THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

STARLIGHT CULTURE ENTERTAINMENT

STARLIGHT CULTURE ENTERTAINMENT GROUP LIMITED
星光文化娛樂集團有限公司

(formerly known as Jimei International Entertainment Group Limited 集美國際娛樂集團有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN STARLIGHT LEGEND INVESTMENT LIMITED; AND (2) NOTICE OF SGM

Financial Adviser to the Company

OPTIMA CAPITAL

Optima Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ALTUS CAPITAL LIMITED

Capitalised terms used on this cover shall have the meanings as defined in this circular unless the context requires otherwise.

A letter from the Board is set out on pages 6 to 32 of this circular. A letter from the Independent Board Committee is set out on pages 33 to 34 of this circular. A letter from Altus Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 69 of this circular.

A notice convening the SGM to be held at 11:00 a.m. on Thursday, 16 November 2017 at Jiangsu Club, 2/F, Alliance Building, 133 Connaught Road Central, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

26 October 2017

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the proposed acquisition of the entire equity interest in the Target pursuant to the terms and conditions of the Agreement
"Agreed Payment"	the payment payable by the Company to the Vendor based on the cash dividends received by the Company from the Specified Group pursuant to the terms and conditions of the Agreement
"Agreed Payment Cap"	the maximum amount of the Agreed Payment pursuant to the terms and conditions of the Agreement
"Agreement"	the sale and purchase agreement dated 14 September 2017 entered into amongst the Company (being the Purchaser), the Vendor, and Mr. Yan (being the Vendor Guarantor) in relation to the Acquisition
"Altus Capital" or "Independent Financial Adviser"	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day, other than a Saturday or Sunday, on which banks are open for ordinary banking business in Hong Kong
"BVI"	the British Virgin Islands
"Company" or "Purchaser"	Starlight Culture Entertainment Group Limited (formerly known as Jimei International Entertainment Group Limited), a company incorporated in Bermuda with limited liability, and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1159)

"Completion"	completion of the Acquisition
"Completion Date"	the fifth Business Day following the date on which the last of the conditions precedent to the Agreement (except such conditions which are expressed to be satisfied on or as at Completion) are satisfied or waived
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration for the Acquisition, being US$25 million (equivalent to approximately HK$195 million)
"Consideration Shares"	the new Shares to be allotted and issued by the Company to the Vendor as partial payment of the Consideration
"controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Cosmic Leader"	Cosmic Leader Holdings Limited, a company incorporated in the Republic of Seychelles with limited liability, which is ultimately beneficially owned as to 80% by Mr. Yan and 20% by Ms. Chen Hong, being the controlling Shareholder beneficially interested in approximately 56.59% of the issued share capital of the Company as at the Latest Practicable Date
"Designated Auditor"	any international firm of accountants as appointed by the Purchaser
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group immediately upon Completion
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, Mr. Kong Chi Mo and Mr. Hong Tao, which has been established to make recommendations to the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder

"Independent Shareholders"	Shareholders other than Mr. Yan and his associates who are required to abstain under the Listing Rules from voting at the SGM of the resolution(s) in respect of the Agreement and the transactions contemplated thereunder
"Independent Third Party"	third parties independent of and not connected with the Company and its connected persons
"Independent Valuer"	D&P China (HK) Limited, an independent professional valuer
"Issue Price"	HK$4.50 per Consideration Share
"Last Trading Day"	14 September 2017, being the last trading day of the Shares on the Stock Exchange prior to the entering into of the Agreement
"Latest Practicable Date"	24 October 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to publication
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Yan"	Mr. Yan Xu, the Chairman of the Board and an executive Director, who is also the ultimate beneficial owner of the Vendor
"Net Profits"	the aggregate of profit (or loss) after taxation of the Specified Group as shown in the audited financial statements of the Specified Group for that financial year or period expressed in Hong Kong Dollars prepared and presented by the Designated Auditor in accordance with Hong Kong Financial Reporting Standards
"Offers"	the mandatory unconditional cash offers made by Zhongtai International Capital Limited on 10 May 2017, on behalf of Cosmic Leader, to acquire all the issued Shares and outstanding convertible bonds issued by the Company not already owned or agreed to be acquired by Cosmic Leader and parties acting in concert with it, which closed on 31 May 2017

"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Promissory Note"	the interest-free promissory note in the principal amount of approximately US$12.88 million (equivalent to approximately HK$100.5 million) due on the date falling 12 months from the Completion Date to be issued by the Company in favour of the Vendor in satisfaction of part of the Consideration for the Sale Shares
"Restricted Business"	the business of an entertainment company, being the development, production and distribution of motion pictures and television programmes (including but not limited to feature-length films, television films, animated films and cartoons, television series, television pilots and single television episode), carried on within Hong Kong, the PRC and the United States and which directly or indirectly competes with the business of the Target Group carried on at the Completion Date, which shall not include investment in and operation of cinemas and movie theatres
"Sale Shares"	the entire equity interest in the Target
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting to be held and convened for the Independent Shareholders to consider, and if thought fit, to approve the ordinary resolution(s) in respect of the Agreement and the transactions contemplated thereunder
"Share(s)"	share(s) of the Company of HK$0.10 each
"Shareholder(s)"	shareholder(s) of the Company
"Specified Group"	the Target Group and the companies operating those Specified Projects that are not operated by any member of the Target Group and are controlled and wholly or partially owned, directly or indirectly, by the Company following Completion
"Specified Period"	the five months ending 31 December 2017 and the four years ending 31 December 2021

"Specified Projects"	3 existing active projects operated by the Target Group and/or other 16 prospective projects set out in the Agreement which constitute all the projects currently contemplated by the Vendor and the Purchaser that the Specified Group has undertaken or would expect to undertake during the Specified Period
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	Starlight Legend Investment Limited, a company incorporated in the Republic of Seychelles with limited liability and is wholly owned by the Vendor
"Target Group"	the Target and its subsidiaries
"United States"	the United States of America
"Vendor"	Rare Jewels Limited, a company incorporated in the BVI with limited liability and is wholly owned by Mr. Yan
"Vendor Guarantor"	Mr. Yan, being the guarantor of the performance of the Vendor on the Agreement
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollar(s), the lawful currency of the United States
"%"	per cent.

In this circular, amounts in US$ are translated into HK$ on the basis of US$1 = HK$7.8. The conversion rate is for illustration purpose only and should not be taken as a representation that US$ could actually be converted into HK$ at such rate or at other rates or at all.

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星光文化娛樂集團有限公司

(formerly known as Jimei International Entertainment Group Limited 集美國際娛樂集團有限公司)

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

Executive Directors:
Mr. Yan Xu *(Chairman)*
Mr. Chau Chit *(Deputy Chairman)*
Mr. Luo Lei *(Chief Executive Officer)*
Ms. Chen Hong
Mr. Hung Ching Fung
Mr. Li Haitian

Non-executive Directors:
Mr. Wang Shoulei

Independent Non-executive Directors:
Mr. Wong Wai Kwan
Mr. Michael Ngai Ming Tak
Mr. Kong Chi Mo
Mr. Hong Tao

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Room 1203, 12/F.,
118 Connaught Road West,
Hong Kong

26 October 2017

To the Shareholders and, for information only, holders of the outstanding convertible bonds of the Company

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN STARLIGHT LEGEND INVESTMENT LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 14 September 2017 whereby the Board announced that after trading hours on 14 September 2017, the Company (being the Purchaser), the Vendor, and Mr. Yan (being the Vendor Guarantor) entered into the Agreement, pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares for the Consideration of US$25 million (equivalent to approximately HK$195 million), which will be satisfied (i) as to HK$94.5 million by the allotment and issue of 21,000,000 Consideration Shares to the Vendor or its nominee at the Issue Price of HK$4.50 per Consideration Share and (ii) as to the balance of approximately US$12.88 million (equivalent to approximately HK$100.5 million) by way of the issue of the Promissory Note by the Company in favour of the Vendor.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As the Vendor is wholly owned by Mr. Yan (being the Vendor Guarantor), and each of the Vendor and Mr. Yan is a connected person of the Company, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the SGM.

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder. The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, Mr. Kong Chi Mo and Mr. Hong Tao, has been established to advise the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder. Altus Capital, the Independent Financial Adviser, has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) details of the Agreement and the transactions contemplated thereunder, (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder, (iii) the letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and transactions contemplated thereunder, (iv) the financial information of the Group, (v) the financial information of the Target Group, (vi) the pro forma financial information of the Enlarged Group, (vii) the valuation report on the Target Group prepared by the Independent Valuer, and (viii) the notice of the SGM.

THE AGREEMENT

Date

14 September 2017

Parties

(i) The Company, being the Purchaser;

(ii) Rare Jewels Limited, being the Vendor; and

(iii) Mr. Yan Xu, being the Vendor Guarantor.

The Vendor is a company incorporated in the BVI and is principally engaged in investment holding. The Vendor is wholly owned by Mr. Yan (being the Vendor Guarantor), the Chairman of the Board and an executive Director. Mr. Yan was interested in approximately 56.59% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, each of the Vendor and Mr. Yan is a connected person of the Company.

Asset to be acquired

The Sale Shares represented the entire equity interest in the Target as at the Latest Practicable Date. Details of the Target Group are set out in the section headed "Information of the Target Group" below.

Consideration

The Consideration for the Sale Shares shall be US$25 million (equivalent to approximately HK$195 million), which shall be satisfied as follows:

(i) as to HK$94.5 million by the allotment and issue of 21,000,000 Consideration Shares to the Vendor or its nominee at the Issue Price of HK$4.50 per Consideration Share; and

(ii) as to the balance of approximately US$12.88 million (equivalent to approximately HK$100.5 million) by way of the issue of the Promissory Note by the Company in favour of the Vendor.

The Promissory Note shall bear no interest and shall be due for payment on the date falling 12 months from the Completion Date. The Company intends to finance the repayment of the Promissory Note by its internal resources. As at the Latest Practicable Date, the Company had no plan to conduct any fund raising exercise for financing the Promissory Note.

The Consideration was determined after arm's length negotiations between the Company and the Vendor with reference to, among other things, the valuation of the Target Group as at 31 July 2017 ranging from US$23,621,000 to US$27,166,000 as prepared by the Independent Valuer based on (i) the consolidated net asset value of the Target Group and (ii) the average price-to-book ratio of 18 comparable companies. Further details of the valuation on the Target Group are set out in Appendix IV to this circular.

Agreed Payment

As the Consideration was determined based on the valuation with reference to the price-to-book ratio of the comparable companies and the consolidated net asset value of the Target Group, the future earning potentials of the Target Group in respect of the projects being and/or to be developed leveraging on the established network and experience of the Target Group in the Hollywood movie market and the Chinese TV program market have not been taken into account when determining the Consideration. To this end, the Company agreed to pay to the Vendor the Agreed Payment based on the future performance of the Target Group only after it has recouped its investment costs (i.e. the Consideration) with the required annual return of 5%. The Board considers that it is in the interest of the Company and the Shareholders as a whole to pay for the earning potentials of the Specified Projects only when such potentials have been realised as profits and cash dividends have been distributed to the Company. The Agreed Payment shall be determined as follows:

$$\text{Agreed Payment} = (A - B) \times 30\%$$

where

A = all cash dividends received by the Company from the Specified Group for the period from 1 August 2017 to 31 December 2024

B = the Consideration × (1 + (5% × C))

C = (number of days commencing from and including (i) the date on which full payment of the Promissory Note by the Company to the Vendor until and including (ii) the earlier of (a) 31 December 2021 or (b) the date on which the cumulative cash dividends received by the Company or its relevant subsidiaries from the Specified Group is equal to the Consideration) ÷ 365

For illustration purposes only, assuming (i) the Specified Group recorded an aggregate Net Profit of approximately HK$295 million for the Specified Period, (ii) the aggregate cash dividend received by the Company from the Specified Group reached the point equivalent to the Consideration (i.e. HK$195 million) on 1 January 2020, and (iii) the Promissory Note is fully repaid on 1 January 2019, the Specified Group shall declare and pay the cash dividends of approximately HK$295 million to the Company, and subsequent to the end of the Specified Period, the Company shall under the Agreement pay the Agreed Payment calculated as follows:

A = HK$295 million

B = HK$195 million × (1 + (5% × 365/365))

C = number of days from 1 January 2019 to 31 December 2019 (i.e. 365 days) ÷ 365

The illustrative Agreed Payment = HK$27.075 million

The payment of the Agreed Payment shall be subject to the following provisions:

(i) the Agreed Payment shall not exceed the Agreed Payment Cap, which is the lower of HK$600,000,000 or an amount calculated in accordance with the following formula:

Agreed Payment Cap = (D – B) x 30%

where

D = the aggregate Net Profits for the Specified Period, provided that the Net Profits for the five months ending 31 December 2017 shall be the net amount of the Net Profits for the seven months ended 31 July 2017 and that for the year ending 31 December 2017 as reflected in the audited financial statements of the Specified Group prepared by the Designated Auditor and provided further that any loss position shall be stated as a negative figure

B = the Consideration x (1 + (5% x C))

C = (number of days commencing from and including (i) the date on which full payment of the Promissory Note by the Company to the Vendor until and including (ii) the earlier of (a) 31 December 2021 or (b) the date on which the cumulative cash dividends received by Company or its relevant subsidiaries from the Specified Group is equal to the Consideration) ÷ 365

Note: For the avoidance of doubt, if (i) D is a negative figure; or (ii) (D-B) is a negative figure, then the Agreed Payment Cap shall be zero.

(ii) the Company shall use its reasonable endeavours to enable members of the Specified Group to declare and pay cash dividends to the Company or its relevant subsidiaries as soon as practicable;

(iii) the Company shall, within three months of the Company's receipt of cash dividends payment from the Specified Group in excess of the amount represented by "B" referred to in (i) above, pay to the Vendor 30% of such cash dividends payment received provided that no such payment shall be made to the Vendor unless and until the cumulative 30% portion of such cash dividends payments to be made to the Vendor is at least HK$900,000 (except for the last payment immediately before reaching the Agreed Payment Cap), and for so long as the aggregate amount of the Agreed Payment received by the Vendor does not exceed the Agreed Payment Cap, provided further that if the aggregate amount of cash dividends (if any) received by the Company or its relevant subsidiaries from the Specified Group during the Specified Period is in excess of the amount represented by "B" referred to in (i) above, the first or initial Agreed Payment shall take place within three months from the date on which the audited financial statements of the Specified Group for the last financial year in the Specified Period is being sent to the Company by the Designated Auditor;

(iv) for purposes of determining whether or not the aggregate amount of the Agreed Payment received by the Vendor has exceeded the Agreed Payment Cap, all withholding or similar taxes levied or paid on the cash dividends received by the Company on the Agreed Payment shall be added to and form part of the Agreed Payment paid by the Company to the Vendor; and

(v) for the avoidance of doubt, the determination of the Agreed Payment shall not include any payment by the Specified Group to the Company other than cash dividends, and the Vendor's entitlement to the Agreed Payment shall cease on 31 December 2024, thereafter which the Company shall have no further obligation to make any further payments to the Vendor.

Pursuant to the Agreement, the Net Profits of the Specified Group reflected in the audited financial statements shall be calculated by the Designated Auditor, and the cash dividends declared by and received by the Purchaser and its relevant subsidiaries from each of the members of the Specified Group shall be final and binding on the Purchaser, the Vendor and the Vendor Guarantor.

The Agreed Payment will be approved by the Board (including the independent non-executive Directors but excluding Mr. Yan, who is interested in the Agreed Payment). It shall be paid by the Company to the Vendor by way of cheque, cashier order, or telegraphic transfer (in immediately available funds) into an account as may be notified by the Vendor to the Company in writing from time to time, or any other means as may be agreed between the Company and the Vendor in writing. The Company will also disclose the details of the Agreed Payment by way of announcement(s) and in its annual report(s) as and when appropriate.

For the avoidance of doubt, the Specified Group will not engage in other projects or business other than the Specified Projects.

Following Completion, the Group intends to make distribution of dividends from the Specific Group to the Company or its relevant subsidiaries to the extent the Specified Group has distributable profits, subject to applicable laws, regulations and accounting standards relevant to the Specified Group. However, the first Agreed Payment will only be paid after the end of the Specified Period upon the Agreed Payment Cap being ascertained. The three-year period following the end of the Specified Period is to provide additional time for the Specified Group to make the cash dividend payment to the Company in case certain dividends are declared but not yet paid by the Specified Group within the Specified Period.

Further elaboration on the reasons for the Agreed Payment is set out under the section headed "Basis of the Consideration and the Agreed Payment" in this circular.

Having taken into account the Consideration and the Agreed Payment Cap, the maximum amount that may be payable by the Company under the Agreement will be approximately HK$795 million.

Consideration Shares

The 21,000,000 Consideration Shares represent approximately 3.22% of the existing issued share capital of the Company and approximately 3.12% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares shall rank *pari passu* with all other Shares in issue as at the date of allotment and issue. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price of HK$4.50 per Consideration Share was determined after arm's length negotiations with reference to the prevailing market price of the Shares and represents:

(i) a discount of approximately 2.17% to the closing price of the Shares of HK$4.60 on the Last Trading Day;

(ii) a discount of approximately 4.01% to the average of the closing prices of the Shares of HK$4.688 for the five trading days up to and including the Last Trading Day;

(iii) a discount of approximately 6.17% to the average of the closing prices of the Shares of HK$4.796 for the ten trading days up to and including the Last Trading Day; and

(iv) a premium of approximately 6.38% over the closing price of the Shares of HK$4.23 on the Latest Practicable Date.

Non-competition and other undertakings by the Vendor and the Vendor Guarantor

To protect the interests of the Company and its Shareholders as a whole, the Vendor and Mr. Yan (being the Vendor Guarantor) have agreed to give a non-competition undertaking and other undertakings in favour of the Company in respect of its operation of the entertainment business.

Except through the Company and its subsidiaries and any investments or interests held through them, from the Completion Date until the date the Vendor Guarantor ceases to be a controlling shareholder of the Company, each of the Vendor and the Vendor Guarantor will not, and will procure that each of its/his close associates will not:

(i) carry on or be engaged, involved or interested in or acquiring or holding any right or interest (directly or indirectly and whether as principal, shareholder, director, employee, agent, consultant, partner or otherwise and whether for profit, reward or otherwise) in any Restricted Business, other than as a holder for investment purposes only (which shall exclude an interest conferring a management function or any material influence) of any shares, debentures or other participation and a holding of not more than 10 per cent of any class of shares or securities shall be deemed to be excluded for these purposes;

(ii) solicit or endeavour to entice away any person who at the Completion Date is (or who within a period of one year prior to the Completion Date has been) an officer, manager, senior employee, agent or consultant of the Target Group whether or not such person would commit a breach of contract by reason of leaving service or office (provided that the placing of an advertisement of a post available to a member of the public generally and the recruitment of a person through an employment agency shall not constitute a breach of this sub-clause unless the Vendor has, directly or indirectly, encouraged or advised such agency to approach such person or has drawn such advertisement to the attention of such person);

(iii) exploit its/his knowledge or information obtained from the Target Group to compete, directly or indirectly, with the business currently carried on by the Target Group and such other businesses as may be carried on by the Target Group from time to time;

(iv) in connection with any Restricted Business, solicit the custom of or endeavour to entice away from the Target Group or otherwise deal with any person who at the Completion Date is (or who within a period of one year prior to the Completion Date has been) a client or customer of the Target Group whether or not such person would commit a breach of contract by reason of transferring business;

(v) in connection with any Restricted Business, endeavour to entice away from the Target Group any person who at the Completion Date is (or who within a period of one year prior to the Completion Date has been) a supplier of the Target Group whether or not such person would commit a breach of contract by reason of transferring business; and

(vi) directly or indirectly, take any other action which constitutes an intentional undue interference with or a disruption of any of the Target Group's current business and such other businesses as may be carried on by the Target Group from time to time.

In the event that the Vendor or the Vendor Guarantor or its/his close associates are offered or becomes aware of any business investment or commercial opportunity directly or indirectly relating to the Restricted Business, it/he:

(i) shall promptly notify the Company and the Target in writing and refer such business opportunity to the Company and the Target for consideration and provide such information as may be reasonably required by the Company and the Target in order to make an informed assessment of such business investment or commercial opportunity; and

(ii) shall not invest or participate in any project or business investment or commercial opportunity unless such project or business investment or commercial opportunity shall have been rejected in writing by the Company and the Target and the principal terms of which the Vendor and/or the Vendor Guarantor invest or participate are no more favourable than those made available to the Company and the Target and such terms shall be fully disclosed to the Company and the Target prior to consummation of such rejected opportunities.

The Company will adopt the following procedures in relation to the non-competition and other undertakings by the Vendor and the Vendor Guarantor:

(i) The Board (including the independent non-executive Directors but excluding any Director who has an actual or potential material interest in such project or business investment or commercial opportunity) will be responsible for reviewing, and whether to accept or reject to invest or participate in, such project or business investment or commercial opportunity notified by the Vendor and/or the Vendor Guarantor. Any Director who has an actual or potential material interest in such project or business investment or commercial opportunity shall abstain from attending (unless his/her attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted as quorum for, any meeting or part of a meeting convened to consider such project or business investment or commercial opportunity. Further, the Board will review the principal terms available to the Vendor and/or Vendor Guarantor to ensure that they are no more favourable than those made available to the Company and the Target;

(ii) when reviewing, considering and deciding whether to accept or reject to invest or participate in such project or business investment or commercial opportunity and whether or not the principal terms of which the Vendor and/or the Vendor Guarantor invest or participate are not more favourable than those made available to the Company and the Target, the Board will consider, among other factors, the financial impact of pursuing such project or business investment or commercial opportunity, whether the nature of such project or business investment or commercial opportunity is consistent with the Group's strategies and development plans, the general market conditions in the industry, the advice from independent financial adviser(s) or other professional adviser(s) should the appointment of which be deemed necessary by the Board, and the interests of the Company and its Shareholders as a whole;

(iii) the Company's decision to accept or reject to invest or participate in such project or business investment or commercial opportunity will be authorised by the Board (including the independent non-executive Directors but excluding any Director who has an actual or potential material interest in such project or business investment or commercial opportunity) and such decision in writing will be issued for and on behalf of the Company by a Director or such other person (who does not have an actual or potential material interest in such project or business investment or commercial opportunity) authorised by the Board; and

(iv) the Company will disclose in its annual report(s) the projects referred by the Vendor and/or the Vendor Guarantor accepted or rejected by the Company as long as the non-competition and other undertakings by the Vendor and the Vendor Guarantor under the Agreement remain effective.

Conditions precedent

Completion shall be conditional upon:

(i) completion of satisfactory legal, financial and business due diligence in respect of the Target Group by the Company;

(ii) the passing of resolution(s) by the Independent Shareholders approving the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares by the Company to the Vendor;

(iii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares (and such listing and permission not subsequently revoked prior to Completion);

(iv) the obtaining of all consents which are necessary or desirable in respect of the Agreement and the transactions contemplated thereunder;

(v) the issuance of a legal opinion by the Target Group's legal counsel as to the laws of the United States in form and substance satisfactory to the Company;

(vi) the issuance of a legal opinion by the Target's legal counsel as to the laws of the Republic of Seychelles in form and substance satisfactory to the Company;

(vii) the issuance of a legal opinion by the Vendor's legal counsel as to the laws of the BVI in form and substance satisfactory to the Company;

(viii) there being no law in effect on the Completion Date restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by the Agreement or which may have a material adverse effect on any of the members of the Target Group;

(ix) there being no material adverse change in the business, financial or trading position, or assets, liabilities or profitability or prospects of each of the members of the Target Group, or an event reasonably likely to result in such a material adverse change;

(x) all consents, in form and substance reasonably satisfactory to the Company to the performance by the Vendor of its obligations under the Agreement as are required under any law or arrangement (contractual or otherwise) having been obtained and remaining in full force and effect; and

(xi) none of the warranties and representatives stipulated in the Agreement being found to be, or no event occurring or matter arising which may render or renders any of the warranties and representatives stipulated in the Agreement, untrue or inaccurate or misleading on and as at the Completion Date.

Conditions (ii) and (iii) above are not capable of being waived by any party. The Company may waive in whole or in part all or any of the other conditions or extend the period in which the conditions are to be satisfied.

If any conditions have not been satisfied or waived (as the case may be) on or before 31 December 2017 (or such other date as may be agreed by the parties to the Agreement in writing), the Agreement shall lapse and no party shall make any claim against the other in respect thereof, save for any antecedent breach.

As at the Latest Practicable Date, none of the conditions set out above had been satisfied.

Completion

Completion will take place at 4:30 p.m. on the Completion Date, being the fifth Business Day following the date on which the last of the conditions set out above are satisfied or waived (as the case may be), or such other date as may be agreed by the parties to the Agreement in writing.

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the accounts of the Group.

INFORMATION OF THE GROUP

The Group is principally engaged in the entertainment and gaming business (the "**Gaming Business**"), and trading of chemical products, and energy conservation and environmental protection products (the "**Trading Business**"), and media and culture business (the "**Media Business**").

The financial performance of the Group was disappointing in recent years. For the year ended 31 December 2016 (the "**FY2016**"), the net loss attributable to the equity owners of the Company reached approximately HK$39.8 million as compared to a profit of approximately HK$8.7 million recorded in 2015. The Gaming Business contributed approximately 98.7% of the total revenue of the Group in FY2016 but recorded a segment loss of approximately HK$41.3 million. As disclosed in the annual report of the Company for FY2016, the Group continued to tighten its credit control policy towards the Trading Business and therefore, this segment only generated minimal revenue and resulted in a segment loss of approximately HK$4.4 million in FY2016. The segment revenue of the Trading Business increased to approximately HK$11.7 million in the first half of 2017, with a segment loss of approximately HK$4.3 million. Coming to the first half of 2017, the scale of the Gaming Business was largely reduced with its segment revenue dropping from approximately HK$130.6 million to approximately HK$8.5 million. The significant decrease was due to the junket arrangement with NagaWorld having come to an end in early 2017 and the Group's tightened credit control over the gaming promotion business during the period. As at the Latest Practicable Date, the Company still had two junket arrangements remaining effective. One was entered into with Crown Perth for promoting approximately 8 to 10 gaming tables at the Crown Perth Casino, a licensed casino in Perth, Western Australia. Another one was entered into with The Star for promoting not less than 6 gaming tables at The Star Casino, a licensed casino in Sydney, Australia. Having concerns on the recoverability of receivables from the Gaming Business and the impairment loss on the receivables incurred in FY2016, the Group has tightened its credit control policy over the Gaming Business since the first half of 2017. Despite the fact that the Group has no intention to terminate the Gaming Business, it is expected that the performance of the Gaming Business will be affected by the tightened credit control policy but the Group will target to maintain the scale of the Gaming Business as in the first half of 2017. The Company will monitor its position in the Gaming Business and the Trading Business from time to time subject to the prevailing market conditions.

To improve the Group's business performance, the Board is committed to tapping into the Media Business in the first half of 2017 having considered the promising prospects of the media industries in the United States and the PRC. According to "Global Entertainment and Media Outlook 2017-2021" prepared by PricewaterhouseCoopers, the box office revenue of the United States was US$10.6 billion in 2016 and is expected to grow at a compound annual growth rate ("**CAGR**") of 1.2% and reach US$11.2 billion in 2021. China, as the second largest film market in the world, was the fastest growing market, with the box office reaching US$6.6 billion in 2016. Its CAGR is expected to reach 11.6% to US$10.7 billion in 2021. Other than the film industry, the television market in China is also in a fast growing stage, which had generated revenue of US$17.6 billion in 2016, and is expected to further grow to US$25.5 billion in 2021 at a CAGR of 7.6%.

As disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group has engaged Mr. Felix Gary Gray ("**Mr. Gray**") and Mr. Roland Emmerich ("**Mr. Emmerich**") in June and July 2017 respectively. The terms of the engagements are of three (3) years and Mr. Gray and Mr. Emmerich will be responsible for the development and production of motion picture projects. Mr. Gray is an American film director, film producer, music video director and actor while Mr. Emmerich is an America's Hollywood film director, screenwriter and producer well-known for his disaster films. In 2004, Mr. Gray won the "Best Director" award awarded by the American Black Film Festival and the "Outstanding Film Director" award awarded by the Black Reel Awards. He has directed a number of films such as "The Fate of the Furious (2017)", "Straight Outta Compton (2015)", "The Italian Job (2003)", "The Negotiator (1998)" and "Set It Off (1996)". Mr. Emmerich has directed a number of popular films such as "Independence Day: Resurgence (2016)", "The Day After Tomorrow (2004)", "Godzilla (1998)" and "Independence Day (1996)". The accumulated record of worldwide box office of Mr. Emmerich's films amounted to approximately US$3,800 million according to www.boxofficemojo.com.

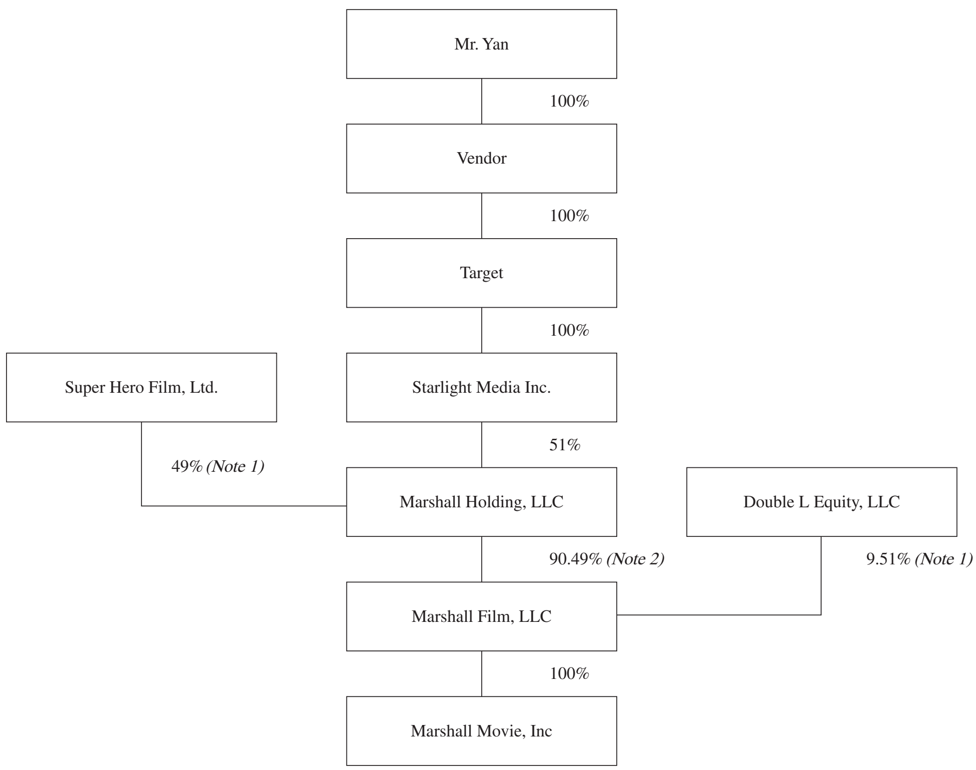
The Board considers that rather than establishing a new company from scratch with uncertain risk exposures, it is commercially sensible and in the interests of the Company and the Shareholders as a whole to tap into the Media Business by way of acquisitions of companies with proven production record, established network with production teams, agents, and contracts with famous movie directors. The Acquisition therefore is in line with the Group's business strategy.

INFORMATION OF THE TARGET GROUP

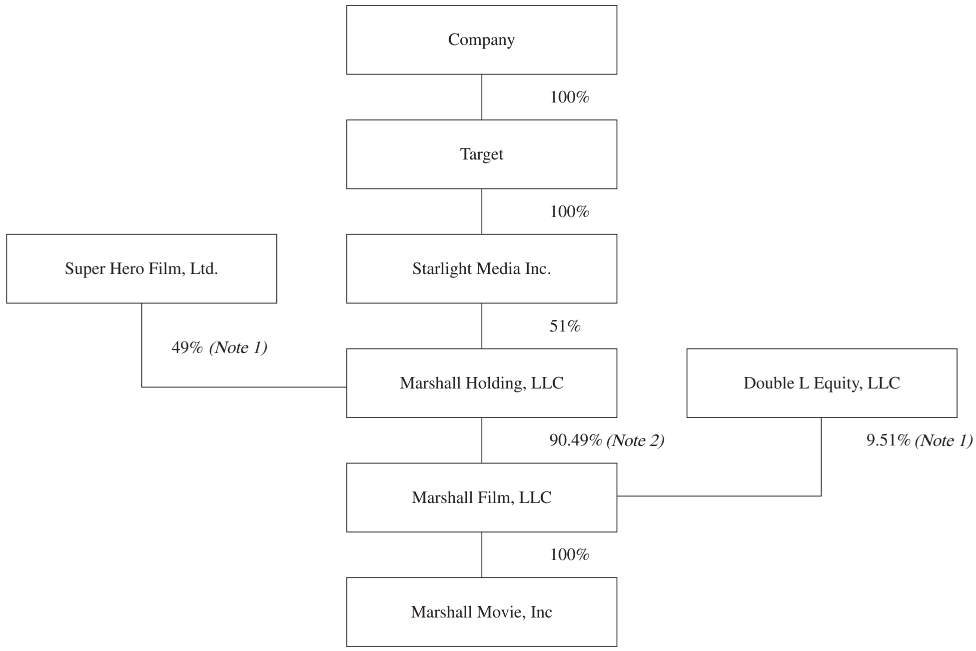
Group structure

Set out below is the group structure of the Target Group (i) prior to Completion; and (ii) upon Completion:

(i) Prior to Completion



(ii) Upon Completion



Notes:

1. Both Super Hero Film, Ltd. and Double L Equity, LLC are Independent Third Parties.

2. The total outstanding membership interests in Marshall Film, LLC are owned as to 90.49% by Marshall Holding, LLC and 9.51% by Double L Equity, LLC, an Independent Third Party. Out of the 90.49% of the total outstanding membership interests in Marshall Film, LLC owned by Marshall Holding, LLC, Marshall Holding, LLC has sold, and Dragonfly Cinematic, LLC and Planet 9 Productions, LLC, two Independent Third Parties, have each purchased, the right to receive distributions from Marshall Film, LLC arising from 3.17% (i.e. an aggregate of 6.34%) of the total outstanding membership interests in Marshall Film, LLC (the "**Purchased Interests**"), but these two Independent Third Parties would not become the members of Marshall Film, LLC nor be entitled to exercise the voting rights in the Purchased Interests. As such, Marshall Holding, LLC holds 90.49% of the total outstanding membership interests (and the voting rights attached to such membership interests) in Marshall Film, LLC and 84.15% economic interest in Marshall Film, LLC (i.e. the 90.49% membership interest owned by Marshall Holding, LLC subtracted by (i) the 3.17% economic interest sold to and purchased by Dragonfly Cinematic, LLC and (ii) the 3.17% economic interest sold to and purchased by Planet 9 Productions, LLC).

The Vendor is wholly owned by Mr. Yan, who is the founder of the Target Group and has over 7 years of experience in the entertainment business through investment in various companies, and financing films. The Target is an investment holding company incorporated in the Republic of Seychelles on 25 April 2017 and wholly owns Starlight Media Inc., which is a company incorporated in California, the United States on 8 September 2014. The total capital contribution by Mr. Yan to the Target Group amounted to approximately US$20.5 million.

Business of the Target Group

Since incorporation, Starlight Media Inc, with Mr. Yan's experience and vision in the movie industry to blend the Hollywood expertise with the Chinese themes, has established extensive network in the movie industry and has discussed possible cooperation between the Target Group and a number of well-known Hollywood producers, directors, agency companies, studios etc. Through the connection with the network, the Target Group has been contemplating a number of projects at various development stage. The Target Group has also established its brand name among the market practitioners in the Hollywood movie markets, and has from time to time kept a database of contacts of the market professionals.

Marshall Movie, Inc is a major operating subsidiary of the Target Group responsible for the development and production of the motion picture titled "Marshall". It is a common practice to establish a separate entity for each movie project. Therefore, it is expected that after Completion, the Target Group will establish separate entities for each of the projects on the pipeline.

Business Model

Based on the circumstances and expected risks and returns of each prospective project, the Target Group will normally solicit investors for collaboration so as to obtain the required capital from them for the production of the projects. The Target Group will maintain certain percentage of equity interest in the movie/TV projects ranging from 20% to 50%. The financing structure of "Marshall" is a typical one, with the Target Group maintaining 42.92% interest in the project. The Target Group will mainly finance its equity part by way of bank borrowings with the intellectual property rights of the movies or television programs as collaterals. The development and production of the movie or television program projects by the Target Group will be subject to the box office of the movies and the availability of the funding from the investors and the financial institutions. Shall the Target Group be unable to obtain the financing from the investors for the projects, it will reschedule the development and production plan until sufficient funding is obtained. With this flexibility, the Target Group can ensure the sufficiency of its working capital. Another way for the Target Group to invest in the movie projects is to acquire the intellectual property rights of the completed movies directly from the producer and then release it in the PRC.

Specified Projects

As at the Latest Practicable Date, there were a total of three active projects and sixteen prospective projects being or to be developed by the Specified Group, details of which are set out below:

(i) Active Projects

"Marshall"

Marshall Movie, Inc is responsible for the development and production work of the motion picture titled "Marshall" and owns the rights to intellectual property of this movie project including but not limited to the screenplays and other derivative work such as a translation, musical arrangement, dramatization, fictionalization, art reproduction, or any other form in which these projects may be recast, transformed, or adapted. As advised by the Vendor, the motion picture titled "Marshall" was released in the United States on 13 October 2017. According to www.boxofficemojo.com, the box office for the first week of release in the United States amounted to approximately US$4 million. It has also been released in the United Kingdom on 20 October 2017. It is expected that revenue will be generated from the box office of this movie in the coming year after Completion.

The motion picture "Marshall" is a biographical legal drama film produced by Paula Wagner, Reginald Hudlin and Jonathan Sanger and directed by Reginald Hudlin. Paula Wagner has worked in the top ranks of the entertainment industry as a talent agent, film producer, and studio executive and was Tom Cruise's producing partner at Cruise/Wagner Productions. She has been involved in the production of critically acclaimed films with international appeal, including "Mission: Impossible" franchise films I (1996), II (2000), and III (2006), "Without Limits (1998)", "The Others (2001)", etc. Reginald Hudlin is a prolific American writer, director, and producer who has worked in both TV and in the movies and is known for producing/directing/acting of "Django Unchained (2012)", "Boomerang (1992)" and "House Party (1983)". Jonathan Sanger is an American film, television, and theater producer and director and is known for producing "Vanilla Sky (2001)", "The Elephant Man (1980)", etc. In addition to the prestigious production team backing up this movie, the Target Group also secured Open Road Films, LLC for distribution of the movie in the United States. Open Road Films, LLC is a famous distributor for Hollywood blockbusters including those which are the winner of the Best Picture in Oscars.

"Mass Extinction"

The Target Group has engaged Mr. James Wan for development and production of motion picture projects for a 3-year term. The motion picture tentatively titled "Mass Extinction" is planned to be developed by him. Mr. James Wan is a Malaysian-Australian film director, screenwriter, and producer widely known for directing horror films. His famous works include "Saw (2004)", "Dead Silence (2007)", "Death Sentence (2007)", "Insidious (2011)", "The Conjuring (2013)", "Insidious: Chapter 2 (2013)", "Furious 7 (2015)", and "The Conjuring 2 (2016)", etc. Among all these, "Furious 7 (2015)" has grossed over US$1.5 billion worldwide, making it the third highest-grossing film of 2015 and the sixth highest-grossing film of all time.

"The Empress"

The Empress is a television series relating to the anecdotes of the one and only one Empress in Ancient China, Wu Zetian. The Target Group has yet to establish a separate entity for the production of this television series but the blue print of the story line and the potential casts have been laid down.

(ii) Prospective Projects

The Target Group has a plan to develop a motion picture tentatively titled "High Caliber" and has engaged a production house to commence the brainstorming of the story and drafting of the script for the Target Group's consideration. In addition to this, the Target Group is also contemplating more than a dozen of prospective theatrical motion picture projects with topics covering thriller, horror, science fiction, royal conflict, historical figures, etc. The Target Group also plans to acquire the intellectual property rights for broadcasting in the PRC of a film named "Nun", which is a horror film produced by Mr. James Wan and is expected to be released in the United States in 2018.

Based on the current pipelines of the Target Group and the expected box offices to be generated by the movie "Marshall" in the coming year upon Completion, it is expected that there will be sufficient capital for the planned development of four projects as scheduled by the Target Group in the coming year following Completion, assuming the Target Group is able to obtain financing from the movie investors on project basis and debt financing from the financial institutions with intellectual property rights pledged as collaterals. As at the Latest Practicable Date, the Target Group had yet to solicit investors for the prospective projects and the availability of the funding from them will be subject to the circumstances at the time it seeks for the financing for the projects. The Target Group has no commitment to the four projects. Shall there be insufficient funding for the production and development, the plan will be rescheduled.

Financial information

Set out below is the key financial information of the Target Group for the year ended 31 December 2016:

	For the year ended 31 December 2016 *US$'000* (Audited)
Revenue	–
Loss before taxation	(6,575)
Loss after taxation	(6,576)

The Target Group has not commenced any operations in the financial year ended 31 December 2015 and therefore had no revenue or profit/loss in that year. During the year ended 31 December 2016, the Target Group has been mainly investing in the development and production of "Marshall". As such, the Target Group did not record any revenue for that year.

As at 31 July 2017, the audited consolidated net assets of the Target Group attributable to owners of the Target amounted to approximately US$10,320,000. Details of financial information of the Target Group are set out in Appendix II to this circular.

Related party transactions

Starlight Media Inc., the wholly-owned subsidiary of the Target, entered into a service agreement with Sichuan Starlight Media Ltd. (a related company whose controlling shareholder is Mr. Yan's son) dated 1 January 2015, pursuant to which Sichuan Starlight Media Ltd. would provide legal, marketing, financial and human resource services for Starlight Media Inc.. As stated in the accountants' report of the Target Group set out in Appendix II to this circular, the service fees constituted related party transactions for the Target Group for the financial year ended 31 December 2016 and the seven months ended 31 July 2017 which amounted to US$2.68 million and US$1.71 million respectively.

Upon Completion, Starlight Media Inc. and Sichuan Starlight Media Ltd. will terminate the aforesaid service agreement and the Enlarge Group will establish its own operational team by recruiting new employees or recruiting existing employees from Sichuan Starlight Media Ltd., if appropriate, to undertake the aforesaid operational and administrative functions.

BASIS FOR THE CONSIDERATION AND THE AGREED PAYMENT

As set out in the valuation report of the Target Group contained in Appendix IV to this circular, the valuation of the Target Group as at 31 July 2017 ranged from US$23,621,000 to US$27,166,000. The Independent Valuer has adopted (i) a market approach with reference to price-to-book ratio of 18 comparable companies and (ii) an asset based approach with reference to the consolidated net asset value of the Target Group in determining the valuation. Accordingly, the Consideration which was determined with reference to the aforesaid valuation has not taken into account the future earning potentials of the Target Group in respect of the projects currently contemplated by the Vendor and to be developed leveraging on the established network and connections of the Target Group in the Hollywood movie market. To this end, the Purchaser agreed to pay to the Vendor the Agreed Payment equivalent to 30% of all cash dividend payments received by the Company from the Specified Group after recouping the investment cost of the Company with the required annual return of 5% (i.e. "B" as denoted in formula under section headed "Agreed Payment"). The Board considers that it is favourable for the Company to pay for the future earning potentials of the projects only when the potentials are realised as profits and cash dividends are distributed to the Company.

For the purpose of assessing the fairness and reasonableness of the proposed terms of the Agreed Payment (including the Agreed Payment Cap), the Board has considered the implied price-to-earning ratio ("**P/E Ratio**") underlying the Consideration and the Agreed Payment. The Board has made reference to the list of comparable companies adopted by the Independent Valuer, and assessed the implied P/E Ratio of the Consideration and the Agreed Payment by comparing the P/E Ratios of those comparable companies. The P/E Ratios of the comparable companies are set out below:

Companies	Bloomberg Code	P/E Ratio
Ciwen Media Co Ltd	002343 CH	37.45
Zhejiang Talent Television & Film Co Ltd	300426 CH	51.36
H&R Century Union Corp	000892 CH	30.36
Dasheng Times Cultural Investment Co Ltd	600892 CH	38.74
Omnijoi Media Corp	300528 CH	39.19
Creative China Holdings Ltd	8368 HK	N/A
SMI Culture & Travel Group Holdings Ltd	2366 HK	38.34
Zhejiang Huace Film & TV Co Ltd	300133 CH	42.16
China Television Media Ltd	600088 CH	N/A
Huayi Brothers Media Corp	300027 CH	32.44
Beijing Enlight Media Co Ltd	300251 CH	34.31
Beijing HualuBaina Film & TV Co Ltd	300291 CH	39.75
Pegasus Entertainment Holdings Ltd	1326 HK	N/A

Companies	Bloomberg Code	P/E Ratio
Lions Gate Entertainment Corp	LGF/A US	397.90
MGM Holdings Inc.	MGMB US	29.32
Eros International PLC	EROS US	159.42
Carolco Pictures Inc	CRCO US	N/A
Goliath Film & Media Holdings	GFMH US	N/A
	Highest	**397.90**
	Lowest	**29.32**
	Average	**74.61**
	Median	**38.74**

As set out in the table above, the P/E Ratios of the comparable companies range from approximately 29 times to 398 times, with a mean and medium of approximately 75 times and 39 times respectively.

For illustrative purposes, if the Agreed Payment shall amount to the maximum of HK$600 million (i.e. the Agreed Payment Cap), on the assumptions that the Promissory Note would be fully repaid on 1 January 2019 and the original investment costs would be recouped on 31 December 2021, the accumulated Net Profits of the Target Group during the Specified Period (i.e. approximately 4.5 years) would be at least approximately HK$2,224 million (representing approximately HK$494 million per year on average). As such, the total amount payable under the Agreement of HK$795 million would represent an implied P/E Ratio of approximately 1.6 times, which is much lower than the mean, median and the lower bound of the range of the P/E Ratios of the comparable companies. If the accumulated Net Profits of the Target Group and the dividend received by Company from the Specified Group during the Specified Period could only recoup the investment cost paid by the Company adjusted by the required annual return of 5% of approximately HK$224 million (representing approximately HK$50 million per year on average) so that no Agreed Payment is payable by the Company, the Consideration of approximately HK$195 million would represent an implied P/E Ratio of approximately 3.9 times.

Accordingly, the range of the implied P/E Ratio between 1.6 times and 3.9 times underlying the Consideration and Agreed Payment is much lower than the mean, median and the lower bound of the range of the P/E Ratios of the comparable companies.

In light of the above, given (i) Mr. Yan's extensive experience in the international movie industry and his network to reputable and established producers, directors and other professionals in the industry, (ii) the Consideration has not considered the future earning potential of the Target Group, (iii) the Agreed Payment will only be paid to the Vendor after the Group recoups all of its investment in the Target Group, (iv) the non-competition undertaking provided by the Vendor as detailed under the paragraphs headed "Non-competition and other undertakings by the Vendor and the Vendor Guarantor" in this letter from the Board and (v) the aforesaid analysis on implied P/E Ratio underlying the terms of the Consideration and Agreed Payment as a whole, the Board considers that the Agreed Payment is fair and reasonable.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon Completion and immediately after the allotment and issue of the Consideration Shares (assuming no other Shares are issued or repurchased before then):

	As at the Latest Practicable Date		**Upon Completion and immediately after the allotment and issue of the Consideration Shares**	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*
Cosmic Leader *(Note 1)*	369,313,514	56.59	369,313,514	54.83
The Vendor *(Note 2)*	–	–	21,000,000	3.12
Mega Start Limited *(Note 3)*	49,693,600	7.62	49,693,600	7.38
Ms. Chen Hong	200,400	0.03	200,400	0.03
New Elect International Limited *(Note 4)*	1,500,000	0.23	1,500,000	0.22
Public Shareholders	231,857,285	35.53	231,857,285	34.42
Total	**652,564,799**	**100.00**	**673,564,799**	**100.00**

Notes:

1. Cosmic Leader is owned as to 80% by Mr. Yan, who is the Chairman of the Board and an executive Director. Accordingly, Mr. Yan is deemed to be interested in such 369,313,514 Shares for the purpose of the SFO.

2. The Vendor is wholly owned by Mr. Yan. Accordingly, Mr. Yan is deemed to be interested in the 21,000,000 Consideration Shares to be allotted and issued to the Vendor for the purpose of the SFO.

3. Mega Start Limited is wholly owned by Mr. Chau Chit, who is an executive Director. Accordingly, Mr. Chau Chit is deemed to be interested in such 49,693,600 Shares for the purpose of the SFO.

4. New Elect International Limited is wholly owned by Mr. Hung Ching Fung, who is an executive Director. Accordingly, Mr. Hung Ching Fung is deemed to be interested in such 1,500,000 Shares for the purpose of the SFO.

Mr. Yan was interested in 56.59% of the issued share capital of the Company as at the Latest Practicable Date. Upon the allotment and issue of the Consideration Shares, each of Cosmic Leader and the Vendor will be interested in approximately 54.83% and 3.12% respectively of the enlarged issued share capital of the Company. Mr. Yan, who owns 80% equity interests in Cosmic Leader and wholly owns the Vendor, will be interested in an aggregate of approximately 57.95% of the enlarged issued share capital of the Company. As a result, the Acquisition will not result in any change of control of the Company.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As detailed in the section headed "Information of the Group", it has been the Group's intention to look for opportunity to tap into the fast growing movie and TV series industry in the United States and the PRC in view of the optimistic prospects supported by the recent box office records in both regions. The engagement of two prominent Hollywood movie directors, namely Mr. Gray and Mr. Emmerich, by the Group in June and July 2017 respectively is the first move of the Group to implement its plan in this industry while the Acquisition will help the Group spearhead in the media and culture business in the movie and TV sector. The Target Group has engaged Mr. James Wan, a famous Hollywood movie director, for three years for the development of potential blockbuster movies. The Target Group has extensive business networks with the production teams, the agents, the distributors, the casts, etc. The Target Group is familiar with Chinese casts and themes that can be good source for developing movies with Chinese elements. In short, it has what the Group has been looking for to equip itself for the future development of the movie and TV series business in both the United States and the PRC. Furthermore, it is commercially sensible and efficient to tap into the film business through acquisitions of companies with established network and acclaimed contracted movie directors rather than establishing one from scratch. Accordingly, the Board considers that the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group which illustrates the financial impact of the Acquisition on the assets and liabilities of the Enlarged Group has been set out in Appendix III to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information set out in Appendix III to this circular, assuming Completion had taken place in 30 June 2017, the total assets of the Enlarged Group as at 30 June 2017 would have increased from approximately HK$313.0 million to approximately HK$653.6 million; and its total liabilities as at 30 June 2017 would have increased from approximately HK$436.3 million to approximately HK$611.4 million. Under the Agreement, the Company may have to pay the Agreed Payment up to HK$600 million to the Vendor, which constitutes contingent amount payable by the Group.

As also shown in the unaudited pro forma financial information, film products of the Enlarged Group would amount to approximately HK$126.5 million. Following the release of "Marshall" on 13 October 2017, with reference to the box office for the first week of release amounted to approximately US$4 million, the Board has preliminary assessed the potential impact on the fair value of the film products of the Enlarged Group and considered that there was no impairment indicator for the film products as at the Latest Practicable Date.

Earnings

Except for the transaction costs of approximately HK$4.4 million directly attributable to the Acquisition, there will be no immediate material effect on earnings of the Company associated with the Acquisition. Although the Target Group did not generate any revenue for the two years ended 31 December 2015 and 2016, following the release of "Marshall" and the other projects, it is expected that the Target Group would contribute revenue to the Enlarged Group.

LISTING RULES IMPLICATIONS

As certain percentage ratios in relation to the Acquisition exceed 25% but below 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules.

Further, as the Vendor is wholly owned by Mr. Yan (being the Vendor Guarantor), the Chairman of the Board and an executive Director, and was interested in approximately 56.59% of the issued share capital of the Company as at the Latest Practicable Date, each of the Vendor and Mr. Yan is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the SGM.

The Consideration Shares will be issued under a specific mandate to be sought from the Independent Shareholders at the SGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, Mr. Kong Chi Mo and Mr. Hong Tao, has been established to advise the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder. Altus Capital, the Independent Financial Adviser, has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The SGM will be convened and held at 11:00 a.m. on Thursday, 16 November 2017 at Jiangsu Club, 2/F, Alliance Building, 133 Connaught Road Central, Hong Kong for the Independent Shareholders to consider and, if thought fit, to approve the Agreement and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares).

By virtue of Mr. Yan's interest in the Agreement, (i) Mr. Yan has abstained from voting on the Board resolution in relation to the Agreement and the transactions contemplated thereunder; (ii) Mr. Yan and his associates shall abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transactions contemplated thereunder; and (iii) Mr. Yan will abstain from voting on other Board resolution(s) in relation to the transactions contemplated under the Agreement (i.e. the allotment and issue of the Consideration Shares, the issue of the Promissory Note, the payment of the Agreed Payment and the acceptance or rejection to invest or participate in any project or business investment or commercial opportunity notified by the Vendor and/or the Vendor Guarantor pursuant to the non-competition and other undertakings).

A notice convening the SGM for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated thereunder is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 November 2017 to 16 November 2017 (both dates inclusive) for determining the identity of the Shareholders who are entitled to attend and vote at the SGM. No transfer of shares of the Company and/or the conversion of the outstanding convertible bonds will be registered during this period. Shareholders whose name appear on the register of members of the Company on 16 November 2017 shall be entitled to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, unregistered holders of the shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 10 November 2017.

RECOMMENDATIONS

The Directors (excluding members of the Independent Board Committee whose views have been set out below) consider that the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors therefore recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having considered the advice of Altus Capital, is of the opinion that (i) the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 33 to 34 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM and the letter from Altus Capital set out on pages 35 to 69 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Starlight Culture Entertainment Group Limited
Chau Chit
Deputy Chairman and Executive Director

STARLIGHT CULTURE ENTERTAINMENT

STARLIGHT CULTURE ENTERTAINMENT GROUP LIMITED
星光文化娛樂集團有限公司
(formerly known as Jimei International Entertainment Group Limited 集美國際娛樂集團有限公司)
(Incorporated in Bermuda with limited liability)
(Stock Code: 1159)

26 October 2017

To the Independent Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN STARLIGHT LEGEND INVESTMENT LIMITED

We refer to the circular of the Company dated 26 October 2017 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as members of the Independent Board Committee to advise you on whether the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and are in the ordinary and usual course of the business of the Company and in the interests of the Company and the Shareholders as a whole, and as to the voting in respect of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder. Altus Capital has been appointed as the Independent Financial Adviser to advise us and you in this regard. Details of their independent advice, together with the principal factors and reasons they have taken into consideration, are set out on pages 35 to 69 of this circular.

