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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Reference is made to the announcement dated 29 March 2018 on the annual results for the year ended 31 December 2017 (the "**Annual Results Announcement**"), the update announcement dated 29 March 2018, the annual report 2017 published on 26 April 2018 (the "**Annual Report 2017**") and the clarification announcement dated 4 May 2018 (the "**Clarification Announcement**") of Starlight Culture Entertainment Group Limited (the "**Company**"). Unless otherwise defined herein or the context otherwise requires, capitalised terms used herein shall have the same meanings as in the Annual Results Announcement, the Annual Report 2017 and the Clarification Announcement.

Further to the information disclosed in the Annual Report 2017 and the Clarification Announcement, the Company wishes to provide the following additional information in relation to the Impairment which was supported by the Year-end Valuation.

The Impairment and the Year-end Valuation

As disclosed in the paragraph titled "Goodwill" in Note 4 (Significant Accounting Policies) of the Notes to the Consolidated Financial Statements of the Annual Report 2017, in accordance with the Group's accounting policies and HKAS 36 *Impairment of Assets*, a cash-generating unit ("**CGU**") to which goodwill has been allocated is tested for impairment annually, by comparing its amount with its recoverable amount, and whenever there is an indication that the CGU may be impaired.

As disclosed in the Clarification Announcement, the Company engaged the Independent Valuer to provide service to the Company to assess the Target Group's valuation as at 31 December 2017. The Year-end Valuation, which was prepared for the purpose of impairment testing in accordance with HKAS 36 *Impairment of Assets*, comprised the valuation of the Target Group's existing and potential projects on their estimated future cash flows or net asset values (as the case may be) assessed individually.

The table below sets out the valuation method, the details of the value of inputs used and assumptions for the Year-end Valuation used for performing the assessment of the Impairment:

<table>
<tr><td>Date of valuation</td><td colspan="2">31 December 2017 (the "Valuation Date")</td></tr>
<tr><td>Valuation methodology</td><td colspan="2">Income approach – discounted cash flow method (for A) and net assets value (for B)</td></tr>
<tr><td>Subject</td><td colspan="2">Target Group (i.e. Starlight Legend Investment Limited and its subsidiaries)</td></tr>
<tr><td>Projection period</td><td colspan="2">2018 to 2022</td></tr>
<tr><td rowspan="7">Present value of future cash flows (A)</td><td>For the year ending</td><td>Present value of future cash flows</td></tr>
<tr><td>31 December 2018</td><td>(US$6,328,000)</td></tr>
<tr><td>31 December 2019</td><td>US$5,073,000</td></tr>
<tr><td>31 December 2020</td><td>US$5,030,000</td></tr>
<tr><td>31 December 2021</td><td>US$3,837,000</td></tr>
<tr><td>31 December 2022</td><td>US$2,731,000</td></tr>
<tr><td>Total</td><td>US$10,343,000</td></tr>
</table>

Excess assets (B)	US$6,040,000
Valuation of value in use (A+B) *(rounded)*	US$16,400,000
Discount rate	27.0% *(Note)*
Summary of major assumptions for (A)	• Only those movies/TV projects which are concretely committed by the Target Group or after post production stage are considered in the projection. Therefore, revenue was estimated based on the expected total box office amount for four movie/TV projects namely: Marshall, The Empress, The Widow, and Crazy Rich Asians, whilst, Mass Extinction and China Death Squad were not included. Despite no identifiable assets were capitalized particularly for The Widow and Crazy Rich Asians in purchase price allocation as of 13 December 2017 and Valuation Date, these movie projects are at post production stage. Hence, they are considered in the value in use of the CGU for goodwill impairment purpose. Total box office revenue was forecasted by the management with reference to the historical box office revenue to production cost ratio of similar project types available from public resources such as IMDb, The Numbers, CBO, etc. In general, contracted movie distributors usually recognize and pays back the movie production company by periodical instalment based on the box office income. Expected box office revenue was netted with movie distribution fee as well as shared portion with theatres to arrive at net revenue. In addition to box office revenue, it was confirmed by the management that the tax refund will be granted by the government based on the movie project's production cost for supporting of moving industry. As such, it was estimated that approximately USD 1.3 million of such income will be incurred in 2018 and 2019 for the Marshall Project which had already been completed in production and launched into the market for a couples of months by Valuation Date.

