Auditors' remuneration	**12,760**	12,500
Film exhibition and related costs (included in cost of sale)	**471,391**	825,646
Cost of inventories sold (included in cost of sale)	**119,634**	623,887
Cost of film rights investment expensed (included in cost of sales)	**90,065**	37,049
Allowance for inventories (included in cost of sales)	**18,727**	9,819
Directors' emoluments	**17,492**	14,215
Depreciation of property, plant and equipment	**490,409**	671,193
Promotion and advertising expenses	**6,830**	37,950
Operating lease payments of premises		
– Minimum lease payment	**417,946**	400,056
– contingent rent	**20,342**	31,240
	438,288	431,296
Other staff costs excluding directors' emoluments		
– salaries, bonus and allowance	**290,513**	273,596
– equity-settled share-based payments	**32,652**	7,684
– retirement benefit scheme contributions	**62,093**	55,661
	385,258	336,941

8. LOSS PER SHARE

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

Earnings	**2018**	2017
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company for the purposes of basic loss and diluted loss per share	**(4,368,695)**	(153,734)

Number of shares	**2018**	2017
Weighted average number of ordinary shares for the purposes of basic loss and diluted loss per share	**2,720,041,916**	2,720,826,026
Effect of dilutive potential ordinary shares:		
Share options	**–**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**2,720,041,916**	2,720,826,026

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

For the years ended 31 December 2018 and 2017, the effects of potential ordinary shares arising from all share options and convertible notes are not included in calculating the diluted earnings per share as they had an anti-dilutive effect on the earnings per share for the year.

9. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Final dividend recognised as distribution during the year:		
– HK1.32 cents per ordinary share for the year ended 31 December 2016	**–**	179,668

The Board of Directors does not recommend the payment of a final dividend for the years ended 31 December 2017 and 2018.

10. TRADE AND OTHER RECEIVABLES

	At 31 December 2018	At 31 December 2017
	HK$'000	*HK$'000*
Trade receivables, net of allowance for doubtful debts	**316,964**	760,407
Rental and other deposits	**24,815**	11,964
Prepayments and other receivables, net of allowance for doubtful debts	**3,271,536**	375,941
	3,613,315	1,148,312

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

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

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

10. TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

	At 31 December 2018	At 31 December 2017
	HK$'000	*HK$'000*
0 to 30 days	**48,637**	299,793
31 to 90 days	**19,583**	253,538
91 to 180 days	**219,782**	73,723
181 to 365 days	**18,351**	125,234
Over 1 year	**10,611**	8,119
	316,964	760,407

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

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

The Group recognised impairment loss based on the accounting policy.

The Group's credit risk arising from trade receivables.

11. TRADE AND OTHER PAYABLES

	At **31 December** **2018** ***HK$'000***	At 31 December 2017 *HK$'000*
Trade payables	**673,278**	504,892
Contract liabilities *(Note a)*	**983,158**	–
Customers' deposits and receipts in advance *(Note b)*	**–**	74,352
Other tax payables	**269,553**	232,202
Margin payables due to financial institutions *(Note c)*	**317,881**	389,130
Accrued charges and sundry payables *(Note d)*	**2,582,680**	267,182
	4,826,550	1,467,758

Notes:

(a) Contract liabilities represent prepayments from advertising agents for advertising services, prepaid card deposits from cinema customers and prepayments from customers for good.

Movements in contract liabilities

	2018 *HK$'000*
Balance at 1 January	74,352
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(53,332)
Increase in contract liabilities as a result of advanced consideration received from customer	962,138
Balance at 31 December	983,158

(b) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of IFRS 15, amounts previously included as "Customers' deposits and receipts in advance" has been reclassified to "Contract liabilities".

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

SMI Holdings Group Limited (the "Company") and its subsidiaries (the "Group") is a movie company mainly engaged in the investment and construction and operation management of theatres, and its industry is the movie industry. The main businesses are investment in theatre construction, movie distribution, movie projection and related derivative businesses.

