

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



**STARLIGHT CULTURE
ENTERTAINMENT**

STARLIGHT CULTURE ENTERTAINMENT GROUP LIMITED

星光文化娛樂集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1159)

**ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR
THE YEAR ENDED 31 DECEMBER 2022;
PROPOSED AMENDMENTS TO THE MEMORANDUM
AND ARTICLES OF ASSOCIATION; AND
RESUMPTION OF TRADING**

AUDITED ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Starlight Culture Entertainment Group Limited (the “**Company**”) hereby announces its audited annual consolidated results (“**Audited Results**”) for the year ended 31 December 2022, together with the corresponding comparative figures for the year ended 31 December 2021 as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

		2022	2021
	Note	HK\$'000	HK\$'000 (Restated)
REVENUE	7	60,247	199,403
Cost of sales		<u>(56,219)</u>	<u>(294,778)</u>
Gross profit/(loss)		4,028	(95,375)
Other income and gains		6,239	3,135
Selling and distribution expenses		(13,842)	(17,636)
Administrative expenses		(27,784)	(35,149)
Loss on disposal of subsidiaries		–	(26,810)
Impairment of financial and contract assets, net		(43,523)	(54,087)
Impairment of film investments		(11,738)	(80,223)
Reversal of impairment/(impairment) of prepayments, other receivables and other assets		2,709	(153,118)
Changes in fair value of financial and derivative financial liabilities		(6,148)	83,751
Finance costs	9	(27,271)	(14,987)
Other expenses		<u>(14,409)</u>	<u>(24,365)</u>
LOSS BEFORE TAX	8	(131,739)	(414,864)
Income tax (expense)/credit	10	<u>(3,458)</u>	<u>15,550</u>
LOSS FOR THE YEAR		<u><u>(135,197)</u></u>	<u><u>(399,314)</u></u>

		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Attributable to:			
– Owners of the parent		(135,867)	(399,264)
– Non-controlling interests		<u>670</u>	<u>(50)</u>
		<u>(135,197)</u>	<u>(399,314)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
– For loss for the year (<i>HK\$ cents</i>)		<u>(16.50)</u>	<u>(48.48)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
LOSS FOR THE YEAR	(135,197)	(399,314)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations, net of nil tax	<u>(6,305)</u>	<u>8,694</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	<u>(6,305)</u>	<u>8,694</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u><u>(141,502)</u></u>	<u><u>(390,620)</u></u>
Attributable to:		
– Owners of the parent	(142,168)	(390,564)
– Non-controlling interests	<u>666</u>	<u>(56)</u>
	<u><u>(141,502)</u></u>	<u><u>(390,620)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Note</i>	2022 HK\$'000	2021 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		885	1,720
Right-of-use assets		1,631	4,191
Prepayments, other receivables and other assets		297,224	233,602
Investment in films, television programs and program rights		11,718	11,700
Total non-current assets		311,458	251,213
CURRENT ASSETS			
Trade receivables	13	4,054	34,510
Prepayments, other receivables and other assets		102,701	108,276
Contract assets		3,135	28,451
Investment in films, television programs and program rights		65,954	133,537
Cash and cash equivalents		79,420	175,638
Total current assets		255,264	480,412
CURRENT LIABILITIES			
Other payables and accruals		210,515	163,615
Contract liabilities		64,499	112,840
Interest-bearing bank and other borrowings and film investment loans		379,553	391,056
Derivative financial liabilities		13,808	16,140
Financial liabilities at fair value through profit or loss		184,351	192,023
Amount due to a shareholder		1,132	1,227
Lease liabilities		1,715	2,653
Tax payable		41,561	39,266
Total current liabilities		897,134	918,820
NET CURRENT LIABILITIES		(641,870)	(438,408)
TOTAL ASSETS LESS CURRENT LIABILITIES		(330,412)	(187,195)