	• Out of the four movie/TV projects presented in the management's forecast, except the Marshall movie project which had been completed for production and launched into the market, the rest are yet without substantial cost incurred and capitalized. The Empress was budgeted to be developed by the Target Group itself with outsourced production studios, whilst, the Target Group had signed co-financing agreements for investment in the ready-to-go projects – The Widow and Crazy Rich Asians – that were developed by other third-party production firms. Costs of revenue of movie/TV project were estimated based on the management's budgeted total investment costs which had been discussed by them with the producers/directors of the respective project. Production/investment cost of the movie projects would then be capitalized firstly in inventory and amortized in straight-line subsequently alongside with the recognition of the project's future revenue in the forecasted periods. • Operating expenses includes sales and marketing expense and general administrative expenses. Budgeted by the management, with possible increase in traveling frequency, employee headcount, consultancy fee, inflation, etc., operating expenses in 2018 was estimated to be approximately USD 6 million. Operating expenses in future forecasted period was estimated to encounter 10% year-on-year increment. • Standard income tax rate of 21% in the United States was applied in the calculation. • Fixed assets of the Target Group were mainly office equipment which was estimated by the management to be minimal in the future periods. Capital expenditure of approximately USD 30,000 applied in the cash flow calculation.

	• Working capital requirement for the movie/TV projects was estimated based on the change in advance receipt and change in inventory derived from the management's forecasted cashflow. A minimum box office guarantee payment of approximately USD 3 million was paid by one of the contracted distributors of Marshall Project in 2017 which was expected by the management to be recognized as revenue in 2022 upon receipt of all paperwork documents provided by the distributor. As moving on in time, capitalized inventory balances of the movie/TV projects during production stage would be reduced periodically as cost of revenue being recognized. Starting working capital balance in 2017 was excluded with certain nonoperating nature assets such as: (1) receivable amounts from person which were not related to normal course of business activities of the Target Group; (2) certain capitalized early development costs of remote movie projects (projects Mass Extinction and China Death Squad); (3) pre-investment payments to contracted directors. As the two movie projects and the future plan by the contracted director for further production were deemed as remote investments with high uncertainty in project continuity as of Valuation Date, they were not involved in the management's financial forecast. • The financial projections were prepared by the management with due care and consideration reflecting the reasonable estimate of future relevant events. • There will be no major changes in the existing political, legal, fiscal and economic conditions in countries in which the Company will carry on its business. • There will be no major changes in the current taxation law in countries in which the Company operates.

	• Future exchange rates and interest rates will not differ materially from those prevailing market expectations. • The availability of finance will not be a constraint on the future growth of the Company's operation. • The Company will retain and have competent management, key personnel, and technical staff to support its ongoing operation. • Industry trends and market conditions for related industries will not deviate significantly from economic forecast. • Exchange rate of 6.5185 RMB/USD and 7.8180 HKD/USD.
Further details of excess assets	These mainly include certain early development costs of remote movie projects (projects Mass Extinction and China Death Squad) and pre-investment payments to a contracted film director.

Note: The Board wishes to clarify an inadvertent typographical error on page 25 in Note 11 (Goodwill) of the Notes to the Consolidated Financial Statements of the Annual Results Announcement and on page 171 in Note 18 (Goodwill) of the Notes to the Consolidated Financial Statements of the Annual Report 2017 where the discount rate should instead be read as "27%" instead of "21%".

The valuation method of the Year-end Valuation was adopted to comply with the Group's accounting policies and HKAS 36 *Impairment of Assets*.

As the CGU for the Target Group was first tested for impairment for the year ended 31 December 2017 after recognition of goodwill arising on the Acquisition which was completed on 13 December 2017, the Year-end Valuation was the first valuation for such impairment based on the valuation method set out above.

As disclosed in the Clarification Announcement, the Year-end Valuation was HK$43,844,000 less than the Completion Valuation, and hence an impairment of goodwill of HK$43,844,000 as of 31 December 2017 was made.

The supplemental information provided in this announcement does not affect other information contained in the Annual Results Announcement, the Annual Report 2017 and the Clarification Announcement and, save as disclosed above, the contents of the Annual Results Announcement, the Annual Report 2017 and the Clarification Announcement remain unchanged.

By Order of the Board
Starlight Culture Entertainment Group Limited
Luo Lei
Executive Director and Chief Executive Officer

Hong Kong, 10 August 2018

As at the date of this announcement, the Board of the Company comprises five executive Directors, namely 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.