INDUSTRY REVIEW

According to the statistics of China Film Administration, China continues to be the world's second largest movie market. For the year ended 31 December 2018 (the "Year" or the "Reporting Period"), China's total movie box office receipts increased by 9% to RMB61 billion. It is the first time for China's annual total movie box office to record a revenue of more than RMB60 billion. The urban cinema admission was 1,720 million, representing an increase of approximately 6.2% as compared with 1,620 million for the same period last year. Benefited from the sustainable expansion of the theatre network and China's burgeoning movie market, in 2018, there were 1,193 newly added theatres in the country, with 8,476 newly added screens across national theatres, driven a total of 10,504 theatres and 61,490 screens nationwide by the end of 2018, making the number of screens the world's largest. The popularity of theatres in the past few years, the improvement of people's living standards, and the in-depth excavation of high-quality content have laid a solid foundation for the steady development of the Chinese movie industry.

BUSINESS REVIEW

The Group's operating revenue for the Year reached approximately HK$1,671,895,000, representing a decrease of 55.87% as compared with approximately HK$3,788,764,000 for 2017. Gross loss was approximately HK$273,483,000 (2017: gross profit was approximately HK$978,118,000). Loss for the year approximately HK$5,082,189,000 (2017: approximately HK$266,520,000).

Movie Theatre Business

As at 31 December 2018, the Group owned approximately 288 theatres and 1,792 screens in China. In 2018, core indicators of the Group's theatres such as box office, cinema admission, and market sharing ranked among the top in the country. The main indicators such as single-screen output and occupancy rate continued to maintain the national leading level. With the promotion of industrial policies and the trend of increasingly mature audiences, the Chinese film market has returned to "content is king" rather than simply increasing the number of screens. Therefore, the Group will commit to developing outstanding original works with its subsidiary SMI Culture & Travel Group Holdings Limited ("SMI Culture") (stock code: 2366).

Operating data for movie theatres of the Group in Mainland China (For the twelve months ended 31 December)	**2018**	2017
Number of movie theatres*	**288**	312
Number of screens*	**1,792**	1,936
Cinema admission (million)	**34**	53
Average net ticket price (RMB)	**34**	32
Total box office receipts (RMB million)	**1,162**	1,699

* As at 31 December

During the Year, the capital and financial structures of the Group were further optimized. Chengdu Runyun Culture Broadcasting Company Limited ("Chengdu Runyun"), a subsidiary of the Company, completed a capital increase of RMB45 million, effectively supplementing the Company's funds. The proceeds from the capital increase will be used for the construction and acquisition of new movie theatres as well as for the repayment of certain interest-bearing debts of the Group.

PROSPECTS

As at 31 December 2019, China's total movie box office receipts reached RMB64.266 billion, representing an increase of 5.4% as compared with the same period last year; the total box office receipts for domestic production amounted to RMB41.175 billion, representing an increase of 8.65% as compared with the same period last year, with a market share of 64.07%, among which the urban cinema admission reached RMB1.727 billion. There are 8 domestic films in the top 10 of China's annual box office. Compared with previous years, domestic films dominated movie box office and embraced its growth. Among domestic films, "Wandering Earth" and " Nezha: Birth of the Demon Child " are examples, the former achieved a high box office of RMB4.65 billion, and the latter crowned the highest-grossing animated film in the single market of global film history in a short period of time. Audiences' recognition indicates that domestic movies are of great potential, and Chinese audiences' demand for movies has not been fully met. Data also show that watching movies has become a common and popular way of entertainment in China. As per capita income increases continuously, demand for culture and entertainment will continue to rise. In the next few years, it is not impossible that China will surpass the United States to become the world' s biggest movie market. And it is expected that the movie theatre business will continue to benefit.

It is expected that the macroeconomic environment of the theatre business will temporarily face resistance. The economic growth slowed down resulting from the escalation of the trade war between China and the United States and the impact of the epidemic in early 2020, and the consolidation of the entire industry will continue for some time. The Group will closely monitor local and regional factors, and adjust its strategy and deploy its resources accordingly.

Looking into 2020, SMI will continue its deployment of various business of the theatres and continue to upgrade the traditional movie theatres and endeavour to create the new movie theatre ecosystem of "New Marketing, New Retail, New Development", so as to start a new era in movie theatre development with cooperating partners.