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
NON-CURRENT LIABILITY			
Lease liabilities		<u>125</u>	<u>1,840</u>
Net liabilities		<u>(330,537)</u>	<u>(189,035)</u>
EQUITY			
Share capital	14	82,356	82,356
Reserves		<u>(412,540)</u>	<u>(270,372)</u>
Equity attributable to owners of the parent		(330,184)	(188,016)
Non-controlling interests		<u>(353)</u>	<u>(1,019)</u>
Net deficit		<u>(330,537)</u>	<u>(189,035)</u>

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

Starlight Culture Entertainment Group Limited (the “**Company**”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of the registered office and principal place of business of the Company is changed from Room 2001, 20/F., 118 Connaught Road West, Hong Kong to Room 1002, 10/F., China Huarong Tower, 60 Gloucester Road, Wanchai, Hong Kong with effect from 30 May 2023.

During the year and up to 31 December 2022, the Company and its subsidiaries (the “**Group**”) were involved in the media and culture business.

In the opinion of the directors of the Company (the “**Directors**”), the single largest shareholder of the Company is Timcha Investment Limited (“**Timcha**”), a company wholly owned by 江陰星輝文化傳播有限公司 (Jiangyin Starlight Communications Co., Ltd. *), a limited company incorporated in the People’s Republic of China (the “**PRC**”). In the opinion of the Directors, as of 31 December 2022, the Company had no single controlling shareholder.

* *The English name of the entity registered in the PRC represents the best efforts made by the management of the Company to translate its Chinese name as the entity does not have an official English name. The English translation of the name is for identification purposes only.*

2. BASIS OF PREPARATION

The consolidated financial information set out in this announcement is extracted from the Group’s consolidated financial statements, which have 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. They have been prepared under the historical cost convention, except for financial liabilities at fair value through profit or loss and derivative financial instruments which have been measured at fair values. The consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern assumption

The Group incurred net loss of HK\$135,197,000 for the year ended 31 December 2022. As at 31 December 2022, the Group had net current liabilities and net liabilities of approximately HK\$641,870,000 and HK\$330,537,000 respectively. As at 31 December 2022, the Group defaulted on repayment of certain interest-bearing borrowings and film investment loans (including those classified as financial liabilities at fair value through profit or loss and derivative financial liabilities) with principal amounts of HK\$166,712,000, and have a further interest-bearing borrowings and film investment loans (including those classified as financial liabilities at fair value through profit or loss and derivative financial liabilities) with principal amounts of HK\$411,000,000 which were repayable within one year. These borrowings and film investment loans of HK\$577,712,000 in total exceed the Group's cash and cash equivalents of HK\$79,420,000 as at 31 December 2022.

In view of these circumstances, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. The following plans and measures are formulated to mitigate the liquidity pressure, to improve the financial position of the Group, and to remediate the overdue repayments to the lenders:

- (a) The Group has been actively negotiating with all of the lenders for renewal and extension for repayments of the overdue borrowings. Subsequent to the end of the reporting period, the Group entered into extension agreements with lenders of borrowings and film investment loans (including financial liabilities at fair value through profit or loss and derivative financial liabilities) with principal amounts of HK\$123,150,000 to extend the repayment due date to June 2024.
- (b) The Group has also been negotiating with various financiers and potential investors of the film industry to secure new sources of finance and identifying various options for financing the Group's working capital and commitments in the foreseeable future. The Directors believe that, considering the Group's track record of film investments and relationship with famous film directors, the Group will be able to obtain new financing.
- (c) The Group will continue to take active measures to control costs and prioritise film investments expenditures so as to improve the Group's cashflows.

The Directors have reviewed the Group's cash flow forecast prepared by management which covers a period of eighteen months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the Directors believe that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2022 on a going concern basis.

Notwithstanding the above, material uncertainties exist as to whether the Group is able to achieve its plans and measures as described above which incorporate assumptions about future events and conditions that are subject to inherent uncertainties. Whether the Group will be able to continue as a going concern for a period of eighteen months from the reporting date would depend upon the following:

- (a) New sources of finance will be obtained to support the Group's operating and financing cash outflows;
- (b) Re-financing or extensions will be obtained for the Group's existing borrowings and film investment loans (including those classified as financial liabilities at fair value through profit or loss and derivative financial liabilities); and
- (c) The Group's cost control strategies on its selling, distribution and administrative costs and film investment expenditures will be implemented effectively.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the 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 Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the 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 Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the 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 Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; 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 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 Group had directly disposed of the related assets or liabilities.