Having considered the advice of Altus Capital, we are of the opinion that (i) the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully
The Independent Board Committee
Mr. Wong Wai Kwan **Mr. Michael Ngai Ming Tak** **Mr. Kong Chi Mo** **Mr. Hong Tao**
Independent Non-Executive Directors

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of incorporation in this circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

26 October 2017

To the Independent Board Committee and the Independent Shareholders

Starlight Culture Entertainment Group Limited
Room 1203, 12/F
118 Connaught Road West
Hong Kong

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN STARLIGHT LEGEND INVESTMENT LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the major and connected transaction in relation to the Acquisition. Details of the Acquisition are set out in the "Letter from the Board" contained in the circular of the Company dated 26 October 2017 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 14 September 2017, the Company (being the Purchaser), the Vendor, and Mr. Yan (being the Vendor Guarantor) have entered into the Agreement, pursuant to which, the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, representing the entire equity interest in the Target, which through its subsidiaries is principally engaged in the development, production and distribution of motion pictures and television series, for the Consideration of US$25 million (equivalent to approximately HK$195 million), which will be satisfied as to (i) HK$94.5 million by the allotment and issue of 21,000,000 Consideration Shares by the Purchaser to the Vendor or its nominee at the Issue Price of HK$4.50 per Consideration Share; and (ii) the balance of approximately US$12.88 million (equivalent to approximately HK$100.5 million) by way of the issue of the Promissory Note by the Company in favour of the Vendor.

IMPLICATIONS UNDER THE LISTING RULES

As certain percentage ratios in relation to the Acquisition exceed 25% but are below 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Shareholders at the SGM.

Further, the Vendor is wholly owned by Mr. Yan (being the Vendor Guarantor), who is the Chairman of the Board, an executive Director, and was interested in approximately 56.59% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, each of the Vendor and Mr. Yan is a connected person of the Company and the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the SGM.

The Consideration Shares will be issued under a specific mandate to be sought from the Independent Shareholders at the SGM.

By virtue of Mr. Yan's interest in the Agreement, (i) he has abstained from voting on the board resolution in relation to the Agreement and the transactions contemplated thereunder; (ii) he and his associates shall abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transactions contemplated thereunder; and (iii) he will abstain from voting on other board resolution(s) in relation to the transactions contemplated under the Agreement, including the allotment and issuance of the Consideration Shares, the issuance of the Promissory Note, the payment with respect to the Agreement Payment and whether to accept or reject investment or participation in any projects, or business investment or commercial opportunities identified by the Vendor and/or Vendor Guarantor pursuant to the non-competition and other undertakings.

Saved as disclosed above, as at the Latest Practicable Date, (i) no other Director has a material interest in the Agreement which required any of them to abstain from voting on the board resolution in relation to the Agreement and the transactions contemplated thereunder; and (ii) to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has any material interest in the Acquisition and therefore none of them would require to abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, Mr. Kong Chi Mo and Mr. Hong Tao, has been established in relation to the Agreement and the transactions contemplated thereunder, and to give advice and recommendation to the Independent Shareholders as to (i) whether the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the ordinary and usual course of business of the Company, and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the SGM for the approval of the Acquisition, taking into account the recommendation of the Independent Financial Adviser.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the ordinary and usual course of business of the Company, and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to be proposed at the SGM for the approval of the Acquisition.

We have not acted as independent financial adviser or financial adviser for the Company's other transactions in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Acquisition is at market level and not conditional upon successful passing of the resolution to be proposed at the SGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the Agreement; (ii) the interim report of the Company for the six months ended 30 June 2017 (the "**2017 Interim Report**"); (iii) the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**"); (iv) the Company's announcement dated 14 September 2017 with regards to the Acquisition; (v) the valuation report of the Target Group prepared by the Independent Valuer (the "**Valuation Report**"); (vi) the accountants' report of the Target Group for each of the three years ended 31 December 2014, 2015 and 2016 and the seven months ended 31 July 2017 issued by Ernst & Young (the "**Accountants' Report**"); and (vii) other information as set out in the Circular. We have relied on the statements, information, opinions, and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions, and representations contained or referred to in the Circular and/or provided to us were true, accurate, and complete at the time they were made and continued to be so as at the date of the Circular. The Directors will collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, information contained in the Circular are accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group nor those of the Target.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below:

1. Background information of the Group

1.1 Principal business of the Group

The Group is principally engaged in entertainment and gaming business, trading of chemical products, energy conservation and environmental protection products, and media and culture business. The Group's operations are mainly located in Australia and the People's Republic of China (the "**PRC**") excluding Hong Kong.

1.2 Financial information of the Group

Set out below is a summary of the financial results of the Group for the two years ended 31 December 2015 and 2016 as extracted from the 2016 Annual Report and the six months ended 30 June 2016 and 2017 as extracted from the 2017 Interim Report.

	For the year ended 31 December		**For the six months ended 30 June**	
	2015	**2016**	**2016**	**2017**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	194.86	195.56	132.73	20.19
Gross (loss)/profit	(1.29)	77.07	60.59	(3.63)
Profit/(loss) attributable to owners of the Company	8.73	(39.77)	28.55	(237.86)
Revenue by segments				
Entertainment and gaming business	178.77	193.14	130.59	8.54
Chemical products, and energy conservation and environmental protection products	16.09	2.42	2.14	11.65
Media and culture business	–	–	–	–
Total	**194.86**	**195.56**	**132.73**	**20.19**

	As at 31 December		As at 30 June
	2015	**2016**	**2017**
	HK$ million	*HK$ million*	*HK$ million*
	(Audited)	(Audited)	(Unaudited)
Total assets	553.79	381.65	313.01
Total liabilities	435.54	317.15	436.34
Net assets/(liabilities)	118.25	64.51	(123.33)
Debt-to-assets ratio[1]	57.44%	72.33%	123.92%
Current assets	533.36	360.04	293.28
Current liabilities	220.94	109.59	206.39
Net current assets	312.42	250.45	86.89
Bank balances and cash	316.19	133.00	151.69

Source: 2016 Annual Report and 2017 Interim Report

Note:

1. Debt-to-assets ratio is defined as total interest-bearing liabilities divided by the Group's total assets.

For the year ended 31 December 2016

For the year ended 31 December 2016, the Group's revenue amounting to approximately HK$195.56 million remained at a similar level as compared to that of approximately HK$194.86 million in 2015 as the increase in the promotion commission from the entertainment and gaming business for the period from 2015 to 2016 was offset by the decrease in service income from patrons and the net invoiced value of sales from the entertainment and gaming business for the same period.

The Group recorded a gross profit of approximately HK$77.07 million for the year ended 31 December 2016 and a gross loss of approximately HK$1.29 million for the previous year. Such improvement from a loss to a profit was mainly due to the drop of the cost of goods sold and services provided from approximately HK$196.14 million in 2015 to approximately HK$118.49 million in 2016.

The Group recorded loss attributable to owners of the Company of approximately HK$39.77 million for the year ended 31 December 2016. The change from gross profit to net loss for such period was mainly attributable to (i) impairment loss on trade and other receivables of approximately HK$100.86 million; (ii) finance costs of approximately HK$68.74 million; and (iii) administrative expenses of approximately HK$42.78 million. For the corresponding period in 2015, the Group recorded profit attributable to owners of the Company of approximately HK$8.73 million. The change from gross loss to net profit for such period was mainly due to gain on change in fair value of derivative financial liabilities of approximately HK$52.24 million. The change from net profit to net loss was mainly attributable to a significant increase in the impairment loss on trade and other receivables from approximately HK$15.41 million in 2015 to approximately HK$100.86 million in 2016 mainly due to the Management's view over the recoverability of amounts due from gaming patrons.

The Group's net assets decreased from approximately HK$118.25 million as at 31 December 2015 to approximately HK$64.51 million as at 31 December 2016, representing a decline of approximately 45.44%. The decrease in net assets was mainly attributable to the reduction in bank balances and cash from approximately HK$316.19 million as at 31 December 2015 to approximately HK$133.00 million recorded as at 31 December 2016, mainly due to net cash used in operating activities.

As at 31 December 2016, the Group's debt-to-assets ratio (defined as total interest-bearing liabilities divided by total assets) was approximately 72.33% as compared to that of approximately 57.44% as at 31 December 2015. As the amount of interest-bearing liabilities remained relatively stable at both year end dates, the decrease in bank balances and cash resulted in a lower total asset balance as at 31 December 2016; and in turn, gave rise to an increase in the debt-to-assets ratio.

For the six months ended 30 June 2017

For the six months ended 30 June 2017, the Group's revenue reduced to approximately HK$20.19 million from approximately HK$132.73 million for the corresponding period in 2016, representing a significant reduction of approximately 84.79%. The overall decrease in revenue was mainly due to a substantial drop in the revenue of the entertainment and gaming business from approximately HK$130.59 million for the six months ended 30 June 2016 to approximately HK$8.54 million for the same period in 2017. This was a result of the Group's tightened credit control over the gaming promotion business and the cessation of the junket arrangement with NagaWorld in relation to promoting gaming tables within a licensed casino in Cambodia following the non-renewal of contract. The Group had not generated revenue from media and culture business for the six months ended 30 June 2017.

The Group recorded a gross loss of approximately HK$3.63 million for the six months ended 30 June 2017 and a gross profit of approximately HK$60.59 million for the corresponding period in 2016. Such change from a profit to a loss was mainly attributable to the decrease in revenue as described above.

Loss attributable to the owners of the Company for the six months ended 30 June 2017 amounted to approximately HK$237.86 million, while for the same period in 2016, the Group recorded profit attributable to the owners of the Company amounted to approximately HK$28.55 million. Such change from a profit to a loss attributable to the owners of the Company was mainly due to (i) the change from gross profit to gross loss as described above; and (ii) the loss of approximately HK$151.66 million incurred for the six months ended 30 June 2017 on change in fair value of derivative financial liabilities in relation to the derivative component of the convertible bonds issued by the Company as compared to a gain of approximately HK$68.72 million recorded for same period in 2016.

As at 30 June 2017, the Group recorded net liabilities of approximately HK$123.33 million as compared to the net assets of approximately HK$64.51 million as at 31 December 2016. Such change from a net asset to a net liability position was mainly attributable to the net loss recorded for the six months ended 30 June 2017 as described above.

As at 30 June 2017, the Group's debt-to-assets ratio (defined as total interest-bearing liabilities divided by total assets) was approximately 123.92%, which was significantly higher as compared to the debt-to-assets ratio of approximately 72.33% as at 31 December 2016. The substantial increase in the debt-to-assets ratio was mainly due to (i) the significant increase in the Group's derivative financial liabilities in relation to the derivative component of convertible bonds of the Company due 2018 from approximately HK$6.26 million as at 31 December 2016 to approximately HK$157.92 million as at 30 June 2017 as a result of the significant increase in Share price during the six months ended 30 June 2017; and (ii) the decrease in trade and other receivables balance of the Group from approximately HK$227.04 million as at 31 December 2016 to approximately HK$141.59 million as at 30 June 2017 as a result of the decrease in the balance of advances to gaming patrons following the cessation of the junket arrangement with NagaWorld as mentioned above.

The bank balances and cash of the Group increased from approximately HK$133.00 million as at 31 December 2016 to approximately HK$151.69 million as at 30 June 2017, which was mainly due to net cash generated from operating activities and investing activities, offset by the net cash used in financing activities.

1.3 Outlook of the Group

According to the Management, the global economy and financial markets are expected to be unstable as the global economy is still under a period of profound adjustments after events such as the financial crisis, the Brexit and the United States presidential election. In addition to the above, the Group also predicted that going forward, the worldwide business environment will be challenging due to the downward pressure on the economy of the PRC.

Since the change in controlling shareholder of the Company and the appointment of a new board of Directors during the first half of 2017, the Group has strived to improve its performance in both its trading business as well as entertainment and gaming business in light of the overall loss made by the Group in the year ended 31 December 2016 and the six months ended 30 June 2017. Aside from above, the Group is actively seeking for and seizing suitable investment opportunities for business diversification in order to respond to the dynamic business environment and maximise the returns to and values of the Group and the Shareholders as a whole.

With the commitment towards diversifying its businesses, the Group has established its media and culture business during the first half of 2017 by engaging Mr. Felix Gary Gray (who is an American film director, film producer, music video director and actor) and Mr. Roland Emmerich (who is an America's Hollywood film director, screenwriter and producer) for the development and production of motion picture projects. For details of the engagements with Mr. Felix Gary Gray and Mr. Roland Emmerich, please refer to the announcements of the Company dated 28 June 2017 and 3 July 2017 respectively. As the Management believes that there is room for development of global culture and media industry, the Group shall continue to explore the opportunities to further expand its culture and media business in order to broaden the income sources.

The Management indicated that, based on (i) the development of the media and culture business of the Group so far; and (ii) Mr. Yan's extensive experience in the entertainment business and the experienced core management team as described in the composite offer document issued by the Company dated 10 May 2017 in relation to the general offer to acquire the shares of the Company, they are confident in steadily developing the aforesaid businesses.

2. Background information on the Target Group

2.1 Principal business of the Target Group

The Target Group is principally engaged in the development, production and distribution of motion pictures and television. Starlight Media Inc., which was incorporated on 8 September 2014, is a wholly-owned subsidiary of the Target and is the major operating subsidiary of the Target Group. Starlight Media Inc. holds 51% of the shareholding of Marshall Holding, LLC which is the controlling shareholder of Marshall Film, LLC. For details of the group structure of the Target Group, please refer to section headed "Letter from the Board" of the Circular.

As at the Latest Practicable Date, the Target Group had three active projects and 16 prospective projects on hand, of which the three active projects are already invested with certain funds and capitalised on the financial statements of the Target Group, including (i) a motion picture titled "Marshall" which had been released in the United States on 13 October 2017; (ii) a television series titled "The Empress" which is in the development stage and is expected to be released in 2019; and (iii) a motion picture project tentatively titled "Mass Extinction" under the planning stage which is to be developed and directed by Mr. James Wan, a famous Malaysian-Australian film director, screenwriter and producer. The Target Group has engaged Mr. James Wan, to develop and produce three theatrical motion picture projects during a term of three years, one of which is the motion picture project "Mass Extinction" as mentioned above.

2.2 Financial information of the Target Group

Set out below is a summary of the financial results of the Target Group for the three years ended 31 December 2014, 2015 and 2016 and the seven months ended 31 July 2016 and 2017, as extracted from the Accountants' Report.

	For the year ended 31 December			**For the seven months ended 31 July**	
	2014	**2015**	**2016**	**2016**	**2017**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	–	–	–	–	–
Gross profit	–	–	–	–	–
Loss attributable to owners of the Target Group	–	–	(6.58)	(4.05)	(3.97)

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
	US$ million	*US$ million*	*US$ million*	*US$ million*
	(Audited)	(Audited)	(Audited)	(Audited)
Total assets	–	1.55	22.66	20.24
Total liabilities	–	–	(22.71)	(5.48)
Net assets/(liabilities)	–	1.55	(0.05)	14.77
Current assets	–	1.55	22.63	20.20
Current liabilities	–	–	5.97	5.48
Net current assets	–	1.55	16.66	14.72
Cash and cash equivalents	–	0.80	2.08	0.98

Source: Accountants' Report

As none of the Target Group's motion pictures or television programs have been released up to 31 July 2017, the Target Group had not generated any revenue or gross profit since the date of incorporation until 31 July 2017. The net losses for the year ended 31 December 2016 and the seven months ended 31 July 2017 were mainly due to administrative expenses and finance costs.

The Target Group recorded total assets of approximately US$1.55 million as at 31 December 2015 which mainly comprised cash and cash equivalents and amounts due from related parties, while the Target Group had no liabilities as at 31 December 2015. The Target Group's total assets increased substantially from approximately US$1.55 million as at 31 December 2015 to approximately US$22.66 million as at 31 December 2016. This was mainly attributable to the increase in capitalised costs in relation to the production of the "Marshall" movie project. The Target Group's total liabilities increased from nil as at 31 December 2015 to approximately US$22.71 million as at 31 December 2016 due to the increase in the amount of interest-bearing loans and amount due to related parties. The combination of above effects resulted in the Target Group having net liabilities of approximately US$0.05 million as at 31 December 2016, as compared to net assets of approximately US$1.55 million as at 31 December 2015.

The Target Group returned to a net asset position with net assets of approximately US$14.77 million as at 31 July 2017, primarily due to the transfer of a substantial part of the interest-bearing loans and amount due to related parties amounting to approximately US$18.73 million in total to the Vendor by issuing 95 shares with a par value of US$1 as consideration upon the completion of the reorganisation of the Target Group on 31 July 2017.

The Target Group recorded cash and cash equivalents of approximately US$0.80 million as at 31 December 2015 and approximately US$2.08 million as at 31 December 2016. Such increase in cash and cash equivalents as at 31 December 2016 was mainly due to the net cash generated from investing activities and financing activities, offset by the net cash used in operating activities. As at 31 July 2017, the Target Group's cash and cash equivalents decreased to approximately US$0.98 million, mainly attributable to the net cash used in operating activities, offset by the net cash generated from financing activities.

2.3 Outlook of the Target Group

Given (i) the positive prospects of the global culture and media industry especially the movie segment as mentioned under the section headed "Industry overview" in Appendix IV to the Circular; (ii) the cooperation with Mr. Reginald Hudlin (who is the director of the movie "Marshall") and Mr. James Wan, whom are both well-known film directors with good track record; and (iii) the project pipelines of the Target Group and its growth potential, the Target Group is well positioned to ride on this industry growth.

3. Reasons for and benefits of the Acquisition

3.1 Adherence to the Group's business strategy

As mentioned above, in view of the historical financial performance of the Group, it has been attempting to diversify its existing business portfolio to broaden the income sources and, in turn, to enhance the value of the Group. During the seven months ended 31 July 2017, the Group had established the media and culture business by engaging Mr. Felix Gary Gray and Mr. Roland Emmerich to produce and develop motion picture projects. The Group believes that such engagements will allow it to tap into the business of movie production and distribution. Further, as discussed with the Management, we noted that with the support (i) of Mr. Yan's extensive experience in the entertainment business; and (ii) from an experienced core management team, the Management is confident of steadily expanding its media and culture business.

According to the Management and as stated in the 2017 Interim Report, the Group believes there is a room for development of film and television series, and therefore it continues to explore potential acquisition opportunities to further expand its entertainment business. In consideration of the above, the Management believes the Acquisition adheres to the Group's overall development strategies.

3.2 Appropriate timing

As stated in the section headed "2.2 Financial information of the Target Group" above in this letter, the business of the Target Group has not contributed any revenue since inception up to 31 July 2017 as none of the Target Group's motion pictures or television series have been released. However, having considered that (i) the Target Group has three active projects and 16 prospective projects on hand, in particular, among the active projects, a motion picture titled "Marshall" had been released in the United States on 13 October 2017, of which the box office for the first week of release amounted to approximately US$4 million, and a television series titled "The Express" is in the planning stage and expected to be released in 2019; (ii) the Target Group has been cooperating with well-known directors, namely Mr. Reginald Hudlin and Mr. James Wan, to produce and develop motion picture projects; (iii) the Target Group has led to the network of various producers, directors, production companies and other professionals in the industry in the US (which we noted from the Management that the Target Group has from time to time kept a database of contacts of market professionals) and is expected to be able to scale up through engagement of well-known directors or producers or development of new projects or recruitment of new talented directors or producers when opportunity arises; and (iv) the prospects of the movie industry as well as the outlook of the Target Group, the Management is of the view that the timing of the Acquisition is at an opportune time.

Although the Management may decide to establish a new company to develop its media and culture business as an alternative to the Acquisition, the Management has taken into account (i) the latest stage of development of the Target Group, in particular, it had released a motion picture titled "Marshall" in the United States on 13 October 2017 and there are several active projects on hand; (ii) the Target Group is already co-operating with well-known directors, namely Mr. Reginald Hudlin and Mr. James Wan and through them has led to a network with various producers, directors, production companies and other professionals in the industry in the United States as mentioned above; (iii) the uncertainty of the time and cost required to establish a new company which may be comparable to the league to co-operate with the same or higher caliber of directors or producers as the Target Group; and (iv) the outlook of the movie and television series industry in the United States and the PRC in view of the optimistic prospects supported by the recent box office records in both regions, the

Management believes, and we concur that it is more commercially sensible and efficient to acquire the Target Group than establishing a new company for the Group's expansion into media and culture business from scratch.

3.3 Section summary

Considering the existing financial position of the Group and the current stage of development of the Target Group, we concur with the Management that it is now an opportune time to effect the Acquisition. In particular, with the release of a motion picture titled "Marshall" in October 2017, it will start to generate income for the Target Group and hence the Enlarged Group after Completion. In addition, given (i) the Target Group's cooperation with Mr. Reginald Hudlin (who is the director of the movie "Marshall") and Mr. James Wan, whom are both well-known film directors with good track record; (ii) the Target Group has established its brand image among the market practitioner in the Hollywood movie markets, resulting from its extensive networks with various producers, directors, production companies and other professionals in the industry; (iii) we have reviewed the biography of the employees of the Target Group and noted that the two key persons in managing the movie and television program production projects of the Target Group possessed the relevant skills and experience considering they have more than two years and ten years of work experience in the movie and television industry; and (iv) the Target Group has three active projects and 16 prospective projects on hand, in particular, among the three active projects, the aforesaid motion picture had been released in the United States on 13 October 2017 of which the box office for the first week of release amounted to approximately US$4 million, the Management is of the view and, we concur that the Acquisition will add relevant skills and assets to the Enlarged Group for future projects in the entertainment industry.

In view of the above, we are of the view that although the Acquisition is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Agreement

We summarise below the principal terms of the Agreement. For more details, please refer to the "Letter from the Board" of the Circular.

Date of the Agreement	14 September 2017
Consideration	The Consideration for the Sale Shares shall be US$25 million (equivalent to approximately HK$195 million), which shall be satisfied: (i) as to HK$94.5 million by the allotment and issue of 21,000,000 Consideration Shares by the Company to the Vendor or its nominee, credited as fully paid, at the Issue Price of HK$4.50 per Consideration Share; and (ii) as to the balance of approximately US$12.88 million (equivalent to approximately HK$100.5 million) by way of the issue of the Promissory Note by the Company in favour of the Vendor.
Agreed Payment	The Company agreed to pay to the Vendor the Agreed Payment based on the future performance of the Target Group only after it has recouped its investment costs (i.e. the Consideration) with required annual return of 5%. Agreed Payment = (A – B) × 30% where A = all cash dividends received by the Company from the Specified Group for the period from 1 August 2017 to 31 December 2024 B = the Consideration x (1 + (5% x C))

C = (number of days commencing from and including (i) the date on which full payment of the Promissory Note by the Company to the Vendor until and including (ii) the earlier of (a) 31 December 2021 or (b) the date on which the cumulative cash dividends received by the Company or its relevant subsidiaries from the Specified Group is equal to the Consideration) ÷ 365

The Agreed Payment shall not exceed the Agreed Payment Cap, which is the lower of HK$600,000,000 or an amount calculated in accordance with the following formula:

$$\text{Agreed Payment Cap} = (D - B) \times 30\%$$

where

D = the aggregate Net Profits for the Specified Period provided that the Net Profit for the five months ending 31 December 2017 shall be the net amount of the Net Profits for the seven months ended 31 July 2017 and that for the year ending 31 December 2017 as reflected in the audited financial statements of the Specified Group prepared by the Designated Auditor and provided further that any loss position shall be stated as a negative figure;

B = the Consideration x (1 + (5% x C));

C = (number of days commencing from and including (i) the date on which full payment of the Promissory Note by the Company to the Vendor until and including (ii) the earlier of (a) 31 December 2021 or (b) the date on which the cumulative cash dividends received by Company or its relevant subsidiaries from the Specified Group is equal to the Consideration) ÷ 365

Note: For the avoidance of doubt, if (i) D is a negative figure; or (ii) (D-B) is a negative figure, then the Agreed Payment Cap shall be zero.

When considering reasonableness of the terms of the Agreement, we have taken into account the following factors:

4.1 Consideration

The Consideration in the sum of US$25 million (equivalent to approximately HK$195 million), was arrived at after arm's length negotiations between the Purchaser and the Vendor and with reference to the valuation of the Target Group as at 31 July 2017 in a range of US$23,621,000 to US$27,166,000 (the **"Valuation"**) as assessed by the Independent Valuer.

4.1.1 The Valuation Report

We have discussed with the Independent Valuer regarding its expertise and noted that the Independent Valuer (i) is an independent professional valuer which has been involved in the PRC market, including Hong Kong; and (ii) has over 40 years of experience since its establishment in 1975 and has completed various assignments for companies listed on the Stock Exchange. We also noted that the person in charge of this valuation exercise (i) has been involved in business enterprise and intangible asset valuation services for the purposes of joint venture, merger & acquisition and public listing for over 20 years; and (ii) is a fellow member of the Association of Chartered Certified Accountants, an accredited senior appraiser of the American Society of Appraisers and a charter holder of the Chartered Financial Analyst. The Independent Valuer confirmed that it is an Independent Third Party to the parties to the Agreement and their respective core connected persons. We have reviewed the terms of the Independent Valuer's engagement letter and noted that the scope of work is appropriate for arriving at the opinion of market value of the 100% equity interest in the Target Group and we are unaware that there are any limitations on the relevant scope of work. Furthermore, nothing has come to our attention that the parties to the Agreement had made formal or informal representation to the Independent Valuer that contravenes with our understanding of the information, to a material extent, as set out in the Circular. Based on the above, we are of the opinion that we have complied with the requirements of Rule 13.80(2)(b) Note 1(d) of the Listing Rules.

4.1.2 The assumptions and methodology

(i) The assumptions

The full text of the Valuation Report is set out in Appendix IV to the Circular. We noted that the Independent Valuer has established a number of general assumptions in valuing the Target Group, namely (i) no major changes are expected in political, legal and economic conditions in China and US; (ii) regulatory environment and market conditions for movie and TV production industry will be developing according to prevailing market expectations; (iii) there will be no major changes in the current taxation law applicable to the Target Group; (iv) the Target Group will not be constrained by the availability of finance; (v) the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and (vi) the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations. In the course of our discussion with the Independent Valuer with regards to the assumptions adopted in the Valuation Report, we noted that such assumptions are standard assumptions commonly adopted in valuing businesses and considered these assumptions to be fair and reasonable.

(ii) The methodology

As to the methodology adopted by the Independent Valuer in arriving at the Valuation, we noted that the Valuation was prepared by the Independent Valuer in compliance with the International Valuation Standards. We also noted that the Independent Valuer had considered the three common methodologies in preparing the Valuation, namely, income approach, market approach and asset based approach. Given that the Target Group is at the start-up stage and no movie or television program project has been commercialised as of the valuation date, the Independent Valuer is of the view that using income approach to value the Target Group as a whole is not appropriate. Hence, the Independent Valuer has based on (i) the market approach; and (ii) the asset based approach to arrive at the value.