Riding on the rapid growth of 5G mobile communications users in China, the Group intends to enter into the mobile telecommunications industry and attract more online customers. The relevant income generated from the communications business (data and voice) will further enlarge the revenue of the Company. Leveraging on the advantages of the Group's existing theatre network resources and e-commerce platform in China, it can provide our members with film culture and more diversified consumption value-added services, expend the services globally to derive more cross-sales projects and fully implement the integrated marketing strategy of the Group.

FINANCIAL REVIEW

Turnover, Revenue and Loss for the year

During the year ended 31 December 2018, total revenue amounted to approximately HK$1,671,895,000 (2017: approximately HK$3,788,764,000), a decrease of 55.87% as compared with 2017.

Due to the continuous increase in the operating cost as a result of recovering economy which drives the growth of the enterprise, the cost of sales and finance cost for the Year recorded a relatively large increase. Since time was required for some of the newly acquired theatres to be consolidated, the revenue growth did not increase as the management expected. Therefore, a larger provision for goodwill of newly acquired theatres for the Year was made. An impairment of approximately HK$2,000,000,000 was made for goodwill for the Year (2017: approximately HK$347,179,000). Also an impairment of approximately HK$1,472,382,000 was made for various assets.

In addition, SMI Culture shrank the investment scale in movies, resulting in a record of loss.

The loss after tax for the Year was approximately HK$5,082,189,000 (2017: loss of approximately HK$266,520,000).

During the Year, the segment revenue and loss were mainly contributed by theatre operation.

Theatre operation segment recorded revenue of approximately HK$1,446,296,000. Segment loss of approximately HK$3,631,507,000 (2017: profit HK$103,649,000) was recorded during the Reporting Period.

An impairment of approximately HK$1,472,382,000 was made for other assets for the Year.

Furthermore, retail business segment recorded revenue of approximately HK$140,797,000. Segment loss of approximately HK$91,377,000 (2017: profit HK$27,027,000) was recorded during the Reporting Period.

Selling, Marketing and Administrative Expenses

The selling, marketing and administrative expenses increased by 2.09% due to the continuous increase in the operating cost during the year ended 31 December 2018.

Finance Costs

Finance costs were mainly represented by the interest of approximately HK$158,922,000 from bank and other loans, interest of approximately HK$376,279,000 from bonds, interest of approximately HK$183,317,000 from convertible notes, interest of approximately HK$104,236,000 from securities margin facilities and finance lease charges of approximately HK$8,012,000.

Financial Resources and Liquidity

As at 31 December 2018, the Group had net current liabilities of approximately HK$6,470,070,000. The Group has been operating in profit and positive operating cash inflow is recorded since 2011. The Group meets the potential investors from time to time to expand the capital structure of the Company for short term working capital and long term capital investment. In addition to the Group's successful fund raising activities organised at past, the Directors believe that the Group will have sufficient cash resources to satisfy its future working capital requirement.

As at 31 December 2018, the gearing ratio (total borrowings (including convertible notes) to total assets of the Company) reduced to 31.94% from 33.05% in 2017, which approximates that in the previous year.

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

Capital Expenditures

During the Year, the expenditures on leasehold improvements and theatre equipment of the Group increased approximately HK$464,742,000.

Contingent Liabilities

As at 31 December 2018, there are certain disputes which arise from time to time in the ordinary course of the operation of theatres. The Group is in the course of processing these matters. The Directors are of the view that these disputes will not have a material adverse impact on the financial results of the Group.

As at 31 December 2018, the Group and the Company did not have any other significant contingent liabilities.

Exposure to Fluctuations in Exchange Rates and Related Hedges

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

Pledge of Assets

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

(a) The Group's leasehold land and buildings situated in the PRC amounting to HK$371,214,000 (2017: HK$205,057,000) was pledged to secure for certain bank borrowings granted to the Group.

(b) The Group's pledged bank deposits amounting to HK$134,358,000 (2017: HK$149,262,000) was pledged to secure the FY 2016 Trust Loans.

(c) Part of the box office's income generated by certain subsidiaries in coming years were pledged to secure for the FY 2015 Trust Loan, the FY 2016 Trust Loans and the FY 2017 Other Loan.

(d) Movie theatres operated by certain subsidiaries of the Company in the PRC were pledged to secure for the FY 2018 other loan.