3. PRIOR YEAR ADJUSTMENTS

In preparing the consolidated financial statements for the year ended 31 December 2022, the Group had identified prior year errors resulting from omission of receipt transactions of a bank account held by the Group which were not properly recorded in the previously issued consolidated financial statements for the year ended 31 December 2021. These include refund of prepayments, settlement of previously impaired trade receivables and contract assets, refund of over-accrued operating expenses and advance from customers for potential film investments. Consequently, the amounts presented in the Group's consolidated financial statements in respect of the year ended 31 December 2021 have been restated to correct the errors identified.

Summaries of the effect of the restatements due to correction of prior year errors as explained above, on the Group's consolidated financial statements for the year ended 31 December 2021 are as follows:

- (i) Effect of restatements on the Group's consolidated statement of profit or loss for the year ended 31 December 2021:

	As previously reported HK\$'000	Prior year adjustments HK\$'000	As restated HK\$'000
Revenue	199,386	17	199,403
Cost of sales	(294,778)	–	(294,778)
Gross loss	(95,392)	17	(95,375)
Other income and gains	3,135	–	3,135
Selling and distribution expenses	(17,674)	38	(17,636)
Administrative expenses	(35,149)	–	(35,149)
Loss on disposal of subsidiaries	(26,810)	–	(26,810)
Impairment of financial and contract assets, net	(55,229)	1,142	(54,087)
Impairment of film investments	(80,223)	–	(80,223)
Impairment of prepayments, other receivables and other assets	(153,184)	66	(153,118)
Changes in fair value of financial and derivative financial liabilities	83,751	–	83,751
Finance costs	(14,987)	–	(14,987)
Other expenses	(24,927)	562	(24,365)
LOSS BEFORE TAX	(416,689)	1,825	(414,864)
Income tax credit	15,550	–	15,550
LOSS FOR THE YEAR	(401,139)	1,825	(399,314)
Attributable to:			
– Owners of the parent	(401,089)	1,825	(399,264)
– Non-controlling interests	(50)	–	(50)
	(401,139)	1,825	(399,314)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For loss for the year (HK\$ cents)	(48.70)	0.22	(48.48)

- (ii) Effect of restatement on the Group's consolidated statement of comprehensive income for the year ended 31 December 2021:

	As previously reported <i>HK\$'000</i>	Prior year adjustments <i>HK\$'000</i>	As restated <i>HK\$'000</i>
LOSS FOR THE YEAR	(401,139)	1,825	(399,314)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
– Exchange differences on translation of foreign operations, net of nil tax	<u>8,687</u>	<u>7</u>	<u>8,694</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>8,687</u>	<u>7</u>	<u>8,694</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u><u>(392,452)</u></u>	<u><u>1,832</u></u>	<u><u>(390,620)</u></u>
Attributable to:			
– Owners of the parent	(392,396)	1,832	(390,564)
– Non-controlling interests	<u>(56)</u>	<u>-</u>	<u>(56)</u>
	<u><u>(392,452)</u></u>	<u><u>1,832</u></u>	<u><u>(390,620)</u></u>

- (iii) Effect of restatements on the Group's consolidated statement of cash flows for the year ended 31 December 2021:

	As previously reported HK\$'000	Prior year adjustments HK\$'000	As restated HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax	(416,689)	1,825	(414,864)
Adjustments for:			
– Finance costs	14,987	–	14,987
– Bank interest income	(53)	–	(53)
– Gain on waiver of loan interest	(2,504)	–	(2,504)
– Loss on disposal of items of property, plant and equipment	101	–	101
– Gain on disposal of items of right-of-use assets	(51)	–	(51)
– Loss on disposal of subsidiaries	26,810	–	26,810
– Fair value gains, net:			
Derivative financial liabilities	(1,901)	–	(1,901)
Financial liabilities measured at fair value through profit or loss	(81,850)	–	(81,850)
– Depreciation of property, plant and equipment	836	–	836
– Depreciation of right-of-use assets	2,851	–	2,851
– Amortisation of prepaid expenditures	1,475	–	1,475
– Impairment of financial and contract assets, net	55,229	(1,142)	54,087
– Impairment of film investments	80,223	–	80,223
– Impairment of prepayments, other receivables and other assets	153,184	(66)	153,118
	(167,352)	617	(166,735)
Changes in investment in films, television programs and program rights, net	279,028	–	279,028
Decrease in trade receivables	60,665	348	61,013
Increase in prepayments, other receivables and other assets	(99,835)	8,648	(91,187)
Decrease in other payables and accruals	(19,666)	1,113	(18,553)
Increase in contract assets	(14,863)	–	(14,863)
Increase in contract liabilities	67,615	7,800	75,415
Cash generated from operations	105,592	18,526	124,118
Income taxes refunded	636	–	636
Net cash flows generated from operating activities	106,228	18,526	124,754

- (iii) Effect of restatements on the Group's consolidated statement of cash flows for the year ended 31 December 2021: (Continued)

	As previously reported HK\$'000	Prior year adjustments HK\$'000	As restated HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(866)	–	(866)
Consideration received from disposal of subsidiaries	(7)	–	(7)
Interest received	53	–	53
Net cash flows used in investing activities	(820)	–	(820)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of promissory notes	(1,000)	–	(1,000)
Proceeds from film investors	31,824	–	31,824
New bank loans and other borrowings and film investment loans raised	89,140	–	89,140
Repayment of bank loans and other borrowings and film investment loans	(208,957)	–	(208,957)
Principal portion of lease payments	(2,734)	–	(2,734)
Interest element of lease payments	(298)	–	(298)
Net cash flows used in financing activities	(92,025)	–	(92,025)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,383	18,526	31,909
Cash and cash equivalents at beginning of year	142,844	–	142,844
Effect of foreign exchange rate changes, net	878	7	885
Cash and cash equivalents at end of year	157,105	18,533	175,638
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	157,105	18,533	175,638

- (iv) Effect of restatements on the Group's consolidated statement of financial position as at 31 December 2021:

	As previously reported HK\$'000	Prior year adjustments HK\$'000	As restated HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	1,720	–	1,720
Right-of-use assets	4,191	–	4,191
Prepayments, other receivables and other assets	242,250	(8,648)	233,602
Investment in films, television programs and program rights	11,700	–	11,700
Total non-current assets	<u>259,861</u>	<u>(8,648)</u>	<u>251,213</u>
CURRENT ASSETS			
Trade receivables	33,650	860	34,510
Prepayments, other receivables and other assets	108,276	–	108,276
Contract assets	28,451	–	28,451
Investment in films, television programs and program rights	133,537	–	133,537
Cash and cash equivalents	157,105	18,533	175,638
Total current assets	<u>461,019</u>	<u>19,393</u>	<u>480,412</u>
CURRENT LIABILITIES			
Other payables and accruals	162,502	1,113	163,615
Contract liabilities	105,040	7,800	112,840
Interest-bearing bank and other borrowings and film investment loans	391,056	–	391,056
Derivative financial liabilities	16,140	–	16,140
Financial liabilities at fair value through profit or loss	192,023	–	192,023
Amount due to a shareholder	1,227	–	1,227
Lease liabilities	2,653	–	2,653
Tax payable	39,266	–	39,266
Total current liabilities	<u>909,907</u>	<u>8,913</u>	<u>918,820</u>
NET CURRENT LIABILITIES	<u>(448,888)</u>	<u>10,480</u>	<u>(438,408)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>(189,027)</u>	<u>1,832</u>	<u>(187,195)</u>

- (iv) Effect of restatements on the Group's consolidated statement of financial position as at 31 December 2021: (Continued)