Market approach

As advised by the Independent Valuer, the market approach is a common approach in valuing companies similar to that of the Target Group. Under the market approach for this case, the value of the Target Group is determined based on the recent trading multiples of listed comparable companies. The trading prices is expected to reflect the fundamentals and risk expectation of the businesses of companies engaging in a similar industry to the Target Group, despite such guideline public companies have different size of operation scale.

We noted from the Independent Valuer and as stated in the Valuation Report that, when using the market approach, the guideline public company method was applied when determining the valuation of the Target Group. When applying the guideline public company method, the Independent Valuer determined a pricing multiple, which is the price-to-book ("**P/B**") ratio, for valuing the Target Group by computing the P/B ratios of the guideline public companies. The pricing multiple was then applied to the consolidated net asset value excluding non-controlling interest of the Target Group as at 31 July 2017 to arrive at an estimate of value of the Target Group adjusted for control premium and lack of marketability discount.

Having considering that (i) the books of companies engaging in movie and/or television program production business could well reflect the value of the business due to significant portion of direct costs incurred on producing movies and television programs being capitalised on the balance sheet in accordance with typical financial reporting requirements; and (ii) the Target Group recorded net loss of approximately US$6.58 million for the year ended 31 December 2016 and therefore, no profitability metrics can be applied as a reasonable market multiples of the Target, we concur with the view of the Independent Valuer that by applying P/B ratio is an appropriate and fair valuation multiple for the valuation of the Target Group. As regards the selection of guideline public companies for determining the pricing multiple, we have reviewed the Independent Valuer's basis of selection, which include (i) companies listed in the United States, China and Hong Kong, which are the target markets of the active movie and television program projects of the Target Group, with active trading status under industry segment named "Entertainment Content" as default field in Bloomberg equity screening function; and (ii) companies of which more than 50% of their latest financial year's total revenue is attributable to movie or television program production business, which is the same business nature as the Target Group, and are of the view that the Independent Valuer has a reasonable basis in selecting the guideline public companies.

As advised by the Independent Valuer, a control premium and a discount for lack of marketability have been incorporated in the valuation of the Target Group based on guideline companies' multiples. We noted from the Independent Valuer that the control premium was adopted with reference to Bloomberg data. We have further discussed with the Independent Valuer and noted that the discount for lack of marketability was adopted with reference to the study by FactSet Mergerstat LLC which is one of the world's major providers of financial information and analytical data for investment professionals. Given that the above studies were produced by global database providers, we considered that it is appropriate for the Independent Valuer to make reference to them in determining the control premium and discount for lack of marketability.

Based on the above, we are of the view that the use of market approach in the valuation of the Target Group and the assumptions adopted thereunder are fair and reasonable.

Asset based approach

As defined in the International Valuation Standards, asset based approach is a method of indicating the value of business or business interest based on a summation of the net value of the individual assets and liabilities. Each of the assets and liabilities are valued using either the market, income or cost approaches. We noted that the Independent Valuer has taken the consolidated net asset value excluding non-controlling interest of the Target Group as at 31 July 2017 and adjusted by certain factors in accordance with the guidance of the International Valuation Standards using the concept of replacement cost method under cost approach. According to the replacement cost method, it is assumed that a participant would pay no more for the asset than the cost that would be incurred to replace the asset with a substitute of comparable utility or functionality.

We noted that the Independent Valuer has considered (i) the direct and indirect costs of replacing the utility of the assets, including labour, materials and overhead; and (ii) the opportunity costs which reflect costs associated with not having the subject asset in place for some period of time during its creation when applying the replacement cost method. We also noted that the Independent Valuer had adjusted upwards the consolidated net asset value by including (i) the opportunity costs in relation to the active movie and television program projects of the Target Group; (ii) the opportunity costs in relation to the engagement with Mr. James Wan in relation to the development and production of motion picture projects; and (iii) the accumulated expenses incurred for business development and startup activities which the Independent Valuer considered to be essential for supporting the development of the movie and television program projects of the Target Group.

We further noted from the Independent Valuer that the opportunity costs in relation to active movie and television program projects of the Target Group and Mr. James Wan's engagement as mentioned above were calculated based on an assumed required rate of return of 27%. According to the Independent Valuer, it is the common market practice to use required rate of return to calculate the opportunity costs of a business. In this Valuation, the assumed required rate of return of 27% was proxied to and referenced from a research study issued by the Glucksman Institute for Research in Securities Markets of New York University in April 2010 which analysed in depth the financing of films released in the last decade (January 2000 – October 2009). The Independent Valuer is of the view that this report is reliable and is the best available research report to be referenced to as (i) New York University is renowned for researches on movie industry; (ii) there are limited research reports on movie or television industry published; and (iii) the movie market in the United States is mature and therefore the data in relation to the market is relatively stable across the past decade. According to the Independent Valuer, the American Institute of Certified Public Accountants had published in a valuation guide that the average rates of 5-year and 10-year return for investing in venture capital companies amounted to approximately 26% and 28% respectively. Taking into account the above, we concur with the view of the Independent Valuer that using 27% as the required rate of return for calculating the opportunity costs is fair and reasonable. In addition, we have discussed with the Independent Valuer regarding their basis on the abovementioned adjustments and considered that they are fair and reasonable.

Based on the above, we are of the view that the use of asset based approach in the valuation of the Target Group and the assumptions adopted thereunder are fair and reasonable.

4.1.3 Section summary

Taking into account the above and our discussions with the Independent Valuer, we consider the valuation methodology and the assumptions adopted by the Independent Valuer in arriving at the Valuation are fair and reasonable, and therefore, the amount of Consideration of US$25 million, which is within the range of the Valuation, is fair and reasonable.

4.2. Consideration Shares

4.2.1 The issue price per Consideration Share

The issue price of HK$4.50 per Consideration Share was determined after arm's length negotiations with reference to the prevailing market price of the Shares and represents:

(a) a discount of approximately 2.17% to the closing price of the Shares of HK$4.60 on the Last Trading Day;

(b) a discount of approximately 4.01% to the average of the closing prices of the Shares of HK$4.688 for the five trading days up to and including the Last Trading Day;

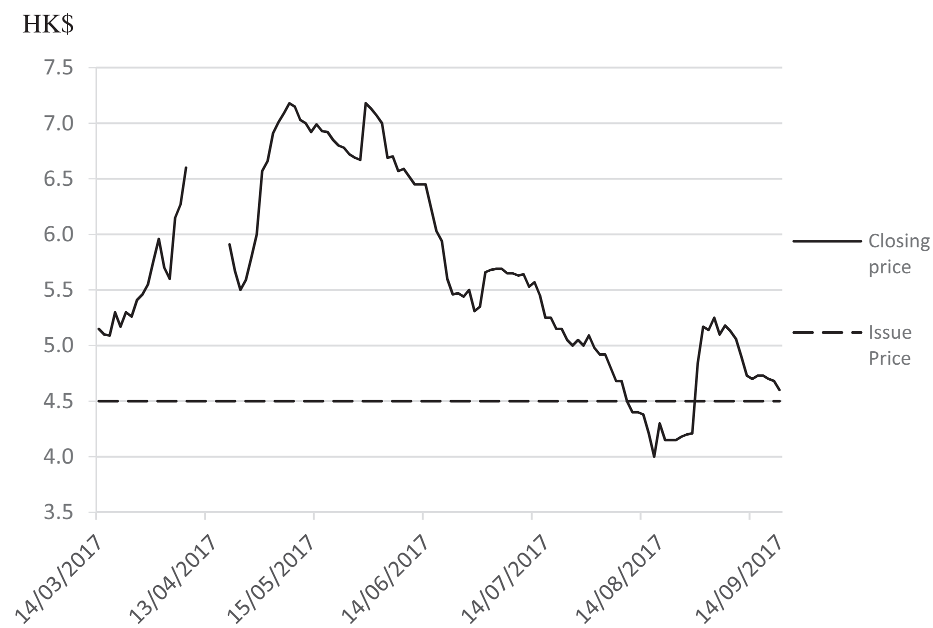
(c) a discount of approximately 6.17% to the average of the closing prices of the Shares of HK$4.796 for the ten trading days up to and including the Last Trading Day; and

(d) a premium of approximately 6.38% over the closing price of the Shares of HK$4.23 on the Latest Practicable Date;

As mentioned in the section headed "1.2 Financial information of the Group" above, the Group had bank balances and cash amounted to approximately HK$151.69 million as at 30 June 2017. Besides, as mentioned in the section headed "Indebtedness" in Appendix I to the Circular, as at 31 August 2017, the Group had (i) interest-bearing bank borrowings of approximately HK$35.4 million repayable by instalments up to May 2018; (ii) amounts due to non-controlling interests of subsidiaries of the Company of approximately HK$23.0 million; and (iii) convertible bonds with outstanding principal amount of HK$315.0 million which will mature in December 2018. Therefore, the Company does not have sufficient cash to fully settle the Consideration. On the other hand, if the Consideration is to be settled solely by debt, the gearing position of the Group will further deteriorate considering the already high debt-to-assets ratio of the Company as at 30 June 2017. Hence, the Management believes and we concur that by issuing Shares as part of the Consideration is a viable way to complete the Acquisition without further worsening the gearing position of the Group, and is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4.2.2 Analysis of movements in Share price

For the purpose of assessing the fairness and reasonableness of the Issue Price, we have reviewed the movements in closing price of the Shares during the period from 14 March 2017, being six months immediately preceding the Last Trading Day, to the Last Trading Day (the "**Review Period**"). We are of the view that a period of six months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Issue Price considering the change in the controlling shareholder of the Company had taken place in early April 2017.



Source: the Stock Exchange website

Note:

1. Trading of Shares was suspended from 7 April 2017 to 19 April 2017 as a result of the entering into the agreement in relation to the sale of the Shares to Cosmic Leader, which has become the controlling shareholder of the Company. The sale of the Shares to Cosmic Leader was announced on 20 April 2017 and trading in the Shares resumed on the same date.

During the Review Period, the lowest closing price per Share was HK$4.00 recorded on 11 August 2017, while the highest closing price per Share was HK$7.18 recorded on 9 May 2017 and 29 May 2017. The average daily closing price per Share during the Review Period was HK$5.61. The Issue Price is within the aforesaid range, but below the daily average of the closing price of the Shares during the Review Period. However, Shareholders should note that this analysis of movement in share price of the Company is for illustration purpose only. We are of the view that the share price of the Company may not fairly reflect the underlying business value of the Company considering a combination of effects, namely (i) the possible market speculation by the Shareholders and the prospective investors as no concrete business plans had been solidified or announced by the Board during May 2017 after the change in controlling shareholder of the Company and the Board; and (ii) the thin historical trading volume and low historical liquidity of the Shares as discussed in the section headed "4.2.3 Trading volume and liquidity analysis" below, which may had resulted in the spike in the Share price around the period of change in controlling shareholder of the Company and the Board, and hence, resulting in a higher average daily closing price during the Review Period.

4.2.3 Trading volume and liquidity analysis

Set out below is (i) the average daily trading volume of the Shares in each month during the Review Period; (ii) the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares; and (iii) the respective percentages of the average daily trading volume of the Shares as compared to the total number of Shares held by the public.

	Average daily trading volume of the Shares	**% of the average daily trading volume to the total number of issued Shares[1]**	**% of the average daily trading volume to the total number of Shares held by the public shareholders[2]**
2017			
March (from 14 March)	1,061,323	0.19%	0.75%
April[3]	1,416,900	0.25%	1.00%
May	297,160	0.05%	0.21%
June	265,153	0.04%	0.12%
July	581,214	0.09%	0.26%
August	291,055	0.04%	0.13%
September (up to the Last Trading Day)	54,500	0.01%	0.02%

Source: the Stock Exchange website

Notes:

1. Based on the total number of issued Shares as at each month end or as at the Last Trading Day (for September 2017).

2. Based on the total number of issued Shares held by the public shareholders of the Company as at each month end or as at the Last Trading Day (for September 2017).

3. The suspension period of trading (from 7 April 2017 to 19 April 2017) is excluded in calculating the average daily trading volume of the Shares.

As illustrated in the above table, the percentage of the average daily trading volume to the total number of issued Shares ranged from approximately 0.01% to 0.25%, and approximately 0.02% to 1.00% of the total number of Shares held by the public shareholders of the Company. The average daily trading volume of the Shares during the Review Period was approximately 503,847 Shares, representing approximately 0.08% of the total number of issued Shares as at the Last Trading Day and approximately 0.22% of the total number of Shares held by the public shareholders of the Company as at the Last Trading Day. Given that (i) the trading volume of the Shares during the Review Period had generally been thin and the historical liquidity of the Shares was low; and (ii) the possible market speculation on the share price as mentioned above, we are of the view that it is reasonable for the Issue Price to be determined at a slight discount to the closing price of the Shares on the Last Trading Day. Shareholders should note that, as we have mentioned above, the analysis on share price of the Company is for illustration purposes only and we are of the view that the current share price may not fairly reflect the underlying business value of the Company.

4.2.4 Section summary

Taking into account of (i) the downward trend of closing prices of Shares in general during the Review Period as shown in the chart above; and (ii) the relatively thin overall liquidity of the Shares as mentioned above, we are of the view that the Issue Price, though representing a slight discount to the daily average of the closing price of the Shares during the Review Period, is fair and reasonable and was reached based on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

4.3 Promissory Note

The Company will issue the Promissory Note of approximately US$12.88 million (equivalent to approximately HK$100.5 million) to settle the remaining portion of the Consideration. The Promissory Note shall bear no interest and shall be unsecured and shall be due on the date falling 12 months from the Completion Date.

In view of the liquidity position and the indebtedness of the Group as at 30 June 2017 as mentioned in the section headed "1.2 Financial information of the Group" above, the Management believes that the issue of Promissory Note will (i) enable the Group to defer its cash payment without incurring additional finance cost to the Group; and (ii) allow greater flexibility to the Group and help preserve its cash resources for working capital needs prior to the maturity of the Promissory Note. We understand from the Management that the Promissory Note will be fully repaid by internal resources by the maturity date. Taking into account the above, we are of the view that the issuance of the Promissory Note to settle the remaining portion of the Consideration is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

4.4 Agreed Payment

The terms of the Agreed Payment are set out above.

The Management considers, and we concur, that under such arrangement, the Agreed Payment will only be paid to the Vendor after the Group achieves breakeven on its investment in the Target Group. In other words, the Group will be able to recover the full cost of the Acquisition which is equivalent to the amount of the Consideration including its opportunity costs represented by the factor of 1 + (5% x C) before making the Agreed Payment to the Vendor. We understand from the Management that the 5% used in the opportunity cost factor represents the required rate of return of the Group and we consider using required rate of return of the Group to calculate the opportunity cost of the Acquisition is fair and reasonable.

As discussed in the section headed "Consideration" above, the Consideration was arrived based on the valuation of the Target Group as assessed by the Independent Valuer using (i) the market approach; and (ii) asset based approach. Under market approach, the value of the Target Group was determined based on the P/B ratio of the comparable companies and the consolidated net asset value excluding non-controlling interest of the Target Group as at 31 July 2017. Under asset based approach, the value of the Target Group was determined based on the consolidated net asset value excluding non-controlling interest of the Target Group as at 31 July 2017 and adjusted by certain opportunity costs. Whilst we noted that the valuation of the Target Group did not take into account the future earning potentials of the Target Group, we are aware that the Target Group had 16 prospective projects as at the Latest Practicable Date, which may contribute to future earnings of the Target Group, and these projects are currently contemplated by the Vendor and to be developed by the Specified Group leveraging on the established network, experience and connections of the Target Group in the Hollywood movie market and the Chinese TV program market. In view of the above and the outlook of the movie and TV series industry in the United States and the PRC, we believe that the arrangement for the Company to pay for the future earning potentials of the prospective projects only when the potentials are realised as profits and cash dividends are distributed to the Company is acceptable.

In assessing the fairness and reasonableness of the proposed terms of the Agreed Payment (including the Agreed Payment Cap), we noted that the Board has performed an analysis by comparing the implied price-to-earnings ratio ("**P/E Ratio**") underlying the Consideration and the Agreed Payment and the P/E Ratios of the comparable companies identified by the Independent Valuer as set out in the "Letter from the Board" of the Circular. As discussed in the section headed "The methodology" above, we are of the view that the selection of the comparable companies by the Independent Valuer is fair and reasonable. Accordingly, we are of the view that it is fair and reasonable for the Board to make reference to the P/E Ratios of the same list of comparable companies for their own analysis. Considering (i) the range of the implied P/E Ratio underlying the Consideration and the Agreed Payment (which for illustrative purpose and subject to certain assumptions as shown in the "Letter from the Board") is much lower than the mean, median and the lower bound of the range of the P/E Ratios of the comparable companies; and (ii) the Vendor will only be entitled to Agreed Payment after the Enlarged Group has recovered the full costs of Acquisition and the opportunity cost, and therefore the Enlarged Group will not suffer any loss from the Acquisition because of the Agreed Payment arrangement, we are of the view that the proposed terms of the Agreed Payment (including the Agreed Payment Cap) are fair and reasonable.

In assessing the fairness and reasonableness of the Agreed Payment arrangement, we have attempted to identify comparable transactions (i.e. which are both a notifiable transaction and a connected transaction) with similar arrangement of Hong Kong listed companies in the past 24 months prior to the date of the Agreement. We have identified four transactions with arrangement of additional payment based on future profits of the target companies to the vendors on top of the initial consideration, which we believed to be exhaustive as far as we are aware of.

	Date of announcement	Company name (Stock code)	Principal activities of the target company	Percentage acquired	Initial amount of consideration	Maximum amount of total consideration
1.	31 May 2017	Orange Sky Golden Harvest Entertainment (Holdings) Limited (1132)	Providing distribution and agency services for advertisements.	100%	HK$56.8 million	HK$71 million
2.	9 August 2016	LISI Group (Holdings) Limited (526)	Engaging in parallel import of cars in the PRC.	100%	RMB270 million	RMB916 million
3.	18 May 2016	Wai Chun Mining Industry Group Company Limited (660)	Organising exhibition of the artwork of a world famous artist and sale of merchandising materials in relation to the exhibition.	100%	HK$650 million	HK$770 million
4.	21 December 2015	China Public Procurement Limited (1094)	Operating an electronic platform for clearing and settlement services.	100%	Approximately HK$625 million	Approximately HK$1,251 million
	14 September 2017	The Company	Engaging in the development, production and distribution of motion pictures and television programs.	100%	Approximately HK$195 million	Approximately HK$795 million

Since there are only four transactions with similar arrangement for illustration purpose only during the abovementioned review period, we are not able to come to a conclusive opinion that such additional payment arrangement is a common market practice. However, the above table also illustrates that it is not an uncommon feature in a commercial transaction to have an arrangement to pay additional consideration to the vendors based on the future profits of the target companies for acquisitions made by companies listed in Hong Kong.

Considering that (i) the Consideration is determined based on the valuation with reference to the P/B ratio and the consolidated net asset value of the Target Group, and therefore, the future earning potentials of the Target Group have not been taken into account in determining the amount of Consideration; (ii) the Vendor will only be entitled to Agreed Payment after the Enlarged Group has recovered the full costs of Acquisition and the opportunity cost, and therefore the Enlarged Group will not suffer any loss from the Acquisition just because of the Agreed Payment arrangement; (iii) the Enlarged Group will share 30% of the profits derived from the Acquisition to the Vendor and the Enlarged Group can still retain 70% of profits; (iv) the projects being or to be developed by the Specified Group are contemplated by the Vendor and are developed leveraging on the established network, experience and connections of the Target Group in the Hollywood movie market and the Chinese television program market; (v) the reasons and benefits of the Acquisition as discussed in the section headed "3. Reasons for and benefits of the Acquisition" above; and (vi) it is not an uncommon feature in a commercial transaction to have an arrangement to pay additional consideration to vendors based on future profits of companies to be acquired, we are of the view that the Agreed Payment arrangement is fair and reasonable.

4.5 Section summary

Having considered our discussion in sections 4.1 to 4.4 above, we are of the view that the terms of the Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

5. Effect of dilution on public Shareholders

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) upon Completion and immediately after the allotment and issuance of the Consideration Shares (assuming no other Shares are issued or repurchased before then):

	As at the Latest Practicable Date		**Upon Completion and immediately after the allotment and issue of the Consideration Shares**	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*
Cosmic Leader Holdings Limited[1]	369,313,514	56.59	369,313,514	54.83
The Vendor[2]	–	–	21,000,000	3.12
Mega Start Limited[3]	49,693,600	7.62	49,693,600	7.38
Ms. Chen Hong	200,400	0.03	200,400	0.03
New Elect International Limited[4]	1,500,000	0.23	1,500,000	0.22
Public Shareholders	231,857,285	35.53	231,857,285	34.42
Total	**652,564,799**	**100.00**	**673,564,799**	**100.00**

Notes:

1. Cosmic Leader is owned as to 80% by Mr. Yan, who is the Chairman of the Board and the executive Director. Accordingly, Mr. Yan is deemed to be interested in such 369,313,514 Shares for the purpose of the SFO.

2. The Vendor is wholly owned by Mr. Yan. Accordingly, Mr. Yan is deemed to be interested in the 21,000,000 Considerations Shares to be allotted and issued to the Vendor for the purpose of the SFO.

3. Mega Start Limited is wholly-owned by Mr. Chau Chit, who is an executive Director. Accordingly, Mr. Chau Chit is deemed to be interested in such 49,693,600 Shares for the purpose of the SFO.

4. New Elect International Limited is wholly-owned by Mr. Hung Ching Fung, who is an executive Director. Accordingly, Mr. Hung Ching Fung is deemed to be interested in such 1,500,000 Shares for the purpose of the SFO.

As illustrated in the above shareholding table, upon Completion, a total of 21,000,000 Consideration Shares will be allotted and issued by the Company to the Vendor pursuant to the Agreement as payment for part of the Consideration. As a result, the aggregate shareholding of the public Shareholders will then be diluted from approximately 35.53% to 34.42%, representing a dilution of approximately 1.11%.

Although the Acquisition will result in a dilution for the public Shareholders, we have taken into account (i) the reasons for and benefit of the Acquisition; (ii) the Consideration being fair and reasonable to the Company and the Shareholders as a whole; (iii) the issuance of Consideration Shares is a viable way to complete the Acquisition without worsening the gearing position of the Group; (iv) the Issue Price being fair and reasonable so far as the Independent Shareholders are concerned; and (v) the potential financial impact to the Group as a result of the Acquisition (as further described in the section below), and consider the effect of dilution on the public Shareholders to be acceptable and fair and reasonable.

6. Possible financial effects as a result of the Acquisition

Upon Completion, the Target will become a subsidiary of the Company, and its financial results, assets and liabilities will be consolidated with the accounts of the Group thereafter. The possible financial effects of the Acquisition on the Group's net current assets, net assets/liabilities and gearing position as described in Appendix III to the Circular are summarised and considered below. However, it should be noted that the analysis below is for illustration purpose only and does not purport to represent the financial position of the Group upon Completion. The actual financial effects from the Acquisition will be computed based on the financial information of the Target Group on the Completion Date.

6.1 Net current assets, net assets/liabilities

Assuming the Acquisition had been completed on 30 June 2017, the Enlarged Group's net current assets would increase from approximately HK$86.89 million to approximately HK$142.67 million. Such improvement would be mainly due to (i) the increase in film products assets; (ii) the increase in trade and other receivables balance; and offset by (iii) the increase in the balance of promissory note as a result of the Acquisition. Besides, the bank balances and cash would also slightly increase from approximately HK$151.69 million to approximately HK$159.32 million.

Assuming the Acquisition had been completed on 30 June 2017, the financial position of the Enlarged Group would improve from net liabilities of approximately HK$123.33 million to net assets of approximately HK$42.15 million. Such improvement would be mainly due to the increase in the amount of goodwill and the film products assets as a result of the Acquisition.

6.2 Gearing position

As at 30 June 2017, the debt-to-assets ratio of the Group was approximately 123.92%, being the total interest-bearing liabilities divided by total assets. Assuming the Acquisition had been completed on 30 June 2017, the debt-to-assets ratio of the Enlarged Group would be improved to approximately 64.77%.

6.3 Working capital

According to the "Financial information of the Group" as set out in Appendix I to the Circular, after due care and careful consideration of the cash flow forecast and with its underlying assumptions, the Directors are of the opinion that, after taking into account the Acquisition, the present financial resources available to the Enlarged Group, including internally generated funds, existing available banking facilities, the Enlarged Group will have sufficient working capital to meet its present requirements for at least twelve months from the date of this circular in the absence of unforeseen circumstances.

6.4 Revenue and loss for the six months ended 30 June 2017

As mentioned in paragraph "1.2 Financial information of the Group" above, the Group recorded revenue of approximately HK$20.19 million for the six months ended 30 June 2017. Also mentioned in the paragraph headed "3.2 Appropriate timing" above, following the release of a motion picture titled "Marshall" in October 2017, it will start to generate income for the Target Group and hence the Enlarged Group after Completion. Accordingly, it is expected that the Acquisition will enhance and expand the revenue source of the Enlarged Group.

Despite the fact that the Group recorded a loss attributable to the owners of the Company of approximately HK$237.86 million for the six months ended 30 June 2017, in light of the growth prospects and potential for future revenue from the media and entertainment projects to be developed by the Enlarged Group, the Management is confident that the enhanced revenue source after Completion will bring positive contribution to the profitability of the Enlarged Group. We note that except for the transaction costs of approximately HK$4.4 million directly attributable to the Acquisition, there will be no immediate material effect on earnings of the Company associated with the Acquisition.

6.5 Section summary

Having considered the abovementioned possible financial effects of the Acquisition, which is not expected to have any material adverse impact on the Enlarged Group immediately upon Completion, we are of the view that the overall possible financial effects to the Group as a result of the Acquisition are acceptable.

We wish to draw the attention of the Shareholders that, as the fair value of the Target to be acquired by the Group under the Acquisition at Completion may be substantially different from the fair value used in the preparation of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the actual financial effects of the Acquisition on the Enlarged Group at the Completion may be different from the amounts presented in this section and the differences may be significant.

RECOMMENDATION

In view of the above principal factors and reasons for the Acquisition, we are of the view that (i) the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable as far as Independent Shareholders are concerned; and (ii) although the Acquisition is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Jeanny Leung
Executive Director

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 26 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.starlightcul.com.hk/):

- annual report of the Company for the year ended 31 December 2014 published on 13 February 2015 (pages 41-162);
- annual report of the Company for the year ended 31 December 2015 published on 20 April 2016 (pages 40-130); and
- annual report of the Company for the year ended 31 December 2016 published on 26 April 2017 (pages 57-154).
- interim report of the Company for the six months ended 30 June 2017 published on 25 September 2017 (pages 19-57).

2. INDEBTEDNESS

As at 31 August 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has outstanding indebtedness as summarised below:

Bank borrowings

The Target Group had interest-bearing bank borrowings of HK$37.4 million repayable by instalments up to May 2018. The aforesaid bank borrowings are secured by Starlight Legend Investment Limited's film products with a net carrying amount of approximately HK$99.9 million as at 31 August 2017.

Amounts due to non-controlling interests of subsidiaries of the Company

The Group had amounts due to non-controlling interests of subsidiaries of the Company of approximately HK$23.0 million which are unsecured, interest-free and repayable on demand.

Convertible bonds

The Group had convertible bonds of approximately HK$234.2 million with principal amounts of approximately HK$315 million. The convertible bonds will mature in December 2018.

Contingent liabilities

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, loans, bank overdraft or other similar indebtedness, financial leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities as at 31 August 2017.