(e) The Group pledged its subordinated Securities as stipulated in the ABS Arrangement as a collateral for the FY 2015 Trust Loan and the FY 2016 Trust Loans.

(f) As at 31 December 2018, all equity interests in SMI Culture and held-for-trading investments were used as contingent collaterals for the margin account facilities granted to the Group as required.

Employees

Excluding the staff of associates, the Group had approximately 3,100 full-time staff as at 31 December 2018 (including Directors but excluding part-time staff). The Group offers remuneration and benefit packages to its employees according to the prevailing salary levels in the market, individual merits and performance.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the Reporting Period, on 31 December 2018, the Group acquired the entire equity interests in Shenzhen Xing Mei Lian He Communications Company Limited from independent third parties for an aggregated cash consideration of RMB1,900,000 (equivalent to approximately HK$2,161,000).

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

CORPORATE GOVERNANCE CODE

OVERVIEW OF CORPORATE GOVERNANCE

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

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

THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, the Company complied with the code provisions (the "Code Provisions") of the CG Code, except for the deviations from Code Provisions A.6.7 and E.1.2 as set out in Appendix 14 to the Listing Rules which are explained below:

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

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

   Mr. Li Fusheng and Mr. Wong Shui Yeung were unable to attend the annual general meeting of the Company held on 31 May 2018 due to their other business engagements.

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW OF ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2018 has not been completed due to restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The results contained herein have not been agreed by the Company's auditors, BDO Limited. An announcement relating to the results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The annual results contained herein have been reviewed by the audit committee of the Company.

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

During the year ended 31 December 2018, the Company repurchased a total of 9,648,000 ordinary shares of the Company at an aggregate purchase price of approximately HK$23,699,000 (including transaction costs) on The Stock Exchange of Hong Kong Limited. Details of the repurchases of such ordinary shares were as follows:

Month of repurchases	No. of ordinary shares of HK$0.50 each	Price paid per share		Aggregate consideration paid (including expenses)
		Highest	Lowest	
		HK$	*HK$*	*HK$'000*
June 2018	1,280,000	3.35	2.30	4,192
July 2018	7,560,000	2.02	2.59	17,623
August 2018	808,000	2.21	2.41	1,884
Total	9,648,000			23,699

9,648,000 repurchased ordinary shares was cancelled on 17 May 2019. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the general mandate to repurchase shares granted by the shareholders of the Company to the Board at the annual general meeting of the Company held on Thursday, 31 May 2018.

The Company conducted the Shares Repurchase because the Board considered that the then value of the Company's shares was consistently undervalued, and the Board believed that the then financial resources of the Company would enable it to conduct the Shares Repurchase while maintaining a solid financial position for the continuation of the Company's business in the financial year.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

Material Events after the Reporting Period

Subsequent to 31 December 2018, the Group had the following events:

(i) Pursuant to the Company's announcement on 11 September 2019, the Company entered into a memorandum of understanding (the "MOU") with SMI Culture which the Group owned 62.67% of interest in respect of the mutual intention on the possible disposal of all of the equity interests beneficially held by the Company in its subsidiary namely Chengdu Runyun, which the Group owned 84.37%of the equity interest.

(ii) Pursuant to the Company's announcement on 4 December 2019, the Company entered into the MOU with the SingMeng Telemedia Group Limited ("SingMeng") and International Communication Media, Co,, Ltd ("International Communication"), pursuant to which the Company intends to acquire and the SingMeng and International Communication intend to sell the entire issued share capital of the SingMeng Telemedia Holdings Limited.

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2018 and has discussed with the Company's auditors about auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2018 annual report of the Company containing all the information required under the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION

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

By Order of the Board
SMI Holdings Group Limited
Kenneth Jack Shang
Chairman

Hong Kong, 28 February 2020

As at the date of this announcement, the Board of Directors comprises seven Directors, including Mr. Kenneth Jack Shang (Chairman) and Mr. Zhang Yong as executive Directors, Mr. Jason Chia-Lun Wang and Mr. Peter Torben Jensen as non-executive Directors and Mr. Pang Hong, Mr. Li Fusheng and Mr. Wong Shui Yeung as independent non-executive Directors.