	As previously reported <i>HK\$'000</i>	Prior year adjustments <i>HK\$'000</i>	As restated <i>HK\$'000</i>
NON-CURRENT LIABILITY			
Lease liabilities	1,840	–	1,840
Net liabilities	<u>(190,867)</u>	<u>1,832</u>	<u>(189,035)</u>
EQUITY			
Share capital	82,356	–	82,356
Reserves	<u>(272,204)</u>	<u>1,832</u>	<u>(270,372)</u>
Equity attributable to owners of the parent	(189,848)	1,832	(188,016)
Non-controlling interests	<u>(1,019)</u>	<u>–</u>	<u>(1,019)</u>
Net deficit	<u>(190,867)</u>	<u>1,832</u>	<u>(189,035)</u>

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's consolidated financial statements:

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

The adoption of the above revised HKFRSs has had no material effect on the Group's results and financial position for the current or prior periods prepared or presented.

5. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ⁶
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{2,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has only one reportable operating segment which is the media and culture business segment, of which it engages in investment in the production and distribution of entertainment content such as films and television programs.

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-makers in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the Directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

The Group mainly operates in USA, Hong Kong and the PRC, and the geographical segment information as required by HKFRS 8 “Operating Segments” is presented as follows:

(a) Revenue from external customers

	2022 HK\$'000	2021 HK\$'000 (Restated)
USA	<u>60,247</u>	<u>199,403</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2022 HK\$'000	2021 HK\$'000 (Restated)
USA	276,055	197,713
Hong Kong	<u>35,403</u>	<u>53,500</u>
	<u>311,458</u>	<u>251,213</u>

The non-current assets information above is based on the locations of the assets.

Information about major customers

Revenue from major customers individually amounting to over 10% of the total revenue of the Group is set out below:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	48,635	165,776
Customer B	<u>8,064</u>	<u>–</u>
	<u>56,699</u>	<u>165,776</u>

7. REVENUE

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
Revenue from films generated from USA market, and recognised at a point in time	<u>60,247</u>	<u>199,403</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Revenue from films

Revenue from films is recognised at the later of when the subsequent sale or usage of the royalties occurs, and when the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). The actual amounts due to the Group under these arrangements are generally not reported to the Group until after the close of the reporting period. The Group records revenue under these arrangements for the amounts due but not yet reported to the Group based on estimates of the sales or usage of the royalties and pursuant to the terms of the contracts. Such estimates are based on information from the statement of net receipt, historical experience with similar genres in that market or territory, the performance of the genres in other markets, and/or data available in the industry.

As at 31 December 2022, the amounts of transaction price allocated to the remaining performance obligations expected to be recognised as revenue within one year and over one year are approximately HK\$84,941,000 (2021: HK\$51,903,000) and HK\$1,184,000 (2021: HK\$134,433,000) respectively.

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
Amortisation of investment in films, television programs and program rights		56,219	294,778
Depreciation of property, plant and equipment		858	836
Depreciation of right-of-use assets		2,560	2,851
Lease payments not included in the measurement of lease liabilities		258	216
Auditor's remuneration		2,000	3,068
Employee benefit expense (excluding directors' and chief executive's remuneration):			
– Wages and salaries		10,503	10,681
– Pension scheme contributions		122	151
		<u>10,625</u>	<u>10,832</u>
Foreign exchange differences, net		(1,609)	606
Impairment of financial and contract assets, net:			
– Impairment of trade receivables, net	13	26,675	6,823
– Impairment of contract assets, net		16,848	47,198
– Impairment of financial assets included in prepayments, other receivables and other assets, net		–	66
Impairment of film investments		11,738	80,223
(Reversal of impairment)/impairment of prepayments included in prepayments, other receivables and other assets		<u>(2,709)</u>	<u>153,118</u>
		<u>52,552</u>	<u>287,428</u>
Fair value losses/(gains), net:			
– Derivative financial liabilities		(2,363)	(1,901)
– Financial liabilities at fair value through profit or loss		8,511	(81,850)
Loss on disposal of subsidiaries		<u>–</u>	<u>26,810</u>