Disclaimers

Saved as aforesaid, and apart from intra-group liabilities, and normal accounts payable, the Enlarged Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, any authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 August 2017.

The Directors confirm that there is no material change in the indebtedness and contingent liability of the Enlarged Group from the close of business on 31 August 2017 to the Latest Practicable Date.

3. WORKING CAPITAL

After due care and careful consideration of the cash flow forecast and with its underlying assumptions, the Directors are of the opinion that, after taking into account the Acquisition, the present financial resources available to the Enlarged Group, including internally generated funds, existing available banking facilities, the Enlarged Group will have sufficient working capital to meet its present requirements for at least twelve months from the date of this circular in the absence of unforeseen circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group has shown improvement for its trading business for the first half of 2017. The revenue and gross profit generated from its trading segment for the six months ended 30 June 2017 have increased compared with the corresponding period in 2016. The Group will strive to maintain continued improvement for its trading business while at the same ensuring stringent credit control over its trading customers.

Affected by the junket arrangement with NagaWorld which came to an end in early 2017, and under tightened credit control over the Group's gaming promotion business, the revenue has decreased and a gross loss was recorded for the first half of 2017 for entertainment and gaming segment. The Group will monitor its position in the gaming and entertainment business from time to time subject to the prevailing market condition.

Since the first half of 2017, the Group has established its media and culture business through engaging with famous film directors. As mentioned in the letter from the Board, the Group has engaged Mr. Emmerich and Mr. Gray for development and production of motion picture projects. The Group is diversifying and enhancing the entertainment business of the Group through movie production and distribution. The Acquisition would be a springboard for the Group to realise its vision to develop the film production and distribution business with Hollywood expertise collaborated with Chinese elements such as Chinese casts and Chinese topics so as to attract the international investors and audiences. Leveraging on Mr. Yan's extensive experience in the entertainment business and under the leadership of an experienced and energetic core management team, the Board has full confidence that the Group can steadily develop its businesses.

The Group shall strive to take a prudent approach in business development to safeguard a higher shareholder's return.

1. ACCOUNTANT'S REPORT OF THE TARGET GROUP

The following is the text of a report received from the Company's reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

EY安永

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The Directors
Starlight Culture Entertainment Group Limited
(formerly known as Jimei International Entertainment Group Limited)

Dear Sirs,

We set out below our report on the historical financial information of Starlight Legend Investment Limited (the "Target Company") and its subsidiaries (together the "Target Group"), which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for each of the years ended 31 December 2014, 2015 and 2016, and the seven months ended 31 July 2017 (the "Relevant Periods"), and the consolidated statements of financial position of the Target Group as at 31 December 2014, 2015 and 2016 and 31 July 2017, and the statement of financial position of the Target Company as at 31 July 2017 (together, the "Historical Financial Information"), and the comparative consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Target Group for the seven months ended 31 July 2016 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 and 2.2 below, for inclusion in the circular of Starlight Culture Entertainment Group Limited (the "Company") dated 26 October 2017 (the "Circular") in connection with the proposed acquisition of the Target Company (the "Acquisition") by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Target Group as at 31 December 2014, 2015 and 2016 and 31 July 2017 and the Target Company as at 31 July 2017 and of the performance and cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the seven months ended 31 July 2016 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

No dividends were paid by the Target Company in respect of the Relevant Periods.

No historical financial statements for the Target Company

As at the date of this report, no statutory financial statements have been prepared for the Target Company since its date of incorporation.

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (the "Underlying Financial Statements").

The Historical Financial Information is presented in United States dollars and all values are rounded to the nearest thousand (US$'000) except when otherwise indicated.

Consolidated statements of profit or loss and other comprehensive income

		Year ended 31 December			Seven months ended 31 July	
		2014	2015	2016	2016	2017
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
REVENUE		–	–	–	–	–
Cost of sales		–	–	–	–	–
Gross profit		–	–	–	–	–
Other income and gains		–	–	–	–	–
Selling and distribution expenses		–	–	(78)	(22)	(23)
Administrative expenses		–	–	(5,262)	(3,477)	(2,687)
Other expenses		–	–	(37)	(36)	(2)
Finance costs	*8*	–	–	(1,198)	(512)	(1,257)
LOSS BEFORE TAX	*7*	–	–	(6,575)	(4,047)	(3,969)
Income tax expense	*10*	–	–	(1)	–	–
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		–	–	(6,576)	(4,047)	(3,969)
Attributable to:						
Owners of the parent		–	–	(6,314)	(3,830)	(3,881)
Non-controlling interests		–	–	(262)	(217)	(88)
		–	–	(6,576)	(4,047)	(3,969)

Consolidated statements of financial position

		As at 31 December			As at 31 July
		2014	2015	2016	2017
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*12*	–	–	32	47
Total non-current assets		–	–	32	47
CURRENT ASSETS					
Film products	*14*	–	–	12,373	12,773
Prepayments, deposits and other receivables	*16*	–	–	5,896	6,445
Amounts due from related parties	*18*	–	750	2,276	–
Cash and cash equivalents	*17*	–	801	2,081	978
Total current assets		–	1,551	22,626	20,196
CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	*20*	–	–	–	4,545
Other payables and accruals	*19*	–	–	893	930
Tax payable		–	–	1	1
Amounts due to related parties	*18*	–	–	5,074	–
Total current liabilities		–	–	5,968	5,476
NET CURRENT ASSETS		–	1,551	16,658	14,720
TOTAL ASSETS LESS CURRENT LIABILITIES		–	1,551	16,690	14,767
NON-CURRENT LIABILITIES					
Interest-bearing loans	*20*	–	–	16,738	–
Total non-current liabilities		–	–	16,738	–
Net assets/liabilities		–	1,551	(48)	14,767
EQUITY					
Equity attributable to owners of the parent					
Issued capital	*22*	–	–	–	–
Reserves	*23*	–	801	(4,533)	10,320
		–	801	(4,533)	10,320
Non-controlling interests		–	750	4,485	4,447
Total equity		–	1,551	(48)	14,767

Consolidated statements of changes in equity

	Attributable to owners of the parent						
	Issued capital US$'000 (Note 22)	Merger reserve* US$'000 (Note 23)	Capital reserve* US$'000 (Note 23)	Accumulated losses* US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2014, 31 December 2014 and 1 January 2015	–	–	–	–	–	–	–
Capital contribution from the controlling shareholder	–	20	781	–	801	–	801
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	750	750
At 31 December 2015 and 1 January 2016	–	20	781	–	801	750	1,551
Loss and total comprehensive income for the year	–	–	–	(6,314)	(6,314)	(262)	(6,576)
Capital contribution from the controlling shareholder	–	980	–	–	980	–	980
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	3,997	3,997
At 31 December 2016	–	1,000	781	(6,314)	(4,533)	4,485	(48)
At 31 December 2016 and 1 January 2017	–	1,000	781	(6,314)	(4,533)	4,485	(48)
Issue of shares	–	–	–	–	–	–	–
Acquisition of equity interest of a subsidiary from the controlling shareholder	–	(1,000)	1,000	–	–	–	–
Conversion of net liabilities to equity	–	–	18,734	–	18,734	50	18,784
Loss and total comprehensive income for the period	–	–	–	(3,881)	(3,881)	(88)	(3,969)
At 31 July 2017	–	–	20,515	(10,195)	10,320	4,447	14,767

* *These reserve accounts comprise the consolidated reserves of US$ nil, US$801,000, US$(4,533,000) and US$10,320,000 in the consolidated statements of financial position as at 31 December 2014, 2015 and 2016 and 31 July 2017, respectively.*

	Attributable to owners of the parent						
	Issued capital US$'000 (Note 22)	Merger reserve* US$'000 (Note 23)	Capital reserve* US$'000 (Note 23)	Accumulated losses* US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 31 December 2015 and 1 January 2016	–	20	781	–	801	750	1,551
Capital contribution from the controlling shareholder	–	980	–	–	980	–	980
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	3,997	3,997
Loss and total comprehensive income for the period	–	–	–	(3,830)	(3,830)	(217)	(4,047)
At 31 July 2016 (unaudited)	–	1,000	781	(3,830)	(2,049)	4,530	2,481

Consolidated statements of cash flows

		Year ended 31 December			Seven months ended 31 July	
		2014	**2015**	**2016**	**2016**	**2017**
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		–	–	(6,575)	(4,047)	(3,969)
Adjustments for:						
Finance costs	*8*	–	–	1,198	512	1,257
Depreciation	*12*	–	–	12	1	8
		–	–	(5,365)	(3,534)	(2,704)
Increase in prepayments, deposits and other receivables		–	–	(3,096)	(2,879)	(3,509)
Increase in film products		–	–	(9,893)	(8,602)	(400)
Decrease/(Increase) in amounts due from related parties		–	–	(1,526)	(526)	2,276
Decrease in other payables and accruals		–	–	742	175	15
Increase/(Decrease) in amounts due to related parties		–	–	(4,191)	(5,531)	2,201
NET CASH FLOWS USED IN OPERATING ACTIVITIES		–	–	(23,329)	(20,897)	(2,121)
CASH FLOWS FROM INVESTING ACTIVITIES						
Advances of loans to third parties		–	–	(100)	(100)	–
Repayment of loans from third parties		–	–	–	–	25
Purchases of items of property, plant and equipment		–	–	(42)	(34)	(23)
Other cash inflows from investing activities		–	–	3,036	3,036	–
NET CASH FLOWS FROM INVESTING ACTIVITIES		–	–	2,894	2,902	2

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital contribution from the Controlling Shareholder	–	801	980	980	–
Capital contribution from non-controlling shareholders of subsidiaries	–	–	3,997	3,997	–
New interest-bearing bank loans and other loans	–	–	16,738	13,688	1,016
NET CASH FLOWS FROM FINANCING ACTIVITIES	–	801	21,715	18,665	1,016
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	–	801	1,280	670	(1,103)
Cash and cash equivalents at beginning of year/period	–	–	801	801	2,081
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	–	801	2,081	1,471	978
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and non-pledged bank balances	–	801	2,081	1,471	978
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENTS OF FINANCIAL POSITION					
Cash and cash equivalents as stated in the statements of financial position	–	801	2,081	1,471	978

Statement of financial position of the Target Company

		As at 31 July 2017
	Notes	*US$'000*
NON-CURRENT ASSETS		
Investment in a subsidiary	*13*	19,734
Total non-current assets		19,734
TOTAL ASSETS LESS CURRENT LIABILITIES		19,734
Net assets		19,734
EQUITY		
Issued capital	*22*	–
Reserves	*23*	19,734
		19,734
Total equity		19,734

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. Corporate Information

Starlight Legend Investment Limited (the "Target Company") was incorporated in the Republic of Seychelles on 25 April 2017 as an international business company with limited liability under the International Business Companies ACT, 2016 (ACT 15 of 2016) of the Republic of Seychelles. The registered office address of the Target Company is Vistra Corporate Services Centre, Second Floor, The Quadrant, Manglier Street, Victoria, the Seychelles.

The Target Company is an investment holding company. During the Relevant Periods, the Target Company's subsidiaries were principally engaged in the media and movie and related businesses.

The Target Company and its subsidiaries comprising the Target Group has finished underwent the Reorganisation. Upon completion of the Reorganisation, that is 31 July 2017, the Target Company became the holding company of the subsidiaries comprising the Target Group.

In the opinion of the Target Company's directors (the "Directors"), the holding company and ultimate holding company of the Target Company is Rare Jewels Limited (the "Parent"), a company established in the British Virgin Islands ("BVI"), which is wholly owned by Mr. Yan Xu (the "Controlling Shareholder").

According to the Letter Agreement on Reorganisation of Starlight Media Inc. ("Starlight Media") which was issued on 31 July 2017, the Reorganisation comprised the following steps:

(a) Equity transfer to the Target Company

On 31 July 2017, the Controlling Shareholder transferred all his 100% stake equity in Starlight Media to the Target Company for a consideration of the US$1,000,000.00.

(b) Net liabilities transfer to the Target Company

On 31 July 2017, Starlight Media transferred its net liabilities with the various creditors or debtors in the amount of US$18,734,000.00, which included the amount due to related parties, the amount due from related parties and other loans from related parties in the amount of US$8,460,000, US$2,934,000 and US$13,208,000, respectively, to the Target Company, and Starlight Media issued to the Target Company 18,734 shares with a par value of US$1,000 each for consideration.

(c) Net liabilities transfer to the Parent

On 31 July 2017, the Target Company transferred the net liabilities as above to the Parent, and Target Company issued to the Parent 94 shares with a par value of US$1 each for consideration.

As at the date of this report, the Target Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Target Company		Principal activities
			Direct	Indirect	
		US$'000	*%*	*%*	
Starlight Media Inc. ("Starlight Media")*(1)(2)*	CA, USA 8 September 2014	1,000	100	–	Media and movie operation
Marshall Holding, LLC ("Marshall Holding")*(1)(3)*	CA, USA 3 November 2015	7,138	–	51	Investment holding
Marshall Film, LLC ("Marshall Film")*(1)(4)*	CA, USA 23 October 2015	8,413	–	84.15	Media and movie operation
Marshall Movie, Inc ("Marshall Movie")*(1)(5)*	NY, USA 28 April 2016	20	–	100	Media and movie operation

Notes:

(1) The consolidated financial statements of these companies for the year ended 31 December 2016 and for the period from 8 September 2014 (date of incorporation) to 31 December 2015 prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Ernst & Young Hua Ming LLP, Certified Public Accountants registered in the PRC.

(2) Starlight Media was established on 8 September 2014 in California, the United States, and is wholly owned by Mr. Yan Xu.

(3) Marshall Holding is an equity joint limited liability company and was established by Sichuan Starlight Media Ltd. and Superhero Film Ltd. on 3 November 2015 in California, the United States. Sichuan Starlight Media Ltd. owned 51% of the equity interest. On 1 January 2016, Starlight Media acquired the entire 51% interests in Marshall Holding from Sichuan Starlight Media Ltd. Further details of this acquisition are included in notes 25 (a) and 26 (c) to the Historical Financial Information.

(4) Marshall Film which is mainly engaged in the production of the film titled "Marshall", was established by Mr. Belton Lee on 23 October 2015 in California, the United States, with no capital contribution made. On 2 June 2016, Marshall Film became owned as to 90.49% by Marshall Holding, 9.51% by Double L Equity, LLC and 0.00% by Mr. Belton Lee. Further details of this acquisition are included in note 25 (b) to the Historical Financial Information.

Marshall Holding then transferred 3.17% and 3.17% of economic interests (without voting rights) of Marshall Film to other independent third parties on 14 July 2016 and 31 July 2016, respectively. As at 31 December 2016 and 31 July 2017, Marshall Holding owned 84.15% economic interests in Marshall Film.

(5) Marshall Movie was established on 28 April 2016 in New York, the United States, and is wholly owned by Marshall Film.

2.1 Basis of Presentation

The Target Company and its subsidiaries now comprising the Target Group were under the common control of Mr. Yan Xu before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Target Group for the Relevant Periods include the results and cash flows of all companies now comprising the Target Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholder, where this is a shorter period. The consolidated statements of financial position of the Target Group as at 31 December 2014, 2015, 2016 and 31 July 2017 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholder prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All significant intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

2.2 Basis of Preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Historical Financial Information been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The Historical Financial Information is presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements include the financial statements of the Target Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared using consistent accounting policies with the Target Company. The results of subsidiaries are consolidated from the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group. All intra-Target Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

If the Target Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries set out in note 4 below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3. Issued but not yet Effective Hong Kong Financial Reporting Standards

The Target Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in the Historical Financial Information:

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 15	*Revenue from Contracts with Customers (Clarifications to HKFRS 15)*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HKFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 1 included in *Annual Improvements 2014-2016 Cycle*	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
Amendments to HKAS 28 included in *Annual Improvements 2014-2016 Cycle*	*Investments in Associates or Joint Ventures*[1]

[1] *Effective for annual periods beginning on or after 1 January 2018*

[2] *Effective for annual periods beginning on or after 1 January 2019*

[3] *No mandatory effective date yet determined but available for adoption*

Further information about those HKFRSs that are expected to be applicable to the Target Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Target Group expects to adopt HKFRS 9 from 1 January 2018. The Target Group has performed a high-level assessment of the impact of adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Target Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

(a) Classification and measurement

The Target Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Target Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Target Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Target Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

Amendments to HKFRS 10 and HKAS 28 address the conflict between HKFRS 10 and HKAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in HKFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The HKICPA has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Target Group does not plan to early adopt HKFRS 15. The Target Group has performed a preliminary assessment of the potential impact of the adoption of HKFRS 15 on the Target Group. Based on the preliminary assessment, the Target Group expects to include more comprehensive disclosure as requested by the new standard. In addition, a contract that contains two or more performance obligations would be accounted for separately and this might have an impact on pattern of revenue and profit recognition.

The HKICPA issued amendments to HKFRS 2 *Share-based Payment* in August 2016 that address diversity in practice in three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

On adoption, entities are allowed to apply the amendments without restating prior periods, but retrospective application is permitted if entities elect to adopt all the amendments regarding the above three main areas and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Target Group is assessing the potential effect of the amendments on its consolidated financial statements.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Target Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

HK(IFRIC)-Int 23 was issued in July 2017. HKAS 12 *Income Taxes* specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. HK(IFRIC)-Int 23 provides requirements that add to the requirements in HKAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. Management is still assessing the impact on the financial performance and position of the Target Group resulting from the adoption of HK(IFRIC)-Int 23 for the annual period beginning on 1 January 2019.

4. Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Target Company's profit or loss to the extent of dividends received and receivable. The Target Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations for acquisition of subsidiaries other than under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Target Group, liabilities assumed by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. For each business combination, the Target Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Target Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Target Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Target Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Target Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

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

ii) has significant influence over the Target Group; or

iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

i) the entity and the Target Group are members of the same group;

ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

iii) the entity and the Target Group are joint ventures of the same third party;

iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group; and the sponsoring employers of the post-employment benefit plan;

vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	25.00%
Office equipment	33.33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessor, assets leased by the Target Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Target Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Target Group's financial liabilities include Interest-bearing loans, other payables and accruals and amounts due to related parties.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

After initial recognition, interest-bearing loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Film products and films under production

Film products, less estimated residual value and impairment losses, are amortised in proportion to the estimated projected revenues over their economic beneficial period. Film products pending or under theatrical release are included in current assets whereas film products for markets other than theatrical release are included in non-current assets. Cost of film products, accounted for on a project-by-project basis, includes production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film.

Films under production include production costs, costs of services, direct labour costs, facilities and raw materials consumed in the creation of a film. Upon completion, these films under production are reclassified as film products. Films under production are accounted for on a project-by-project basis and are stated at cost less any impairment losses.

An impairment loss is made if there has been a change in the estimated use to determine the recoverable amount and the carrying amount exceeds the recoverable amount.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue can be measured reliably, on the following bases:

(a) income from films licensed to movie theatres, when the films are exhibited;

(b) licence income from films licensed for a fixed fee or non-refundable guarantee under a non-cancellable contract, where an assignment is granted to the licensee which permits the licensee to exploit those film rights freely and where the Target Group has no remaining obligations to perform and when the film materials have been delivered to licensees. Revenue recognised is limited to the amount of consideration received and subject to due allowance for contingencies;

(c) licence income from films licensed, other than for a fixed fee or non-refundable guarantee under a non-cancellable contract, to licensees, over the licence period and when the films are available for showing or telecast;

(d) sale of products and albums, when significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the products and albums sold;

(e) distribution commission income, when the album or film materials have been delivered to the wholesalers and distributors;

(f) album licence income and music publishing income, on an accrual basis in accordance with the terms of the relevant agreements;

(g) income from gross box-office takings for film exhibition is recognised upon the sale of tickets and when the film is released; and

(h) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of the Target Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

5. Significant Accounting Judgements and Estimates

The preparation of the Target Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Accounting for film products

The costs of film products, less residual values, are amortised in proportion to the estimated projected revenues over the economic beneficial period. Additional amortisation is made if estimated projected revenues are materially different from the previous estimation.

Management bases its estimates of total projected revenues of each film on the historical performance of similar films, incorporating factors such as the past box office record of the leading actors and actresses, the genre of the film, anticipated performance in the home entertainment, television and other ancillary markets, and agreements for future sales.

These estimated projected revenues can change significantly due to a variety of factors. Based on information available on the actual results of films, management reviews and revises, when necessary, the estimated projected revenues at regular intervals. Such change in revenue projections or estimations may result in a change in the rate of amortisation and/or the write-down of the carrying values of the assets to recoverable amount. This could have an impact on the Target Group's results of operations. The carrying amount of film products carried in the consolidated statement of financial position as at 31 December 2016 and 31 July 2017 was US$12,373,000 and US$12,773,000, respectively, details of which are set out in note 14 to the Historical Financial Information.

Useful lives of property, plant and equipment

The Target Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying amount of property, plant and equipment carried in the consolidated statement of financial position as at 31 December 2016 and 31 July 2017 was US$32,000 and US$47,000, respectively, details of which are set out in note 12 to the Historical Financial Information.

6. Segment Information

For management purposes, the Target Group has only one reportable operating segment which is film production and distribution operation. Since this is the only reportable operating segment of the Target Group, no further operating segment analysis thereof is presented.

7. Loss Before Tax

The Target Group's loss before tax from continuing operations is arrived at after charging:

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Services expense	–	–	2,991	1,607	1,713
Interest on interest-bearing loans *(note 8)*	–	–	1,198	512	1,257
Accounting, legal and professional service expense	–	–	326	134	412
Minimum lease payments under operating leases	–	–	119	–	134
Consulting expenses	–	–	154	36	57
Employee benefit expense:					
Wages and salaries	–	–	20	–	46
Social security contributions	–	–	2	–	18
Depreciation of items of property, plant and equipment *(note 12)*	–	–	12	1	8
Signing bonus for film projects	–	–	1,000	–	–

8. Finance Costs

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Interest on bank loans	–	–	149	93	72
Interest on loans from related parties	–	–	1,049	419	1,185
	–	–	1,198	512	1,257

9. Five Highest Paid Employees

An analysis of the five highest paid employees within the Target Group during the Relevant Periods is as follows:

	Number of employees				
	Year ended 31 December			Seven months ended 31 July	
	2014	2015	2016	2016	2017
				(unaudited)	
Non-director employees	–	–	2	–	4

Details of the remuneration of the above non-director, highest paid employees are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2014	2015	2016	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Salaries, allowances and benefits in kind	–	–	20	–	46
Social security contributions	–	–	2	–	18
	–	–	22	–	64

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December			Seven months ended 31 July	
	2014	2015	2016	2016	2017
				(unaudited)	
Nil to HK$1,000,000	–	–	2	–	4

During the Relevant Periods, no highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Target Group to the highest paid individuals as an inducement to join or upon joining the Target Group, or as compensation for loss of office.

10. Income Tax Expense

The Target Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Target Group are domiciled and operate.

Pursuant to the rules and regulations of the Republic of Seychelles, the Target Company is not subject to any income tax in that jurisdiction.

No provision for United States profits tax has been made as the Target Group had no assessable profits derived from or earned in the United States during the Relevant Periods. Pursuant to the rules and regulations of California, the Target Group is subject to pay at least US$800.00 of franchise tax per year for operating within the state.

The major components of income tax expense are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Current tax:					
Charge for the year/period	–	–	1	–	–
Deferred tax	–	–	–	–	–
Total tax charge for the year/period	–	–	1	–	–

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the jurisdiction in which the Target Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	USD'000	*USD'000*	*USD'000*	*USD'000* (unaudited)	*USD'000*
Loss before tax	–	–	(6,575)	(4,047)	(3,969)
Notional tax on profit before tax, calculated at the US State & Federal tax rate	–	–	(2,817)	(1,734)	(1,700)
State & Federal Income tax	–	–	1	–	–
Tax losses not recognised	–	–	2,817	1,734	1,700
Total tax charge recognised	–	–	1	–	–

11. Earnings Per Share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation.

12. Property, Plant and Equipment

	Motor vehicles	Office equipment	Total
	US$'000	*US$'000*	*US$'000*
31 December 2016			
At 31 December 2014, 31 December 2015 and at 1 January 2016:			
Cost	–	–	–
Accumulated depreciation and impairment	–	–	–
Net carrying amount	–	–	–
At 1 January 2016, net of accumulated depreciation and impairment	–	–	–
Additions	36	8	44
Depreciation provided during the year	(11)	(1)	(12)
At 31 December 2016, net of accumulated depreciation and impairment	25	7	32
At 31 December 2016:			
Cost	36	8	44
Accumulated depreciation and impairment	(11)	(1)	(12)
Net carrying amount	25	7	32

	Motor vehicles US$'000	Office equipment US$'000	Total US$'000
31 July 2017			
At 31 December 2016 and at 1 January 2017:			
Cost	36	8	44
Accumulated depreciation and impairment	(11)	(1)	(12)
Net carrying amount	25	7	32
At 1 January 2017, net of accumulated depreciation and impairment	25	7	32
Additions	23	–	23
Depreciation provided during the period	(6)	(2)	(8)
At 31 July 2017, net of accumulated depreciation and impairment	42	5	47
At 31 July 2017:			
Cost	59	8	67
Accumulated depreciation and impairment	(17)	(3)	(20)
Net carrying amount	42	5	47

13. Investment in a Subsidiary

The Target Company

	Year ended 31 December			Seven months ended 31 July	
	2014	2015	2016	2016	2017
	US$'000	US$'000	US$'000	US$'000 (unaudited)	US$'000
Unlisted investments, at cost	–	–	–	–	19,734

14. Film Products

	US$'000
Cost and net carrying amount	
At 31 December 2014, 31 December 2015 and at 1 January 2016:	–
Transfer from films under production for the year	12,373
At 31 December 2016 and at 1 January 2017	12,373
Additions for the period	400
At 31 July 2017	12,773

Film products with a net carrying amount of approximately US$12,373,000 and US$12,773,000 were pledged to secure general banking facilities granted to the Target Group (note 20) as at 31 December 2016 and 31 July 2017, respectively.

15. Film Under Production

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	US$'000	US$'000	US$'000
At the beginning of the reporting period	–	–	–	–
Additions	–	–	12,373	–
Transfer to film products	–	–	(12,373)	–
At the end of the reporting period	–	–	–	–

16. Prepayments, Deposits and Other Receivables

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*
Escrow	–	–	4,000	4,000
Prepayments for film production	–	–	1,234	1,816
Deposits and other receivables	–	–	662	629
	–	–	5,896	6,445

17. Cash and Cash Equivalents

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*
Cash and bank balances	–	801	2,081	978

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

18. Balances With Related Parties

Particulars of amounts due from related parties are as follows:

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*
Marshall Film*	–	700	–	–
Superhero Film Ltd.**	–	50	42	–
Hero Film Ltd.**	–	–	2,234	–
	–	750	2,276	–

An analysis of the amount due to a shareholder and related parties is as follows:

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*
Sichuan Starlight Media Ltd.**	–	–	3,636	–
Superhero Film Ltd.**	–	–	1,293	–
Mr. Yan Xu**	–	–	95	–
Double L Equity, LLC	–	–	50	–
	–	–	5,074	–

These balances were unsecured, interest-free and repayable on demand.

The relationship with related parties and the nature of the transactions are disclosed in note 26.

Notes:

* The business combination took place on 2 June 2016 (as set out in note 25 (b)), Marshall Film has not been included in the consolidated financial statements of the Target Group as at 31 December 2015.

** According to the Letter Agreement on Reorganisation of Starlight Media Inc. which was issued on 31 July 2017 (set out in note 1), the balances with related parties (amount due from related parties: US$2,934,000; amount due to related parties: US$8,460,000 before reorganisation) were consolidated and offset as capital reserve in the consolidated financial statements as of 31 July 2017.

19. Other Payables and Accruals

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*
Payroll and welfare payable	–	–	8	–
Interest payable	–	–	149	222
Other payables	–	–	736	708
	–	–	893	930

Other payables are non-interest-bearing and have no fixed terms of repayment.

20. Interest-bearing Bank and Other Borrowings

	As at 31 December									As at 31 July		
	2014			2015			2016			2017		
	Effective interest rate (%)	*Maturity*	*US$'000*	*Effective interest rate (%)*	*Maturity*	*US$'000*	*Effective interest rate (%)*	*Maturity*	*US$'000*	*Effective interest rate (%)*	*Maturity*	*US$'000*
Current												
Bank loans – secured (a)	–	–	–	–	–	–	–	–	–	LIBOR +2.25	2018	4,545
				–			–			–		4,545
Non-current												
Bank loans – secured (a)	–	–	–	–	–	–	LIBOR +2.25	2018	4,295	–	–	–
Others loans												
– Sichuan Starlight Media Ltd. (b)	–	–	–	–	–	–	15	2026	11,553	–	–	–
– Mr.Yan Xu (c)	–	–	–	–	–	–	15	2026	890	–	–	–
									16,738			–
									16,738			4,545

	As at 31 December			As at 31 July
	2014	2015	2016	2017
	US$'000	*US$'000*	*US$'000*	*US$'000*
Repayable:				
Within one year or on demand	–	–	–	4,545
Over one year but within two years	–	–	4,295	–
Over five years	–	–	12,443	–
	–	–	16,738	4,545

Bank borrowings bear interest at fixed rates and floating rates. The Target Group's other and bank borrowings bear interest at effective interest rates ranging as follows:

(a) On 20 May 2016, Marshall Film, as a borrower, entered into a loan and security agreement with East West Bank, set to lend funds in an aggregate amount not exceeding US$5,058,431, inclusive of the loan reserve (US$385,000) to be used for film production with a two year maturity term. The bank loans are secured by the Target Group's film products as set out in note 14.

(b) The loan from Sichuan Starlight Media Ltd. amounted to an aggregate of US$11,553,000 and US$12,318,000 as at 31 December 2016 and 31 July 2017, respectively. The effective interest rate was 15%, and the maturity term was ten years. According to the Letter Agreement on Reorganisation of Starlight Media Inc. which was issued on 31 July 2017 (set out in note 1), the loan amounted at US$12,318,000 before reorganisation were consolidated and offset as capital reserve in the consolidated financial statements as of 31 July 2017.

(c) The loan from Mr.Yan Xu amounted to US$890,000 as at 31 December 2016 and 31 July 2017, respectively. The effective interest rate was 15%, and the maturity term was ten years. According to the Letter Agreement on Reorganisation of Starlight Media Inc. which was issued on 31 July 2017 (set out in note 1), the loan amounted at US$890,000 before reorganisation were consolidated offset as capital reserve in the consolidated financial statement as of 31 July 2017.

21. Deferred Tax

The Target Group has tax losses arising in the United States of US$ nil, US$ nil, US$6,575,000 and US$3,969,000 for each of the year ended 31 December 2014, 2015 and 2016 and the seven months ended 31 July 2017 that will expire in nineteen to twenty years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

22. Issued Capital

The Target Company was incorporated in the Republic of Seychelles on 25 April 2017 with an initial authorised share capital of US$1,000,000 divided into 1,000,000 shares of a par value of US$1 each. On the date of incorporation, 100 shares with a par value of US$1 each were allotted, issued and credited as fully paid to the initial shareholder for cash at par.

23. Reserves

The Target Group

The amounts of the Target Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Historical Financial Information.

Merger reserve

The merger reserve of the Target Group represents the reserve arose pursuant to the Reorganisation as mentioned in note 1 to the Historical Financial Information. Details of the movements in the merger reserve are set out in the consolidated statements of changes in equity.

Capital reserve

Capital reserve pertains to the benefit derived by the Target Group from the contribution of the Controlling Shareholder.

The Target Company

	Capital reserve
	US$'000
At 31 December 2016 and 1 January 2017	–
Acquisition of equity interest of a subsidiary from the controlling shareholder	1,000
Conversion of net liabilities to equity	18,734
At 31 July 2017	19,734

Capital reserve pertains to the benefit derived by the Target Group from contribution of the Controlling Shareholders. US$18,734,000 was conversion of net liabilities to equity according to the Letter Agreement on Reorganisation of Starlight Media Inc. which was issued on 31 July 2017 (set out in note 1).

24. Partly-owned Subsidiaries with Material Non-controlling Interests

Details of the Target Group's subsidiaries that have material non-controlling interests are set out below:

Percentage of equity interest held by non-controlling interests:

Name	Country of establishment and operation	Year ended 31 December 2014	2015	2016	Seven months ended 31 July 2016 (unaudited)	2017
Marshall Holding	CA, USA	–	49.00%	49.00%	49.00%	49.00%
Marshall Film	CA, USA	–	–	15.85%	15.85%	15.85%

Loss for the year/period allocated to non-controlling interests:

	Year ended 31 December 2014 US$'000	2015 US$'000	2016 US$'000	Seven months ended 31 July 2016 US$'000 (unaudited)	2017 US$'000
Marshall Holding	–	–	(212)	(179)	(65)
Marshall Film	–	–	(50)	(38)	(23)

Accumulated balances of non-controlling interests at the reporting dates:

	As at 31 December 2014 US$'000	2015 US$'000	2016 US$'000	As at 31 July 2017 US$'000
Marshall Holding	–	750	3,285	3,220
Marshall Film	–	–	1,200	1,227

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

Marshall Holding's summarised statement of profit or loss and other comprehensive income

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Selling and administrative expenses	–	–	(334)	(310)	(83)
Finance costs	–	–	(149)	(94)	(73)
Loss before tax	–	–	(483)	(404)	(156)
Income tax	–	–	–	–	–
Loss for the year/period	–	–	(483)	(404)	(156)
Total comprehensive income	–	–	(483)	(404)	(156)
Attributable to non-controlling interests	–	–	(212)	(179)	(65)

Marshall Film's summarised statement of profit or loss and other comprehensive income

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Selling and administrative expenses	–	–	(331)	(314)	(74)
Finance costs	–	–	(150)	(94)	(73)
Loss before tax	–	–	(481)	(408)	(147)
Income tax	–	–	–	–	–
Loss for the year/period	–	–	(481)	(408)	(147)
Total comprehensive income	–	–	(481)	(408)	(147)
Attributable to non-controlling interests	–	–	(50)	(38)	(23)

Marshall Holding's summarised statement of financial position

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current assets	–	1,531	14,712	14,947
Current liabilities	–	–	(2,513)	(7,149)
Non-current liabilities	–	–	(4,295)	–
Total equity	–	1,531	7,904	7,798
Attributable to:				
Equity holders of the parent	–	781	4,619	4,578
Non-controlling interest	–	750	3,285	3,220

Marshall Film's summarised statement of financial position

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Current assets	–	–	14,690	15,347
Current liabilities	–	–	(2,988)	(7,562)
Non-current liabilities	–	–	(4,295)	–
Total equity	–	–	7,407	7,785
Attributable to:				
Equity holders of the parent	–	–	6,207	6,558
Non-controlling interest	–	–	1,200	1,227

Marshall Holding's summarised cash flow information

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Net cash flows from/(used in)					
operating activities	–	–	(13,383)	(13,039)	(1,126)
investing activities	–	–	3,036	3,036	–
financing activities	–	781	11,202	10,226	250
Net increase/(decrease) in cash and cash equivalents	–	781	855	223	(876)

Marshall Film's summarised cash flow information

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000* (unaudited)	*US$'000*
Net cash flows from/(used in)					
operating activities	–	–	(10,371)	(10,534)	(1,117)
financing activities	–	–	11,983	11,513	250
Net increase/(decrease) in cash and cash equivalents	–	–	1,612	979	(867)

25. Business Combinations

Particulars of significant business combinations during the Relevant Periods are set out below.

a) Acquisition of Marshall Holding

On 1 January 2016, Starlight Media acquired 51% membership interests in Marshall Holding from Sichuan Starlight Media Ltd., a then fellow subsidiary of the Target Company under the common control of Mr. Yan Xu*, at a purchase consideration of nil.

The Target Group has elected to measure the non-controlling interests in Marshall Holding at the proportionate share of Marshall Holding's identifiable net assets.

* *Mr. Yan Xu transferred all the 75% shares owned of Sichuan Starlight Media Ltd. to Mr. Yan Hanyu (son of Mr. Yan Xu) on 23 December 2016.*

b) Acquisition of Marshall Film

Marshall Film, which is mainly engaged in the production of the film titled "Marshall", was established by Mr. Belton Lee on 23 October 2015 in California, the United States, with no capital contribution made. On 2 June 2016, Marshall Holding acquired 100% membership interests in Marshall Film at a consideration of US$ nil based on an internal valuation of the business performed by the directors of the Target Company.

The fair values of the identifiable assets and liabilities of Marshall Film as at the date of acquisition and as at 31 December 2015 were as follows:

	Value recognised on acquisition	**Year ended 31 December 2015**
	US$'000	*US$'000*
Cash and bank balances	3,036	98
Prepayments and other receivables	2,392	–
Inventories	2,788	602
Other payables and accruals	(8,216)	(700)
Total identifiable net assets at fair value	–	
Satisfied by cash	–	

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	US$'000
Cash consideration	–
Cash and bank balances acquired	3,036
Cash consideration paid by the Controlling Shareholder on behalf of the Target Group	–
Net inflow of cash and cash equivalents included in cash flows from investing activities	3,036

26. Related Party Transactions

(a) Name and relationship

Name of related party	Relationship with the Target Group
Mr. Yan Xu	The Controlling Shareholder
Sichuan Starlight Media Ltd.	Company controlled by Mr. Yan Hanyu, the son of the Controlling Shareholder*
Superhero Film Ltd.	Non-controlling shareholder of subsidiary
Hero Film Ltd.	Controlling Shareholder of Superhero Film Ltd.
Double L Equity, LLC	Non-controlling shareholder of subsidiary

* *The controlling Shareholder Mr. Yan Xu transferred all the 75% shares owned of Sichuan Starlight Media Ltd. to Mr. Yan Hanyu (son of Mr. Yan Xu) on 23 December 2016.*

(b) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Target Group had the following transactions with related parties during the Relevant Periods:

		As at 31 December			As at 31 July
		2014	2015	2016	2017
	Notes	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Service fees:					
Sichuan Starlight Media Ltd.	*(i)*	–	–	2,682	1,713
Loan from:					
Sichuan Starlight Media Ltd.	*(ii)*	–	–	11,553	765
Mr. Yan Xu	*(iii)*	–	–	890	–
		–	–	12,443	765
Interest expenses of loan:					
Sichuan Starlight Media Ltd.	*(ii)*	–	–	954	1,107
Mr. Yan Xu	*(iii)*	–	–	95	78
		–	–	1,049	1,185
Office rent:					
Hero Film Ltd.	*(iv)*	–	–	55	79

Notes:

(i) The service fee was paid for the legal consulting and marketing services provided by Sichuan Starlight Media Ltd. The service fee was charged pursuant to the terms in the agreement signed between Starlight Media and Sichuan Starlight Media Ltd. and according to prices mutually agreed after taking into account the prevailing market prices.

(ii) The details of loan from Sichuan Starlight Media Ltd. are set out in note 20.

(iii) The details of loan from Mr. Yan Xu are set out in note 20.

(iv) On 1 August 2016, Starlight Media rent an office from Hero Film Ltd. The rental fee was charged pursuant to the terms in the agreement signed between Starlight Media and Hero Film Ltd. and according to prices mutually agreed after taking into account the prevailing market prices.

(c) Other transactions with related parties:

During the Relevant Period, the Target Group acquired a subsidiary, Marshall Holding, from Sichuan Starlight Media Ltd. at a consideration of US$ nil. Further details of the transaction are included in note 25 (a) to the Historical Financial Information.

27. Operating Lease Arrangements

As lessee

The Target Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to six years, and those for office equipment are for terms ranging between two and five years.

The Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			**As at 31 July**
	2014	**2015**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Within one year	–	–	192	193
In the second to fifth years, inclusive	–	–	128	45
	–	–	320	238

28. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets				
Financial assets included in prepayments, deposits and other receivables	–	–	4,662	4,629
Amounts due from related parties	–	750	2,276	–
Cash and cash equivalents	–	801	2,081	978
	–	1,551	9,019	5,607

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial liabilities				
Financial liabilities included in other payables and accruals	–	–	885	930
Amounts due to related parties	–	–	5,074	–
Interest-bearing loans	–	–	16,738	4,545
	–	–	22,697	5,475

29. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts of the Target Group's financial instruments reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from related parties and amounts due to related parties approximate to their carrying amounts due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of interest-bearing bank loans has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. Based on the calculated results, the carrying amounts of the Target Group's interest-bearing bank loans reasonably approximate to fair values. The Target Group's own non-performance risk for interest-bearing bank borrowings as at the end of each of the Relevant Periods was assessed to be insignificant.

30. Financial Risk Management Objectives and Policies

The Target Group's principal financial instruments comprise interest-bearing loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various financial assets and liabilities such as trade and bills receivables and trade and bills payables as well as other receivables and payables, which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of the risks which are summarised below:

Interest risk

The Target Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank loans and other borrowings. The Target Group does not use derivative financial instruments to hedge its interest rate risk. With all other variables held constant, the Target Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Year ended 31 December			Seven months ended 31 July	
	2014	**2015**	**2016**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
				(unaudited)	
Increase by 25 basis points	–	–	(11)	(10)	(11)
Decrease by 25 basis points	–	–	11	10	11

Credit risk

The Target Group trades only with recognised and creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Target Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Target Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents, amounts due from related parties, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The maturity profile of the Target Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

31 December 2016	**On demand**	**Within 1 year**	**Over 1 year**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Interest-bearing loans	–	4,295	12,443	16,738
Other payables and accruals	893	–	–	893
Amounts due to related parties	5,074	–	–	5,074
	5,967	4,295	12,443	22,705

31 July 2017	**On demand**	**Within 1 year**	**Over 1 year**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Interest-bearing loans	4,545	–	–	4,545
Other payables and accruals	930	–	–	930
Amounts due to related parties	–	–	–	–
	5,475	–	–	5,475

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing loans, less cash and cash equivalents. Capital represents total equity.

At the end of each of the Relevant Periods, the Target Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Target Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Target Group has a reasonable level of capital to support its business. The gearing ratios at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 31 July
	2014	**2015**	**2016**	**2017**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Interest-bearing loans	–	–	16,738	4,545
Less: cash and cash equivalents	–	(801)	(2,081)	(978)
Net debt	–	(801)	14,657	3,567
Total equity	–	1,551	(48)	14,767
Net debt and total equity	–	750	14,609	18,334
Gearing ratio	–	207%	100%	19%

31. Events after the Reporting Period

On 14 September 2017, the Company entered into the Share Transfer Agreement with the Target Company, pursuant to which the Company agreed to acquire the entire equity interests in the Target Company, at an aggregate consideration of US$25 million.

32. Subsequent Financial Statements

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 July 2017.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for each of the three financial years ended 31 December 2014, 2015 and 2016 and the seven months ended 31 July 2017.

For the year ended 31 December 2014

Financial results

The Target Group did not record any turnover for the year ended 31 December 2014.

Liquidity and financial resources

As at 31 December 2014, the Target Group did not record any asset and liability.

Charges of assets

As at 31 December 2014, the Target Group had no pledged asset.

Contingent liabilities

As at 31 December 2014, the Target Group did not record any contingent liability.

Employees

The Target Group did not have any employee as at 31 December 2014.

Foreign currency exposure

The Target Group did not have any operation for the year ended 31 December 2014 and therefore it did not have any foreign currency exposure.

Significant investments

During the year ended 31 December 2014, the Target Group did not have any significant investment.

Material acquisitions and disposals

The Target Group did not have any material acquisition and disposal during the year ended 31 December 2014.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 December 2014.

For the year ended 31 December 2015

Financial results

The Target Group did not record any turnover for the year ended 31 December 2015.

Liquidity and financial resources

As at 31 December 2015, the Target Group's total assets amounted to approximately US$1.6 million which consist of (i) cash and cash equivalents of approximately US$0.8 million; and (ii) amounts due from related parties of approximately US$0.8 million. The Target Group did not record any liability as at 31 December 2015.

Charges of assets

As at 31 December 2015, the Target Group had no pledged asset.

Contingent liabilities

As at 31 December 2015, the Target Group did not record any contingent liability.

Employees

The Target Group did not have any employee as at 31 December 2015.

Foreign currency exposure

As at 31 December 2015, the Target Group's assets were mainly dominated in US$. As US$ was pegged to HK$, the Target Group was not exposed to significant foreign exchange risk. The Target Group has closely monitored the foreign currency exposure and arranged for hedging facilities if necessary.

Significant investments

During the year ended 31 December 2015, the Target Group did not have any significant investment.

Material acquisitions and disposals

The Target Group did not have any material acquisition and disposal during the year ended 31 December 2015.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 December 2015.

For the year ended 31 December 2016

Financial results

The Target Group did not record any turnover for the year ended 31 December 2016. It recorded an operating loss of approximately US$6.6 million.

Liquidity and financial resources

As at 31 December 2016, the Target Group's net liabilities amounted to approximately US$48,000. The current ratio, representing current assets divided by current liabilities, was 3.79.

Total borrowings of the Target Group as at 31 December 2016 were approximately US$22.7 million which consisted of (i) amounts due to related parties and other payables with aggregate amount of approximately US$6.0 million; and (ii) other interest-bearing loans which amounted to approximately US$16.7 million. The gearing ratio, as a ratio of total borrowings over total assets, was 1.00.

Charges of assets

As at 31 December 2016, the Target Group had no pledged asset.

Contingent liabilities

As at 31 December 2016, the Target Group did not record any contingent liability.

Employees

The Target Group had 2 employees as at 31 December 2016. The employees are remunerated based on their working performance and experiences, taking into account the prevailing market conditions.

Foreign currency exposure

For the year ended 31 December 2016, the operating costs were mainly dominated in US$ and the Target Group's assets were mainly dominated in US$. As US$ was pegged to HK$, the Target Group was not exposed to significant foreign exchange risk. The Target Group has closely monitored the foreign currency exposure and arranged for hedging facilities if necessary.

Significant investments

During the year ended 31 December 2016, the Target Group did not have any significant investment.

Material acquisitions and disposals

The Target Group did not have any material acquisition and disposal during the year ended 31 December 2016.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 December 2016.

For the seven months ended 31 July 2017

Financial results

The Target Group did not record any turnover for the seven months ended 31 July 2017. It recorded an operating loss of approximately US$4.0 million.

Liquidity and financial resources

As at 31 July 2017, the Target Group's net assets amounted to approximately US$14.8 million. The current ratio, representing current assets divided by current liabilities, was 3.69.

Total borrowings of the Target Group as at 31 July 2017 were approximately US$5.5 million which consisted of (i) short-term bank borrowings which amounted to approximately US$4.6 million; and (ii) other payables which amounted to approximately US$0.9 million. The gearing ratio, as a ratio of total borrowings over total assets, was 0.27.

Charges of assets

As at 31 July 2017, the Target Group had pledged the intellectual property of the movie "Marshall" to secure a bank loan of US$4.55 million.

Contingent liabilities

As at 31 July 2017, the Target Group did not record any contingent liability.

Employees

The Target Group had 4 employees as at 31 July 2017. The employees are remunerated based on their working performance and experiences, taking into account the prevailing market conditions.

Foreign currency exposure

For the seven months ended 31 July 2017, the operating costs were mainly dominated in US$ and the Target Group's assets were mainly dominated in US$. As US$ was pegged to HK$, the Target Group was not exposed to significant foreign exchange risk. The Target Group has closely monitored the foreign currency exposure and arranged for hedging facilities if necessary.

Significant investments

During the seven months ended 31 July 2017, the Target Group did not have any significant investment.

Material acquisitions and disposals

The Target Group did not have any material acquisition and disposal during the seven months ended 31 July 2017.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 July 2017.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma consolidated statement of financial position (the ''Unaudited Pro Forma Financial Information'') of Starlight Culture Entertainment Group Limited (formerly known as Jimei International Entertainment Group Limited) (the ''Company'') and its subsidiaries (together referred to as the ''Group'') which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of the entire equity interest in Starlight Legend Investment Limited and its subsidiaries (the ''Target Group'') (the ''Acquisition''), as if the Acquisition had been taken place on 30 June 2017.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2017 as set out in the Group's interim report published on 25 September 2017, the consolidated statement of financial position of Starlight Legend Investment Limited as at 31 July 2017 as set out in the Accountants' Report of the Target Group set out in Appendix II to this circular, after giving effect to the unaudited pro forma adjustments as described in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2017 nor purport to predict the Group's future financial position of operations.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for the six months ended 30 June 2017, the Accountants' Report on the Target Group as set out in Appendix II to this circular, and other financial information included elsewhere in the circular.

(B) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 30 June 2017	The Target Group as at 31 July 2017	The Target Group as at 31 July 2017	Sub-total	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited Pro-forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*		*Note 4*	*Note 5*	*Note 6*	
Non-current assets								
Property, plant and equipment	10,319	47	367	10,686	–	–	–	10,686
Available-for-sale investments	9,411	–	–	9,411	–	–	–	9,411
Goodwill	–	–	–	–	142,580	–	–	142,580
	19,730	47	367	20,097	142,580	–	–	162,677
Current assets								
Trade and other receivables	141,593	6,445	50,271	191,864	13,213	–	–	205,077
Film products	–	12,773	99,629	99,629	26,887	–	–	126,516
Bank balances and cash	151,686	978	7,629	159,315	–	–	–	159,315
	293,279	20,196	157,529	450,808	40,100	–	–	490,908
Current liabilities								
Trade and other payables	24,382	930	7,254	31,636	–	–	4,368	36,004
Amount due to non-controlling interest of subsidiaries	22,950	–	–	22,950	–	–	–	22,950
Borrowings	–	4,545	35,451	35,451	–	–	–	35,451
Promissory note	–	–	–	–	94,771	–	–	94,771
Derivative financial liabilities	157,921	–	–	157,921	–	–	–	157,921
Current tax liabilities	1,132	1	8	1,140	–	–	–	1,140
	206,385	5,476	42,713	249,098	94,771	–	4,368	348,237
Net current assets	86,894	14,720	114,816	201,710	(54,671)	–	(4,368)	142,671

	The Group as at 30 June 2017	The Target Group as at 31 July 2017	The Target Group as at 31 July 2017	Sub-total	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited pro forma adjustment	Unaudited Pro-forma consolidated statement of financial position of the Enlarged Group
	HK$'000	*US$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*		*Note 4*	*Note 5*	*Note 6*	
Total assets less current liabilities	106,624	14,767	115,183	221,807	87,909	–	(4,368)	305,348
Non-current liabilities								
Contingent consideration payable	–	–	–	–	15,600	–	–	15,600
Convertible bonds	229,953	–	–	229,953	–	–	–	229,953
Deferred tax liabilities	–	–	–	–	17,644	–	–	17,644
	229,953	–	–	229,953	33,244	–	–	263,197
Net (liabilities)/assets	(123,329)	14,767	115,183	(8,146)	54,665	–	(4,368)	42,151
Equity								
Share capital	65,256	–	1	65,257	2,100	(1)	–	67,356
Reserves	(141,761)	10,320	80,495	(61,266)	117,180	(80,495)	(4,368)	(28,949)
Equity attributable to owners of the Company	(76,505)	10,320	80,496	3,991	119,280	(80,496)	(4,368)	38,407
Non-controlling interests	(46,824)	4,447	34,687	(12,137)	15,881	–	–	3,744
Total (deficiency)/equity	(123,329)	14,767	115,183	(8,146)	135,161	(80,496)	(4,368)	42,151

Notes:

1. The unaudited consolidated statement of financial position of the Group as at 30 June 2017 is extracted from the published interim report of the Company for the six months ended 30 June 2017.

2. These figures are extracted from the audited consolidated statement of financial position of the Target Group as at 31 July 2017 which is set out in Appendix II to this circular.

3. For the purpose of this Unaudited Pro Forma Financial Information, the amounts in the consolidated statement of financial position of the Target Group as at 31 July 2017 are converted into Hong Kong dollars using an exchange rate of US$1 to HK$7.8, being the closing exchange rate adopted by the Group as at 31 July 2017.

4. In accordance with the share purchase agreement for the Acquisition (the "Agreement") entered into between the vender and the Group on 14 September 2017, the total consideration of the Acquisition is approximately HK$195,000,000. A portion of the consideration of HK$94,500,000 will be settled by the allotment and issue of 21,000,000 consideration share by the Company to the vendor or its nominee at an issue price of HK$4.50 per consideration shares. The balance of HK$100,500,000 will be satisfied by way of the issue of the promissory note by the Company in favour of the vendor. Upon completion of the Acquisition, the Company will become the holding company of the Target Group. The identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The adjustment represents the goodwill recognised from the Acquisition of approximately HK$142,580,000 being the excess amount of the total consideration for the Acquisition over the fair value of the acquired identifiable net assets of the Target Group as follow:

		HK$'000	*HK$'000*
Consideration:			
Shares	*(a)(i)*		119,280
Promissory note	*(a)(ii)*		94,771
Contingent consideration payable	*(a)(iii)*		15,600
Total Consideration			229,651
Non-controlling interests acquired	*(b)*		50,568
Less:			
Carrying amount of identifiable net assets acquired		115,183	
Valuation adjustments on identifiable net assets acquired	*(c)*	40,100	
Deferred tax liabilities arising from valuation adjustments on identifiable net assets acquired	*(d)*	(17,644)	137,639
Goodwill			142,580

(a)(i) For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the consideration shares is calculated based on the closing price of HK$5.68 per share of the Company as quoted on the Stock Exchange on 30 June 2017. 21,000,000 consideration shares of the Company will be issued at HK$5.68 with a total share consideration of approximately HK$119,280,000, of which HK$2,100,000 (par value of HK$0.10 each) will be credited to share capital and the balance of approximately HK$117,180,000 will be credited to the share premium account.

(a)(ii) The amount represents the present value of approximately HK$94,771,000 promissory note with a principal amount of approximately HK$100,500,000 as a part of the consideration to acquire the entire equity interest in Starlight Legend Investment Limited. The present value of the promissory note was calculated with a discount rate of 6% p.a. by taking reference of the valuation carried out by D&P China (HK) Limited ("D&P"), an independent professional valuer not connected with the Group. The promissory note is unsecured, interest free, and matured at 12 months from the completion date of the Acquisition.

(a)(iii) The fair value of contingent consideration payable is determined using monte carlo simulation valuation method which is performed by D&P.