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 HK\$'000	2021 HK\$'000
Interest on bank and other borrowings and film investment loans	27,088	14,678
Interest on lease liabilities	183	298
Interest expense on promissory notes	—	11
	<u> </u>	<u> </u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>27,271</u>	<u>14,987</u>

10. INCOME TAX

No provision for Hong Kong Profits Tax was made as the Group did not generate any assessable profits in Hong Kong during the years ended 31 December 2022 and 2021. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Income tax consists of income tax charged on the Group in the PRC and the USA. Provision for the PRC enterprise income tax was calculated based on the statutory tax rate of 25% on the assessable income during the years ended 31 December 2022 and 2021. USA income tax applicable to the Group was charged at the federal tax rate of 21% and state tax rate, net of federal effect, of 7% during the years ended 31 December 2022 and 2021.

	2022 HK\$'000	2021 HK\$'000
Current tax – USA	3,458	(571)
Deferred tax	—	(14,979)
	<u> </u>	<u> </u>
Total income tax expense/(credit) for the year	<u>3,458</u>	<u>(15,550)</u>

11. DIVIDENDS

No dividend has been paid or declared during each of the years ended 31 December 2022 and 2021. The Directors do not recommend the payment of any dividends for 2022 (2021: nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 823,564,799 (2021: 823,564,799) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculation of the basic and diluted loss per share is based on:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
Loss attributable to ordinary equity holders of the parent	(135,867)	(399,264)
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	<u>823,564,799</u>	<u>823,564,799</u>
Basic and diluted loss per share (<i>HK\$ cents</i>)	<u><u>(16.50)</u></u>	<u><u>(48.48)</u></u>

13. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (Restated)
Trade receivables	105,291	115,420
Impairment	<u>(101,237)</u>	<u>(80,910)</u>
	<u><u>4,054</u></u>	<u><u>34,510</u></u>

Trade receivables from royalties from films and television programs are due when reported to the Group, and normally settled within 1 year. Trade receivables from sales of investment in television programs and program rights are due based on the payment schedule specified in contracts. Trade receivables from other revenue sources are generally due within 1 year from the date of provision of services. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are unsecured and non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice dates or dates of statement of net receipt, and net of loss allowance, is as follows:

	2022 HK\$'000	2021 HK\$'000 (Restated)
Within 6 months	4,042	7,244
Over 18 months but less than 24 months	–	16,517
Over 24 months	12	10,749
	4,054	34,510

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 HK\$'000	2021 HK\$'000
At 1 January	80,910	71,631
Impairment losses, net (<i>note 8</i>)	26,675	6,823
Exchange realignments	(6,348)	2,456
At 31 December	101,237	80,910

The Directors assessed the loss allowance of trade receivables taking into account the probability-weighted outcome, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The loss rates are based on the number of days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

14. SHARE CAPITAL

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Authorised:		
20,000,000,000 ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
823,564,799 (2021: 823,564,799) ordinary shares of HK\$0.10 each	<u>82,356</u>	<u>82,356</u>

A summary of the Company's share capital is as follows:

	Number of shares in issue	Share capital <i>HK\$'000</i>
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>823,564,799</u>	<u>82,356</u>

15. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group has entered into agreements with certain loan lenders to extend the repayment date of such loans to mitigate the liquidity issues of the Group. Further details are set out in note 2.

16. LITIGATIONS AND CLAIMS

- (a) On 22 September 2022, a company incorporated in the PRC has filed a writ of summons for a legal proceedings against a subsidiary of the Group (the “**Subsidiary**”) in relation to, inter alia, a claim for a repayment of investment principal of USD804,000 (equivalent to approximately HKD6,297,000) and the corresponding investment interests in respect of an investment agreement for a movie titled “Midway”. The court has not been heard at the date of these consolidated financial statements. The Group’s management considered that there is no material impact to the Group’s consolidated financial statements.