In the event the cumulative cash dividends received by the Company or its relevant subsidiaries from the Target Group and the companies operating those existing projects operated by the Target Group and/or entities that are controlled and wholly or partially owned, directly or indirectly, by the Company following the completion of the Acquisition (the "Completion"), including those referred to in the Agreement (the "Specified Projects") that are not operated by any member of the Target Group and are controlled and wholly or partially owned, directly or indirectly, by the Company following the Completion (the "Specified Group") during the period from 1 July 2017 to 31 December 2021 (the "Specified Period") and for the three years immediately following the Specified Period exceed the amount represented by "B" referred to in point (i) below, the vendor shall be entitled to the Agreed Payment (the "Agreed Payment") being an amount equal to 30% of all cash dividends payments received by the Company in excess of the amount represented by "B" referred to in (i) below during the three years immediately following the Specified Period, provided that:

(i) the Agreed Payment shall not exceed the Agreed Payment Cap, which is the lower of HK$600,000,000 or an amount calculated in accordance with the following formula:

(A – B) x 30%

where:

A = the aggregate Net Profits/(Loss) (being aggregate of profit/(loss) after taxation of the Specified Group as shown in the audited financial statements of the Specified Group for that financial year or period expressed in Hong Kong Dollars prepared and presented by the designated auditor in accordance with Hong Kong Financial Reporting Standards, provided that the Net Profits (if any) of the Target Group for the five months ending 31 December 2017 (if any) shall be determined by subtracting (or adding) the net profit (or loss) after tax of the Target Group reflected in the audited financial statements of the Target Group for the seven months ended 31 July 2017 from (or to) the Net Profits/(Loss) (if any) of the Target Group reflected in the audited financial statements of the Specified Group prepared by a designated auditor for the year ending 31 December 2017 and provided that any loss position shall be stated as a negative figure) of the Specified Group for the Specified Period

B = (the total amount of consideration shares and promissory note issued) x (1 + (5% x C))

C = (number of days commencing from and including (i) the date on which full payment of the promissory note by the Company to the vendor until and including (ii) the earlier of (a) 31 December 2021 or (b) the date on which the cumulative cash dividends received by Company or its relevant subsidiaries from the Specified Group is equal to the Basic Consideration) ÷ 365

Note: For the avoidance of doubt, if (i) A is a negative figure; or (ii) (A-B) is a negative figure, then the Agreed Payment Cap shall be zero.

(b) The adjustment represents the recognition of change in non-controlling interest in the Target Group on the basis of its proportionate interest in the Target Group for the Acquisition. By taking reference of the valuation carried out by D&P, the fair value of the non-controlling interest as at the date of valuation amounted to HK$50,568,000, which comprises book value of the non-controlling interest of HK$34,687,000 in the Target Group before the acquisition and the non-controlling interest portion in relation to the fair value change on specific identifiable asset indicated in note 4(c) as below with amount of HK$15,881,000.

(c) The fair value of identifiable assets acquired and liabilities assumed in the Target Group is determined in accordance with HKFRS 3, "Business Combinations". For the purpose of the Unaudited Pro Forma and for illustrative purpose only, the directors have assessed the fair values of the identifiable assets and liabilities of the Target Group as at 31 July 2017 by taking reference of the valuation as at 31 July 2017 carried out by D&P.

The fair value of film products and other receivables of the Target Group as at 31 July 2017, which mainly comprised of movie projects, are approximately HK$126,516,000 and HK$205,077,000 respectively. The differences between fair values and carrying amount of film products and other receivables as at 31 July 2017 are attributable to the fair value revaluation of the film products and other receivables. Accordingly, a pro forma adjustment of approximately HK$26,887,000 and HK$13,213,000 has been made to adjust the film products and other receivables of the Target Group to their fair value as at 31 July 2017 respectively.

(d) The deferred tax liability relating to the valuation adjustments on identifiable net assets acquired amounted to approximately HK$17,644,000, which is calculated at the effective United States Enterprise Income Tax rate of 44%.

(e) Since the fair values of the consideration and the assets and liabilities of the Target Group at the actual completion date may be substantially different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group, the final amounts of the identifiable net assets (including intangible assets) and goodwill to be recognised in connection with the Acquisition may be different from the amounts presented here and the differences may be significant.

5. The adjustments represent the elimination of share capital and pre-acquisition reserves of the Target Group, as if the Acquisition had been completed at the date reported on (i.e. 30 June 2017).

6. The adjustment reflects the estimated cost of approximately HK$4,368,000 directly attributable to the Acquisition, which mainly comprises professional fees payable to legal advisors, reporting accountants, printers and other professional parties. The expenses are charged to profit or loss directly.

7. In the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group, the directors of the Company have assessed whether there is any impairment on the fair value adjustment for the assets and goodwill arising from the acquisition as if the acquisition had been taken place on 30 June 2017 in accordance with HKAS36 "Impairment of Assets" and concluded that there is no impairment in respect of the fair value adjustment for the assets and goodwill. The directors considered that the consideration is referenced to the market value which is set out in the valuation report in Appendix IV to this circular, and there is no impairment indicator at the acquisition date.

   The reporting accountants have conducted their work in accordance with the Hong Kong Standard on Assurance Engagement 3420 "Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus". In reporting on the unaudited pro forma financial information, the reporting accountants considered that the impairment assessment of the fair value adjustment for the assets and goodwill made by the directors of the Company has been complied on the basis stated in the Unaudited Pro Forma Financial Information of the Enlarged Group and the basis is consistent with the accounting policies adopted by the Group.

   The directors of the Company confirmed that they will adopt consistent accounting policies, valuation method and principal assumption to assess impairment of the fair value adjustment for the assets and goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36, unless there is significant changes in the Company's operation or the market environment. The Company also confirmed with its auditor that they will audit and opine on the consolidated financial statements of the Company in accordance with Hong Kong Standards on Auditing.

8. Apart from the above, no adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered subsequent to 30 June 2017.

The following is the text of a report received from the reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the Enlarged Group's unaudited pro forma financial information for the purpose of incorporation in this circular.

(C) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF STARLIGHT CULTURE ENTERTAINMENT GROUP LIMITED (FORMERLY KNOWN AS JIEMI INTERNATIONAL ENTERTAINMENT GROUP LIMITED)

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Starlight Culture Entertainment Group Limited (formerly known as Jimei International Entertainment Group Limited) (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group'') by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2017 and related notes as set out on pages III-2 to III-3 of Appendix III of the Company's circular dated 26 October 2017 (the ''Circular'') in connection with the proposed acquisition of the entire equity interest of Starlight Legend Investment Limited (the ''Acquisition''). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described on page III-1 of Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's consolidated financial position as at 30 June 2017 as if the Acquisition had taken place at 30 June 2017. As part of this process, information about Starlight Legend Investment Limited's financial position has been extracted by the directors of the Company from Starlight Legend Investment Limited's historical financial information for the period ended 31 July 2017, on which an accountants' report is set out in Appendix II of the Circular.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled, in all material respect, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

– the related pro forma adjustments give appropriate effect to those criteria; and

– the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a. the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants

Hong Kong, 26 October 2017

The following is the text of a letter, summary of valuation and valuation certificate prepared for the purpose of incorporation in this circular received from D&P China (HK) Limited, an independent valuer, in connection with its valuation of the Target Group as at 31 July 2017.

October 26, 2017

The Directors
Starlight Culture Entertainment Group Limited
Room 1203, 12/F,
118 Connaught Road West,
Hong Kong

Our Ref.: 81905

Dear Sirs,

VALUATION REPORT ON MARKET VALUE OF STARLIGHT LEGEND INVESTMENT LIMITED

Pursuant to the terms, conditions and purpose of an engagement agreement dated August 9, 2017 ("Engagement Agreement") between Starlight Culture Entertainment Group Limited, formerly known as Jimei International Entertainment Group Limited ("Company" or "Client") and D&P China (HK) Limited ("Duff & Phelps China", formerly known as American Appraisal China Limited), we have performed an analysis of market value ("Valuation") of the 100% equity interest in Starlight Legend Investment Limited ("SL Legend" or the "Target Company") and its subsidiaries excluding non-controlling interests (collectively, "Target Group") as of July 31, 2017 ("Valuation Date"). We understand that the Company contemplates the acquisition of the above-mentioned interest and the Valuation is prepared based on the underlying assumptions and information provided by the management of the Company and SL Legend ("Management").

We understand that this letter will be adopted by the Company for public disclosure purpose in compliance with the Rules Governing the Listing of Securities on Stock Exchange ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). No third party shall have the right of reliance on this letter and neither receipt nor possession of this letter by any third party shall create any express or implied third-party beneficiary rights.

This letter identifies the asset appraised, describes the scope of work, states the basis of value, specifies key inputs and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. In preparing this letter, we aim to largely comply with the reporting standards recommended by the International Valuation Standards ("IVS"). The depth of discussion contained in this letter is specific to the needs of the Client and for the intended use as stated below. Supporting documentation concerning these matters has been retained in our work papers.

PURPOSE OF VALUATION

The Client intends to acquire the 100% equity interest in SL Legend ("Proposed Transaction"). With the Client's approval and as stipulated by the Engagement Agreement in formulating our opinion on the market value of the 100% equity interest in the Target Group, we relied upon completeness and accuracy of operational, and financial information provided by the Management. To the extent that any of these assumptions or facts changed, the result of our market value conclusion should be different.

The intended use of the Valuation is to serve as the basis for compliance with the Listing Rules. The ultimate transaction, if happens, and the corresponding acquisition prices would be the results of negotiations between the transacting parties. The responsibility for determining the agreed acquisition price of the Target Group rests solely with the Company. The results of our analysis should not be construed to be a fairness opinion, a solvency opinion, or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the financial projections and underlying assumptions.

STANDARD AND BASIS OF VALUE

The Valuation was prepared on the basis of market value. Market value is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Business enterprise is defined for this appraisal as the total invested capital, that is, equivalent to the combination of all interest-bearing debts, shareholders' loans and shareholders' equity. Alternatively, the business enterprise is equivalent to the combination of all tangible assets (buildings, machinery and equipment), long-term investment, net operating working capital and intangible assets of a continuing business. Equity interest is equivalent to business enterprise value less interest-bearing debts.

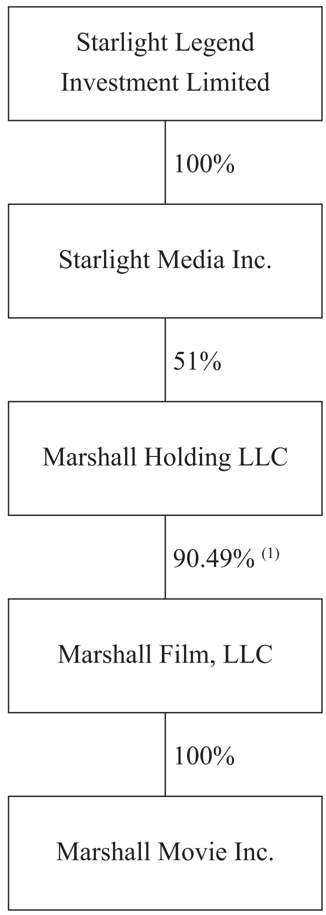
DESCRIPTION OF TARGET GROUP

The Target Group is principally engaged in movie and TV production. The Target Group is still at early development stage with operation commenced in 2014.

Before completion of corporate restructuring ("Corporate Restructuring") on July 31, 2017, Mr. Yan Xu, being also the major shareholder of the Company as of Valuation Date, owned 100% direct equity interest in Starlight Media Inc. ("SL Media"), a company incorporated in California, USA, as a Corporation in 2014. SL Media directly owns 51% equity interest in Marshall Holding, LLC ("Marshall Holding"), a company incorporated in California, USA in November 2015, as a limited liability company. Marshall Holding owns effectively 84.15% (see note (a) of subsequent section) of economic interest in Marshall Film LLC ("Marshall Film"), also a US company incorporated in October 2015, which, together with Marshall Movie LLC, the wholly owned US-incorporated subsidiary of Marshall Film in April 2016, are the main operating entities for the movie named "Marshall" ("Marshall Project"), which has already completed post-production stage and is expected to be released in theatres in October 2017. In other words, Starlight Legend effectively owns approximately 43% of economic interest in Marshall Project. Copyright of the Marshall Project has been registered with the U.S. Copyright Office in May 2016.

Upon completion of Corporate Restructuring on July 31, 2017, SL Legend, a company newly incorporated in the Republic of Seychelles with limited liability in April 2017, becomes the investment holding company of SL Media and owns 100% equity interest of SL Media.

SL Legend, together with its effective economic equity interests in SL Media, Marshall Holding, Marshall Film and Marshall Movie, constitute the Target Group. The shareholding structure of Target Group upon completion of Corporate Restructuring on July 31, 2017 is presented as below:–



(a) According to a legal due diligence report provided by Management, Marshall Holding, LLC transferred approximately 3.17% of the economic interest of Marshall Film, LLC to Dragonfly Cinematic, LLC through signing of a subscription purchase agreement on June 30, 2016. Marshall Holding, LLC had also transferred approximately 3.17% of the economic interest of Marshall Film, LLC to Planet 9 Productions, LLC through signing of a subscription purchase agreement on July 14, 2017. As such, economic interest of Marshall Film, LLC held by Marshall Holding, LLC is essentially 84.15%.

Other than the Marshall Project mentioned above, the projects or contracts at different development stages with certain funds already invested and capitalized on financial statements of Target Group (at SL Media level) as of Valuation Date are:–

- An active TV episodes project named "The Empress" ("The Empress Project") under pre-production stage with certain contracts signed with consulting companies on pre-production matters with cost of approximately USD 1 million capitalized;
- A small project name "High Caliber"(為國而戰)("High Caliber Project") with just a minor cost amounted to approximately USD 0.2 million capitalized on book; and
- A secured contract with aggregate committed cost of USD 5.5 million signed with James Wan, a famous director, who should provide 3 movie projects. After paying the signing bonus of USD 1 million to James Wan, as well as certain overhead funds on the first movie conceptual script named "Mass Extinction" ("Mass Extinction Project"), which is at active status, the remaining balance of approximately USD 4 million ("Capitalized Portion of James Wan Contract") are capitalized as other current assets on balance sheet as escrow money to be paid to James Wan as of Valuation Date.

FINANCIAL REVIEW OF TARGET GROUP

We have reviewed the historical financial statements for the financial years ended December 31, 2015, December 31, 2016 and seven-month interim period ended July 31, 2017 provided by the Management without further verification.

As of Valuation Date, the Marshall Project has completed post-production stage yet to be released, and it is expected to screen in theatres in October 2017. As such, the Target Group recorded zero revenue in the historical financial data with operational expenses of approximately USD 6.6 million in 2016 and USD 4 million in the seven-month period ended July 31, 2017. All costs incurred for production of the Marshall Project has been capitalized as inventory on the Target Group's balance sheet at the amount of approximately USD 13 million as of Valuation Date.

Besides the Marshall Project, the Target Group has another two movie projects and one TV series project under early development stage as of Valuation date, major costs incurred for these early stage projects were capitalized and recorded under prepayment and inventory line items on the Target Group's balance sheet.

As of the Valuation Date, there was a secured short-term bank borrowing of approximately USD 4.5 million entered by Marshall Film with the Marshall Project as a collateral.

The historical consolidated financial statements (i.e. Target Group with non-controlling interests) were presented as below:

USD'000 **unless specified otherwise**	**FY 2015** *(Note (a))*	**FY 2016** *(Note (a))*	**7-month period ended July 31, 2017** *(Note (b))*
Revenue	–	–	–
Gross Profit	–	–	–
Earnings Before Interest and Tax ("EBIT")	–	(5,378)	(2,712)
Net Profit/Loss attributable to Target Group	–	(6,314)	(3,881)
Net Profit/Loss to Non-controlling Interests	–	(262)	(88)
Current Assets	1,551	22,626	20,196
Current Liabilities	–	5,968	5,476
Non-current Liabilities	–	16,738	–
Net Asset Value	801	(4,533)	10,320
Non-controlling Interests	750	4,485	4,447

Sources: (a) audited consolidated financial statements of Starlight Media Inc. and its subsidiaries before Corporate Restructuring; (b) audited consolidated financial statements of Starlight Legend and its subsidiaries after Corporate Restructuring

ECONOMIC OUTLOOK

A sound appraisal of a business or business interest must consider current and prospective economic conditions of the national economy. The major variables reviewed in order to evaluate the overall state of the national economy include the current level of and changes in the gross domestic product (GDP), exchange rate, and the inflation rate. An overview of the national economies of the United States of America and China were essential to develop this outlook. The following economic discussion was extracted from Economist Intelligence Unit ("EIU").

United States of America

The economy lost momentum in the first quarter of the year, when it grew by 1.4% on an annualized basis, owing to a big slowdown in consumer spending growth. Accelerating wage growth, falling unemployment and low interest rates still represent an encouraging environment for households to spend. The EIU expects a stronger performance in the rest of the year, especially in April-June, resulting in average growth of 2%.

The EIU revises down the forecast for average consumer price inflation in 2017 from 2.3% to 2.1%. Although price pressures will intensify this year (inflation stood at just 1.3% in 2016) owing to a strong housing market, the dollar losing momentum and the labor market tightening, the effect on wages of falling unemployment has been less pronounced than expected. Energy prices, too, have remained low. Nevertheless, with unemployment now down to its lowest level since 2001 and domestic demand expected to remain strong, the EIU forecasts that inflation will remain at the top of the target band of the Federal Reserve (Fed, the central bank), at 2.1%, in 2018, before slowing in 2019 as domestic demand softens and global inflation accelerates. Inflation will accelerate modestly in 2020 to 2021.

The US dollar strengthened immediately after the 2016 elections on the premise that Mr. Donald Trump would run a looser fiscal policy to drive growth. As prospects of this have diminished, the dollar has weakened and is now below its preelection level when measured against a broad index of currencies. Although yield differentials will favor the dollar in 2017 to 2018, the EIU believes that a forecast of 75 basis points of monetary tightening is already priced in, which leaves the dollar vulnerable to disappointing economic growth in the US (as seen in the first quarter) or surprisingly strong growth elsewhere (as seen in Europe), as well as possible shocks emanating from erratic policymaking.

China

The EIU expects economic growth to slow in the remainder of 2017 after a strong first quarter, when real GDP expanded by 6.9% year on year. A rebound in producer prices has lifted sentiment in the industrial sector, but the EIU expects easing supply constraints and softening demand to curtail the price rally. Infrastructure spending plans for 2017 appear to be significant, but administrative curbs in the property market will slow activity in the real-estate sector. Economic growth is forecast to reach 6.6% in 2017 as a whole.

The EIU forecasts that consumer prices will rise by a modest 2.2% a year on average in 2017 to 2021. In 2017 to 2018, the pace of inflation will be especially slow at 1.8% a year on average, as pork prices enter a downward cycle, monetary policy is tightened and the slowdown in economic growth hits consumer demand. Upward price pressures will become more apparent thereafter, stemming from a modest economic recovery, looser credit policy and higher levels of imported price inflation owing to firmer global commodity prices.

An interventionist approach is likely to characterize exchange-rate policy in the near term. The People's Bank of China (PBC, the central bank) had taken steps to move towards a more flexible exchange-rate regime, notably by signaling in December 2015 that it would manage the renminbi's value against a basket of currencies. However, in practice the PBC has continued to priorities a stable exchange rate against US dollar, mainly out of a desire to restrain capital outflows. The introduction in May 2017 of a so-called counter-cyclical factor into the mechanism for fixing the daily trading midpoint of the renminbi against the US dollar, designed to prevent excessive fluctuations, was the latest step in this regard.

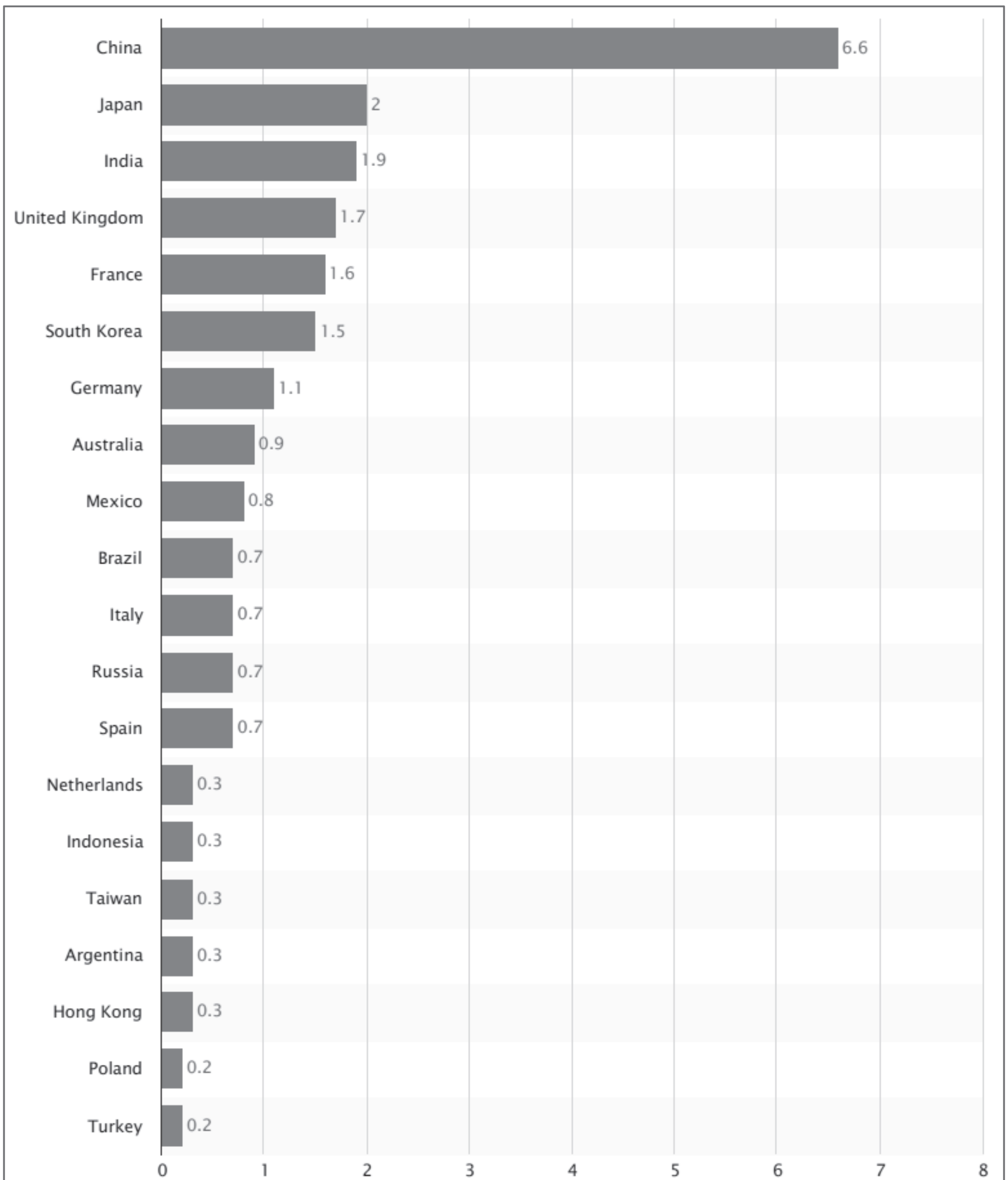
INDUSTRY OVERVIEW

On April 28, 2017, one of the leading statistics company on the internet, Statista, published their research statistics and facts of film and movie industry as well as box office revenue. The followings is extracted from Statista's publications.

Film entertainment is a big business in the United States. It is expected that the film entertainment business will generate USD35.3 billion in revenue by 2019. In 2016, 733 movies were released in North America, with drama being the most common genre amongst movie releases in the region.

The box office is a measurement of the total gross of tickets sold for a particular movie, essentially the revenue from ticket sales, in the film industry, box office sale values are significant in order to assess how successful a movie is. For film studios, box office numbers are important for potential future projects. On a worldwide scale, the North American box office market leads by a significant amount compared to the other markets. In 2016, box office revenue in the United States and Canada combined for USD11.4 billion and then India with USD1.9 billion. A possible reason for such a large revenue differential could be the production of most popular movies in Hollywood and major film festivals taking place in the United States. Higher North American revenues could possibly be attributed to not only higher interest, but also higher movie ticket prices. In the U.S. and Canada, the average movie ticket price amounted to USD8.65 in 2016. This is a value that has significantly increased over the past decade. A ticket 2006 cost USD6.55, so in 10 years, the average cost of a movie ticket had risen by more than two U.S. dollars.

The chart below presents the leading box office markets worldwide in 2016, ranked by revenue. Japan was the second largest market, with a box office revenue of two billion U.S. dollars. At the top of the list was the Chinese box office, which brought in revenue of USD6.6 billion in 2016. Release of the movie "The Mermaid" in China during 2016 generated box office revenue of almost RMB3.4 billion and the movie had become the most successful movie of all time in China. The leading imported movie in China in 2016 was the animated movie, Zootopia, which pulled in RMB1.53 billion at the box office.



The global film industry shows healthy projections for the coming years, as the global box office revenue is forecast to increase from about USD38 billion in 2016 to nearly USD50 billion in 2020. The U.S. is the third largest film market in the world in terms of tickets sold per year, only behind China and India. Just under 1.2 billion movie tickets were sold in the U.S. in 2016. There are about 5,800 cinema sites in the U.S. as of 2016. According to a recent survey, 14 percent of Americans go to the theater about once a month, six percent go see movies in the movie theater twice or three times a month, whereas 31 percent go a few times a year. This is a considerable share taking into account the 52 percent of American adults prefer watching movies at home.

With reference to information available from IMBD's 5000 movie dataset, historical recoverability of certain relevant movie directors possessed by the Target Group are presented below:-

	Director Name	Movie Title	Gross Revenue/ Budget
1	James Wan	Furious 7	1.84
2	James Wan	The Conjuring 2	2.56
3	James Wan	The Conjuring	6.87
4	James Wan	Death Sentence	0.48
5	James Wan	Insidious: Chapter 2	16.71
6	James Wan	Insidious	35.99
7	James Wan	Saw	45.96
1	Reginald Hudlin	Boomerang	1.75
2	Reginald Hudlin	Serving Sara	0.58
3	Reginald Hudlin	The Ladies Man	1.24
Average (James Wan)			15.77
Average (Reginald Hudlin)			1.19
Average (Both)			11.40
Median (James Wan)			6.87
Median (Reginald Hudlin)			1.24
Median (Both)			**2.20**

SCOPE OF WORK AND KEY ASSUMPTIONS

Our investigation included discussions with the Management with regard to the history, operations and prospects of the Target Company, an overview of certain financial data, an analysis of the industry and competitive environment, an analysis of comparable companies, and a review of transactions, operating statistics and other relevant documents. We made reference to or reviewed the following major documents and data:

- Audited financial statements for Starlight Media Inc. and its subsidiaries before Corporate Restructuring for the fiscal years ended December 31, 2015 and December 31, 2016
- Audited financial information of Target Group for the 7-month period ended July 31, 2017 upon completion of Corporate Restructuring
- Financial forecast for the 5-month ended December 31, 2017 and for the years ended December 31, 2018 to December 31, 2021
- Breakdowns of costs and budgets for the movie projects
- Breakdowns of inventory, prepayment, and other receivables
- Business registration documents and Articles of Associations of for Marshall Movie, LLC, Marshall Film, LLC, Marshall Holding, LLC, and Starlight Media, LLC
- A copy of subscription purchase agreement to acquire a portion of the economic interest of Marshall Holding, LLC in Marshall Film, LLC for Dragonfly Cinematic, LLC
- A copy of subscription purchase agreement to acquire a portion of the economic interest of Marshall Holding, LLC in Marshall Film, LLC for Planet 9 Productions, LLC
- Copies of tax returns for Marshall Movie, LLC, Marshall Film, LLC, Marshall Holding, LLC, and Starlight Media, LLC
- A copy of the legal due diligence report issued by Simmons & Simmons
- Copies of loan documents

- Copies of distribution right agreements with Open Road Films, LLC and Sony Pictures Worldwide Acquisitions Inc. for distribution of the movie Marshall

- A copy of the development and production agreement with K.Jam Productions, Inc. for development services in connection with of the TV series project, Empress

- A copy of the consulting services agreement with Christopher Newman for consulting services in connection with of the TV series project, Empress

- A copy of the development production agreement with James Wan for future movie production

- A copy of commissioned screenwriting agreement with Film Buff Productions, Inc. for screenwriting services in connection with the movie project, High Caliber

We assumed that the data we obtained in the course of the Valuation, along with the opinions and representations provided to us by the Management, are true and accurate and accepted them without independent verification except as expressly described herein. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

- the stage of development of the Target Group

- the historical costs of the Target Group

- the economic outlook for major countries affecting the industry

- the legal and regulatory issues of the movie and TV production industry in general and other specific legal opinions relevant to the Group

- the transaction prices of the comparable companies/transactions

- the risks of the Group

- the experience of Target Group's management team

Due to the changing environments in which the Target Group is operating, a number of assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation are:

- no major changes are expected in political, legal and economic conditions in China and US;
- regulatory environment and market conditions for movie and TV production industry will be developing according to prevailing market expectations;
- there will be no major changes in the current taxation law applicable to the Target Group;
- the Target Group will not be constrained by the availability of finance;
- the future movement of exchange rates and interest rates will not differ materially from prevailing market expectations; and
- the Target Group will retain competent management, key personnel and technical staff to support their ongoing operations.