- (b) On 3 March 2023, a company incorporated in the PRC has filed a Notice of Arbitration with Hong Kong International Arbitration Centre to commence an arbitral proceedings against the Subsidiary and the Company in relation to, inter alia, a claim for a repayment of investment principal of USD3,000,000 (equivalent to approximately HKD23,495,000) and the corresponding interests in respect of an alleged investment agreement (the “**Investment Agreement**”) for a movie titled “Malignant”. The Tribunal has not been heard at the date of these consolidated financial statements. The Group’s management considered that there is no material impact to the Group’s consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

In recent years, the media business of the Group has been affected by the COVID-19 pandemic which has spread all over the world in the year of 2019. Delays in distribution, settlement as well as receipt of income of TV drama and film investments of the Company significantly and negatively affected the operating results regarding these investments, which has been reducing the amount of revenue and gross profit recognized for a few years. The slow-down of business activities and postponement of some of the film and TV drama projects developed by the Group in prior years have impacted on the financial results of the Group.

Revenue and gross profit from its media and culture business for the year of 2022 was approximately HK\$60.2 million and HK\$4.0 million respectively (2021: restated as revenue of approximately HK\$199.4 million and gross loss of approximately HK\$95.4 million). The recorded gross loss for last year (year of 2021) was mainly attributable to the amount of amortization recognized exceeded the revenue recognized from film investments.

The Group reported a net loss attributable to owners of the Company of approximately HK\$135.9 million for the year ended 31 December 2022 (2021: restated as approximately HK\$399.3 million).

Media and Culture

The Group's movies and TV drama series products and investments, projects incubated by film directors and related prepayments amounted to approximately HK\$374.9 million as at 31 December 2022, and the followings are some highlights:

Media investments and products

Crazy Rich Asians

The movie was invested and released by Warner Bros. Pictures, co-invested by the Group and directed by director Jon M. Chu (who has entered into an agreement with the Group), and was released in August 2018. The film was adapted from a best-selling novel written by Kevin Kwan under the same title, which has a solid reader base. The movie stars Constance Wu, Henry Golding, Michelle Yeoh, and etc. The highly anticipated movie is the first major film that is not a period piece in Hollywood in two and a half decades to feature an all ethnically Asian cast. As the first adapted work of the novel series, there is also expectation for it to develop into commercially successful film series where the stories of the two sequels mainly take place in China. To date, according to Box Office Mojo, its worldwide gross is US\$238,532,921.

Greta

The thriller/crime movie is directed by Neil Jordan who won the Academy Award for Best Original Screenplay and starring French actress Isabelle Huppert who has been nominated for the Academy Award for Best Actress. The international sales of the movie are undertaken by veteran sales agency Sierra/Affinity. To date, international sales are anticipated to be US\$9.5 million. The movie premiered at the Toronto International Film Festival in September 2018 and was released in March 2019.

Midway

The Group arranged the investment in the epic drama movie, directed by the well-known director Roland Emmerich (who has entered into an agreement with the Group), produced by Mark Gordon and starring Woody Harrelson, Mandy Moore and Luke Evans. It started principal photography in 2018 and was released on 8 November 2019. The movie is also the first World War II film of Roland Emmerich. It is adapted from the true stories of the Battle of Midway and tells rarely known stories of war heroes. The total budget is approximately US\$100 million. In terms of distribution, Summit Entertainment, LLC is responsible for the U.S., Bona Film Group is responsible for the Greater China area and Accelerate Global Content, LLC is responsible for overseas sales. The Deadline Magazine has provided extensive coverage in this regard and the commentary described the movie as “one of the biggest movies on-sale at Cannes”. During the pre-sales period, excluding the Greater China area, overseas pre-sales has exceeded US\$30 million.

The movie topped the North American box office only in its opening week. According to Box Office Mojo, its worldwide gross amounted to US\$126,696,475. In addition, the movie also enjoyed positive buzz among audiences since releasing, with being scored by up to 92% of audiences (Audience Score) on Rotten Tomatoes, a professional film critics website.