VALUATION METHODOLOGY OVERVIEW

In the appraisal of the equity, or the net assets, of a business, regardless of their diversity, location, or technological complexity, there are three basic approaches to perform a valuation. The descriptive titles typically attached to these approaches are cost, income, and market. In normal circumstances, the appraiser is obliged to consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

Cost approach established value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent property with similar risk.

Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. As the Target Company is on start-up stage, having considered that no product has been commercialized as of Valuation Date and revenue is yet to be generated, we considered that income approach to value the Target Group on as-a-whole basis is not appropriate as the principal valuation method. Therefore, in this valuation, we rely on (a) market approach known as guideline company method ("Guideline Company Method") and (b) a hybrid method named asset based approach ("Asset Based Approach") to arrive at our conclusion of value. In addition, despite income approach was not adopted as the principal method, we have also performed it internally as a sanity check and for the purchase price allocation, a separate exercise for accounting purpose.

MARKET APPROACH – GUIDELINE COMPANY METHOD

One methodology employed in the market approach is the Guideline Company Method (GCM), where financial ratios of comparable companies were analyzed to determine a value for the subject company. This method employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject company. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over-the-counter.

Identification of Comparable Companies

To ensure that the list of comparable companies is an exhaustive list, firstly we focused on the companies listed in US, China and Hong Kong with active trading status under industry segment named "Entertainment Content" as default field in Bloomberg equity screening function ("EQS"). With application of this function in Bloomberg, a total of 132 companies were found as our population of selection. Next, among these preliminarily selected companies, we looked into the detail revenue composition to ensure that more than half of latest financial year total revenues of such comparable company were attributed from movie/TV production. Comparable companies with sufficient available information for application of such criteria were then selected. Described below the 18 comparable companies selected as a result from the above screening procedures.

1. Ciwen Media Co Ltd invests, produces and distributes films and television programs.

2. Zhejiang Talent Television & Film Co., Ltd. partakes in the investment, production, promotion, and distribution of both Chinese domestic and imported films.

3. H&R Century Union Corp. is a media producer. The company designs and produces online games, films, TV series and programs. H&R Century Union also provides agency services in the media industry.

4. Dasheng Times Cultural Investment Co., Ltd. develops, produces, and markets entertainment content including TV shows, films, and online games. The company also involves in trading steel products.

5. Omnijoi Media Corporation produces, releases, and markets TV shows and movies. The company also operates and invests in movie theaters and related business.

6. Creative China Holdings Limited is program production company. The company develops programs for television and online broadcasting, and event organization in PRC.

7. SMI Culture & Travel Group Holdings Limited operates in the entertainment industry. The company develops, invests, produces, and publishes movies and TV shows. SMI also offers brokerage services throughout China.

8. Zhejiang Huace Film & TV Co., Ltd. specializes in entertainment media production. The company's products include Mandarin films, TV programs and advertisements.

9. China Television Media, Ltd. produces television series and programs. The company also operates theme parks at its picture production sites, and provides advertising services.

10. Huayi Brothers Media Corporation produces and distributes movies and dramas. The company also provides artists management services.

11. Beijing Enlight Media Company Limited invest, produces and distributes television programs, films and teleplays. The company's major products include TV shows, TV entertainment programs, films and drama series.

12. Beijing HualuBaina Film & TV Company Limited invests in, produces, distributes films and TV dramas, and engages in film derivate businesses. The company's main products include TV dramas and films, product placements, film advertisements, television and film books, and other related products.

13. Pegasus Entertainment Holdings Limited is engaged in the production and distribution of films in Hong Kong, the PRC and South East Asia through their established distribution channels.

14. Lions Gate Entertainment Corporation develops and distributes film entertainment contents. The company produces motion pictures, television programming, animation, and digital media. Lions Gate Entertainment operates worldwide.

15. MGM Holdings, Inc. produces and distributes motion pictures, television programming, home video, interactive media, music, and licensed merchandise. The company also owns a library of modern movies, and owns interests in domestic and international television channels.

16. Eros International PLC produces, acquires, and distributes Indian language films with main markets in United States and other countries.

17. Carolco Pictures Inc operates as a production company engaged in the business of financing, producing and distributing feature films and television series The company's initial project, and sole project to date, is a television pilot named The Doorman, which was written, directed, and produced by Nicolas Turturro.

18. Goliath Film and Media Holdings develops, produces and distributes feature-length motion pictures. The company distributes films that include strong minorities and cater to educational, faith-based and other niche markets, produces low budget films that capitalize on new technologies, and distributes independent films.

Selection of Market Multiple

Given the stage of development of Target Company, no profitability metrics can be applied as a reasonable market multiples of the Target Company. However, given the direct costs of ongoing projects of different stages should have been capitalized as on balance sheet as per typical financial reporting requirements (e.g. US GAAP adopted by the Target Group), we adopted a price-to-book ("P/B") ratio, being the market capitalization of company (adjusted with, if any, net cash based on latest available financial statements of company) as of Valuation Date divided by book value of shareholders' equity (excluding non-controlling interest) based on the latest available financial statements of the companies.

Details of P/B ratios of comparable companies and our selection of P/B multiple for the Target Group are listed below:–

Guideline Companies	Bloomberg Code	P/Latest Financial Period Book Value	Selected
Ciwen Media Co Ltd	002343 CH	7.80	7.80
Zhejiang Talent Television & Film Co Ltd	300426 CH	8.55	8.55
H&R Century Union Corp	000892 CH	3.03	3.03
Dasheng Times Cultural Investment Co Ltd	600892 CH	3.47	3.47
Omnijoi Media Corp	300528 CH	2.35	2.35
Creative China Holdings Ltd	8368 HK	1.46	1.46
SMI Culture & Travel Group Holdings Ltd	2366 HK	1.12	1.12
Zhejiang Huace Film & TV Co Ltd	300133 CH	3.06	3.06
China Television Media Ltd	600088 CH	4.61	4.61
Huayi Brothers Media Corp	300027 CH	2.93	2.93
Beijing Enlight Media Co Ltd	300251 CH	3.56	3.56
Beijing HualuBaina Film & TV Co Ltd	300291 CH	2.34	2.34
Pegasus Entertainment Holdings Ltd	1326 HK	1.15	1.15
Lions Gate Entertainment Corp	LGF/A US	2.12	2.12
MGM Holdings Inc.	MGMB US	2.70	2.70
Eros International PLC	EROS US	0.75	0.75
Carolco Pictures Inc	CRCO US	Negative P/B	Not Applicable
Goliath Film & Media Holdings	GFMH US	2.29	2.29
	Highest		8.55
	Lowest		0.75
	Average		3.13
	Median		2.70
	Selected Multiple		**2.70**

Value Indicated by the Market Approach

We selected the median multiple which is then multiplied by the net book value (excluding non-controlling interest) of Target Group as of Valuation Date to arrive at equity value of the Target Company on a marketable and non-control basis at approximately USD 27.9 million.

ASSET BASED APPROACH

As defined in IVS, Asset Based Approach is a method of indicating the value of a business or business interest based on a summation of the net value of the individual assets and liabilities. Each of the assets and liabilities will have been valued using either the market, income or cost approaches.

This method starts with the balance sheet. In this Valuation, the consolidated net asset value excluding non-controlling interest of Starlight Legend was adopted as the starting point of value, which is then adjusted by the below-mentioned factors using concept of replacement cost method under cost approach.

The replacement cost method assumes that a participant would pay no more for the asset than the cost that would be incurred to replace the asset with a substitute of comparable utility or functionality.

Pursuant to IVS, valuers should consider the following factors when applying the replacement cost method:

- the direct and indirect costs of replacing the utility of the asset, including labour, materials and overhead;
- whether the subject asset is subject to obsolescence. While assets do not become functionally or physically obsolete, they can be subject to economic obsolescence;
- whether it is appropriate to include a profit mark-up on the included costs. An asset acquired from a third party would presumably reflect their costs associated with creating the asset as well as some form of profit to provide a return on investment. As such, under bases of value that assume a hypothetical transaction, it may be appropriate to include an assumed profit mark-up on costs; and
- opportunity costs may also be included, which reflect costs associated with not having the subject asset in place for some period of time during its creation.

1) Adjustments on costs already capitalized on balance sheet under Cost Approach

Based on our analysis, all the direct costs related to the movie/TV projects and related contracts, namely, Marshall Project, The Empress Project, High Caliber Project, Mass Extinction Project as well as the Capitalized Portion of James Wan Contract, have all been capitalized on the balance sheet as of July 31, 2017 without any developer's profit considered, based on cost approach of valuation. Therefore, we have further upward adjusted all these items with reasonable opportunity cost percentage on their capitalized cost, having also considered the percentage economic interest shared by the Target Group for each project or contract in order to arrive at their respective market values, as below:–

Project/Contract	Active/To be Proceeded	Capitalized Costs as of Valuation Date Per Book *(USD'000)*	Opportunity Cost %	% of Economic Interest Entitled by Target Group	Developer's Profit Entitled by Target Group *(USD'000)*
Marshall	Active	13,210	27%	42.92%	1,531
The Empress	Active	998	27%	100%	269
Mass Extinction	Active	500	27%	100%	135
High Caliber	To be proceeded	193	27%	100%	52
Capitalized Portion of James Wan Contract	To be proceeded	4,143	27%	100%	1,119
				Total Adjustment Amount	**3,106**

The opportunity cost of 27% was based on a research return on investment on studio financed film project[1].

2) Adjustments on costs already expensed on book as profit and loss under Cost Approach

Majority of expenses incurred through profit and loss accounts are used for business development and startup activities such as workforce team building (e.g. signing bonus for James Wan as mentioned above), promotions, business consulting expenses, etc. in order to facilitate operation of the current and future production projects amounted to approximately USD10 million.

[1] *The rate of required return is proxied to and referenced from a research study issued by the Glucksman Institute for Research in Securities Markets of New York University in April 2010 which analyzed in depth the financing of films released in the last decade (January 2000 – October 2009). The study revealed that the median cash-on-cash return on investment was 27%. The return on investment in this research study was defined as the cash remaining after all expenses have been deducted from the distributor film rentals and other movie revenue streams over the negative cost of the movie.*

Having considered the above-mentioned adjustments, the adjusted net asset value as of Valuation Date derived from Asset Based Approach was approximately USD 23.6 million, presented as below:–

	Amounts
	(USD'000)
Net asset value (Excluding non-controlling interest) as of Valuation Date	10,320
Adjustments on Costs Already Capitalized on Balance Sheet	3,106
Adjustments on Costs Already Expensed on Book as Profit and Loss	10,195
Adjusted net asset value as of Valuation Date	**23,621**

ADDITIONAL VALUATION CONSIDERATION

Premium for Control

Premium for control is the additional value inherent in the controlling interest, as contrasted to a minority interest that reflects the power of control. The thousands of daily transaction on stock exchanges are, of course, minority interest transactions. Each year, a controlling interest in a few hundred of these public companies is purchased at a price that is substantially higher than the published market price of the securities. The public markets provide information on control premiums through acquisition transactions. When a controlling interest in a publicly traded firm is acquired and taken private, the purchaser normally pays a premium above the freely traded, minority interest share price. The difference between the published price of the shares before their acquisition and the purchase price of the controlling interest is referred to as the control premium.

When valuing the Target Group based on guideline companies' multiples, the level of value is presented on freely traded and non-controlling basis. A premium for control reflects the degree of control associated with a 100% interest in the shares of the Target Company. To estimate the control premium applicable to the Target Company, we relied on indications of control premiums from data on acquisition transactions in the entertainment industry over the past five years. As indicated by market data, a 30% control premium on equity level was considered to be appropriate.

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. However, the DLOM is applicable at business enterprise or equity level but not on individual assets level.

In this appraisal, the discount for lack of marketability was considered to be 25% based on 5-year (2012-2016) average DLOM as derived from data on the "Mergerstat Yearbook 2017". DLOM is applicable to the results derived from guideline company method.

SENSITIVITY/SCENARIO ANALYSIS

As part of our valuation, a sensitivity analysis of value indication arrived at using the Asset Based Approach and a sensitivity analysis of value indication arrived at using the Market Approach were performed. We have tested sensitivity of the Target Group's value to changes of opportunity cost percentage as well as market multiple (i.e. P/B ratio) used.

Opportunity Cost Sensitivity Analysis

Sensitivity of the value change was performed on every 5% change in opportunity cost percentage applied in calculation of the adjustments on costs under Asset Based Approach in a range from 10% to 40%. The following table summarized sensitivity analysis results:

Opportunity Cost Percentage	**Adjusted net asset value as of July 31, 2017** *(USD'000)*
10%	21,665
15%	22,240
20%	22,816
25%	23,391
30%	23,966
35%	24,541
40%	25,116

Market Multiple Sensitivity Analysis

Sensitivity of the value change was performed on every 0.5x change in market multiple (i.e. P/B ratio) applied in calculation of equity value of the Target Group under Market Approach in a range from 2.0x to 4.0x. The following table summarized sensitivity analysis results:

P/B Ratio	Equity Value of the Target Group after DLOM and Premium for Control as of July 31, 2017 *(USD'000)*
2.0x	20,123
2.5x	25,154
3.0x	30,185
3.5x	35,216
4.0x	40,246

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above, it is our opinion that the market value of the Target Group as of the Valuation Date is reasonably represented in a range of UNITED STATES DOLLAR TWENTY THREE MILLION SIX HUNDRED AND TWENTY ONE THOUSAND (USD23,621,000) and UNITED STATES DOLLAR TWENTY SEVEN MILLION ONE HUNDRED AND SIXTY SIX THOUSAND (USD27,166,000).

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We do not provide assurance on the achievability of any financial results estimated by the Target Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of Management.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

Respectfully submitted,
For and on behalf of
D&P China (HK) Limited

Patrick Wu	**Ricky Lee**
Regional Managing Director	*Managing Director*

Note: This valuation was prepared under the direct supervision of Mr. Ricky Lee as project-leader-in-charge with substantial professional assistance from Mr. William Leung and Ms. Daria Lau and separate and independent concurring technical review by Mr. Kevin Leung, another Managing Director in the firm. The final conclusion was approved by Mr. Patrick Wu as Regional Managing Director and practice leader of the firm's Greater China valuation advisory services division.

Mr. Ricky Lee has been involved in business enterprise and intangible asset valuation services for the purposes of joint venture, merger & acquisition and public listing for over twenty years and is a fellow member of the Association of Chartered Certified Accountants, accredited senior appraiser of the American Society of Appraisers and charter holder of the Chartered Financial Analyst.

Mr. Patrick Wu is a qualified lawyer responsible for the management and strategic development of the firm's Greater China operation which has offices in Hong Kong, Beijing, Shanghai, Guangzhou, and Shenzhen and Taipei. He is extensively involved in providing professional consulting services for a wide range of business sectors, such as banking, business acquisitions, public listings, real estate and investment in Hong Kong and the PRC, professional development, quality assurance and business development.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately after the issue of the Consideration Shares (assuming that save for the issue of the Consideration Shares, no new Shares will be issued or repurchased since the Latest Practicable Date) will be as follows:

Authorised:		*HK$*
20,000,000,000	Shares	2,000,000,000
Issued, fully paid or credited as fully paid:		
652,564,799	Shares in issue as at the Latest Practicable Date	65,256,480
21,000,000	Consideration Shares to be allotted and issued at Completion	2,100,000
673,564,799		67,356,480

As at the Latest Practicable Date, the Company had outstanding convertible bonds with principal amount of HK$315,000,000 conferring rights to the holder of such convertible bonds to convert into 63,000,000 Shares at the conversion price of HK$5.00 per conversion share. Save as disclosed above, the Company had no outstanding convertible securities, warrants or other similar rights as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executive in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meanings of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Nature of interests/capacity	Number of Shares or underlying shares	Approximately percentage of issued shares of the Company as at the Latest Practicable Date
Mr. Yan *(Note 1)*	Interest in controlled corporation	390,313,514	59.81%
Mr. Chau Chit *(Note 2)*	Interest in controlled corporation	49,693,600	7.62%
Mr. Hung Ching Fung *(Note 3)*	Interest in controlled corporation	1,500,000	0.23%
Ms. Chen Hong	Beneficial owner	200,400	0.03%

Notes:

1. Cosmic Leader, which is interested in 369,313,514 Shares, is owned as to 80% by Mr. Yan, who is the Chairman of the Board and an executive Director. The Vendor, which is interested in 21,000,000 Shares, is wholly owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in the 369,313,514 Shares which Cosmic Leader is interested in and the 21,000,000 Shares which the Vendor is interested in.

2. The Shares are held by Mega Start Limited which is wholly owned by Mr. Chau Chit, an executive Director. Mr Chau Chit is therefore deemed to be interested in the 49,693,600 Shares held by Mega Start Limited.

3. The Shares are held by New Elect International Limited which is wholly owned by Mr. Hung Ching Fung, an executive Director. Mr Hung Ching Fung is therefore deemed to be interested in the 1,500,000 Shares held by New Elect International Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were taken or deemed to have under such provisions of the SFO) (b) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein or (c) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders

Long positions in the Shares and underlying shares

Name of substantial Shareholders	**Nature of interests/capacity**	**Number of Shares held**	**Approximate percentage of issued share capital of the Company**
Cosmic Leader *(Note 1)*	Beneficial owner	369,313,514	56.59%
Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) *(Note 2)*	Persons having a security interest in shares	419,007,114	64.20%
Zhongtai International Asset Management Limited *(Note 3)*	Investment manager	419,007,114	64.20%

Notes:

1. The entire issued share capital of Cosmic Leader is beneficially owned as to 80% by Mr. Yan. Mr. Yan is therefore deemed to be interested in the 369,313,514 Shares held by Cosmic Leader.

2. Based on information available to the Company, Qilu International Funds SPC is an exempted segregated portfolio company incorporated in the Cayman Islands and is acting for and on behalf of Zhongtai Dingfeng Classified Fund SP.

3. Based on information available to the Company, Zhongtai International Asset Management Limited is the investment manager of Qilu International Funds SPC.

Save as disclosed above, so far as is known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no other person (other than Directors or the chief executive of the Company whose interests are disclosed above) had an interest or a short position in the Shares or the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

4. INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016 (the date to which the latest published audited financial statements of the Group were made up).

As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors and their respective associates had any interest in any businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with any member of the Enlarged Group which is not determinable by the Enlarged Group within one year without payment of any compensation (other than statutory compensation).

6. MATERIAL ADVERSE CHANGE

As disclosed in the interim report of the Company for the six months ended 30 June 2017, for the first half of 2017, the segment revenue of the entertainment and gaming business was largely reduced to approximately HK$8.5 million from approximately HK$130.6 million in the corresponding period in 2016 due to the junket arrangement with NagaWorld having come to an end in early 2017 and the tightened credit control by the Group over the gaming promotion business during the period. Save as the above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

7. EXPERTS AND CONSENTS

The following are the qualification of the experts who have given their opinion or advice which are contained in this circular:

Name	Qualifications
Altus Capital	a corporation licensed by the Securities and Futures Commission of Hong Kong to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activity under the SFO
BDO Limited	Certified Public Accountants
D&P China (HK) Limited	Independent valuer
Ernst & Young	Certified Public Accountants

Each of the experts identified above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its opinion or letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, the experts identified above had no shareholding, direct or indirect, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

As at the Latest Practicable Date, the experts identified above had no direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

8. LITIGATION

On 26 September 2014, the Company received a petition (the "**Petition**") from the High Court filed by the SFC against three of its former Directors (the "**Alleged Former Directors**") for wrongfully diverting from the Company to Extract Group Limited ("**Extract Group**"), a company wholly owned and controlled by one of the Alleged Former Directors, a business opportunity regarding the provision of consultancy services involving a consultancy fee of US$1 million. The Company was directed under the Petition to seek recovery from the Alleged Former Directors and/or Extract Group of the amount of US$1 million or such losses suffered by the Company in respect of the aforesaid wrongful diversion of business opportunity. Details are set out in the announcement of the Company dated 10 October 2014. As at the Latest Practicable Date, the Petition remained in progress and unresolved, and save and except for the Petition, neither the Company nor any of its subsidiaries were engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Enlarged Group) were entered into by member(s) of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(i) the acquisition agreement dated 20 July 2015 entered into between Innovative Era Limited, a wholly-owned subsidiary of the Company, as the purchaser, and BL Developments Pty Ltd, a third party independent of the Company and its connected persons, as the vendor, in relation to the purchase of a property located at Burswood, West Australia with a consideration of approximately HK$11,600,000;

(ii) the conditional subscription agreements dated 5 November 2015 entered into between the Company and certain independent third parties in relation to the subscription of the Convertible Bonds in an aggregate principal amount of HK$365,000,000. Subscriptions of Convertible Bonds in an aggregate amount of HK$315,000,000 were completed on 2 December 2015; and

(iii) the Agreement.

10. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours at the head office and principal place of business of the Company in Hong Kong at Room 1203, 12/F, 118 Connaught Road West, Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and the bye-laws of the Company;

(b) the annual reports of the Company for the three years ended 31 December 2014, 2015 and 2016 and the interim report of the Company for the six months ended 30 June 2017;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 33 to 34 of this circular;

(d) the letter of advice from Altus Capital, the text of which is set out on pages 35 to 69 of this circular;

(e) the accountants' report of the Target Group, the text of which is set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(g) the valuation report on the Target Group issued by the Independent Valuer, the text of which is set out in Appendix IV to this circular;

(h) the written consents of the experts referred to in the section headed "Experts and Consents" in this appendix;

(i) the material contracts referred to in the section headed "Material contracts" in this appendix; and

(j) this circular.

11. GENERAL

(a) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

(b) The company secretary of the Company is Mr. Cheung Yiu Kuen, a member of the Hong Kong Institute of Certified Public Accountants.

(c) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(d) The head office and principal place of business of the Company in Hong Kong is situated at Room 1203, 12/F, 118 Connaught Road West, Hong Kong.

(e) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

STARLIGHT CULTURE ENTERTAINMENT GROUP LIMITED
星光文化娛樂集團有限公司

(formerly known as Jimei International Entertainment Group Limited 集美國際娛樂集團有限公司)
(Incorporated in Bermuda with limited liability)
(Stock Code: 1159)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the special general meeting (the "**SGM**") of Starlight Culture Entertainment Group Limited (the "**Company**") will be held at 11:00 a.m. on 16 November 2017 at Jiangsu Club, 2/F, Alliance Building, 133 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the share purchase agreement dated 14 September 2017 (the "**Agreement**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) entered into between Rare Jewels Limited (the "**Vendor**") as vendor, Yan Xu as vendor guarantor and the Company as purchaser pursuant to which (1) the Company has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the entire issued share capital of Starlight Legend Investment Limited as more particularly described in the circular of the Company dated 26 October 2017 (the "**Circular**") at a consideration of US$25,000,000 (equivalent to approximately HK$195 million), which shall be paid by (i) the allotment and issue of 21,000,000 shares of the Company of HK$0.10 each (the "**Consideration Shares**" and each a "**Consideration Share**") by the Company to the Vendor at the issue price of HK$4.50 per Consideration Share and (ii) the issue of the interest-free promissory note in the principal amount of US$12,884,615.38 due on the date falling 12 months from the Completion Date (as defined in the Circular) by the Company in favour of the Vendor (the "**Promissory Note**"), and

(2) the Vendor shall be entitled to the Agreed Payment (as defined and more particularly described in the Circular) and the transactions contemplated thereunder be approved, confirmed and ratified;

(b) the allotment and issue of the Consideration Shares by the Company to the Vendor on the terms and subject to the conditions of the Agreement be approved and subject to the Listing Committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in, the Consideration Shares, the directors of the Company be hereby granted the specific mandate (the "**Specific Mandate**") which shall entitle the directors of the Company to exercise all the powers of the Company to allot and issue the Consideration Shares credited as fully paid, on the terms and subject to the conditions of the Agreement, provided that the Specific Mandate shall be in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the directors of the Company prior to the passing of this resolution;

(c) the issue of the Promissory Note by the Company to the Vendor on the terms and subject to the conditions of the Agreement be approved;

(d) the payment of the Agreed Payment by the Company to the Vendor on the terms and subject to the conditions of the Agreement be approved; and

(e) any one director of the Company be hereby authorised for and on behalf of the Company to do all such acts and things and to sign and execute (under hand, under the common seal of the Company or otherwise as a deed) all such documents which he/she may in his/her sole and absolute discretion consider necessary, desirable or expedient to implement or give effect to any matters arising from, relating to or incidental to the Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares, the issue of the Promissory Note and the payment of the Agreed Payment."

By order of the Board
Starlight Culture Entertainment Group Limited
Chau Chit
Deputy Chairman and Executive Director

Hong Kong, 26 October 2017

Notes:

1. Any shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy needs not be a shareholder of the Company.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.

3. In the case of joint holders of any shares in the Company, any one of such joint holders may vote at the SGM, either in person or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM, either personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.

4. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Hong Kong branch share registrar of the Company at Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting.

5. The register of members of the Company will be closed from 13 November 2017 to 16 November 2017 (both dates inclusive) for determining the identity of the Shareholders who are entitled to attend and vote at the SGM. No transfer of shares of the Company and/or the conversion of the outstanding convertible bonds will be registered during this period. Shareholders whose name appear on the register of members of the Company on 16 November 2017 shall be entitled to attend and vote at the SGM. In order to be eligible to attend and vote at the SGM, unregistered holders of the shares of the Company should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 10 November 2017.

6. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

As at the date of this notice, the Board comprises six executive Directors, namely Mr. Yan Xu, Mr. Chau Chit, Mr. Luo Lei, Ms. Chen Hong, Mr. Hung Ching Fung and Mr. Li Haitian; one non-executive Director, namely Mr. Wang Shoulei; and four independent non-executive Directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, Mr. Kong Chi Mo and Mr. Hong Tao.