Scary Stories to Tell in the Dark

The movie is distributed in US by Lionsgate, co-financed by CBS Films, eOne, the Group and Rolling Hills and was released in August 2019. The film is adapted from a bestselling series of short horror stories, written by Alvin Schwartz under the same title. It is directed by André Øvredal, produced by Academy Award Winner Guillermo del Toro, written by Dan Hageman, Kevin Hageman, and Guillermo del Toro. Starring Zoe Margaret Colletti, Michael Garza, Gabriel Rush, etc., the movie's international distributor is Entertainment One and Sierra/Affinity is the foreign sales agency of the picture. Produced for US\$25 million, the movie earned US\$21 million at the domestic box office in its opening weekend. To date, according to Box Office Mojo, its worldwide gross is US\$104,545,505.

Malignant

Malignant is a 2021 American horror film directed by James Wan from a screenplay by Akela Cooper, based on a story by Wan, Ingrid Bisu, and Cooper. The film stars Annabelle Wallis as a woman who begins to have visions of people being murdered, only to realize the events are happening in real life. Maddie Hasson, George Young, Michole Briana White, and Jacqueline McKenzie also star. *Malignant* was theatrically released in the United States on September 10, 2021, by Warner Bros. Pictures simultaneously streamed on HBO Max for one month. It is streaming on YouTube, Apple TV, Google Play Movies & TV, Vudu, Amazon Prime Video, YouTube TV and Hulu now.

Posted to his Twitter handle, Stephen King, the legendary horror author praises Wan's *Malignant*. In one short sentence, King sums up his feelings, saying, "*I watched MALIGNANT on HBO and thought it was brilliant.*" King's tweet already has over 2,461 retweets and 33,000 likes. While critics and fans seem mixed over Wan's new horror movie, King sincerely feels the film is brilliant. Given King's expertise in all things horror, receiving praise from the author must feel like a high honor. For many fans who have yet to see *Malignant*, King's high praise is sure to peak their interest.

Malignant was released to high reviews and good word of mouth. David Stratton from *The Australian* mentioned that “Wan cheerfully draws on the extreme work of horror film aficionados such as David Cronenberg and Dario Argento as he piles on the bloody violence.” Becca James from *Chicago Reader* mentioned that “Malignant is the type of movie that requires viewers to strap in and shut up from the onset.” A.A. Dowd from *AV Club* mentioned that “There’s no way to watch this deranged follow-up and not conclude that Wan’s back where he belongs.” Alison Shoemaker from *Fox 10 Phoenix* mentioned that “Wan’s final twist is so maniacal and so (and this is a compliment) deeply and thoroughly stupid that it more than makes up for the minor missteps along the way.” Perri Nemiroff from YouTube mentioned that “James Wan swings for the fences and it pays off big time. Malignant is a bonkers and bloody delight that showcases a multitude of different skills and styles Wan’s honed through his horror films over the years.” The IMDb rating of Malignant is 6.3/10. And, the Tomatometer of Malignant reaches 76%.

Malignant won the ReFrame Stamp for Best Feature at ReFrame 2022. It was also nominated for 1) BloodGuts UK Horror Awards at BloodGuts UK Horror Awards 2022 2) Best CCA Super Awards at Critics Choice Super Awards 2022 3) Dorian Award at GALECA: The Society of LGBTQ Entertainment Critics 2022 4) HFCS Award at Hawaii Film Critics Society 2022 5) HCA Award at Hollywood Critics Association 2022 6) HCA Awards At Hollywood Critics Association 2021 7) INOCA at International Online Cinema Awards (INOCA) 2022 8) MCFCFA Award at the Music City Film Critics’ Association Awards 2022 9) PCC Award at the Phoenix Critics Circle 2021 10) PCA Award at the Portland Critics Association Awards 2021.

Marshall

The movie was obtained by the Group through acquisition. It is internationally distributed by Sony Pictures Worldwide Acquisitions Inc., and distributed by Open Road Films, LLC in North America. The movie is produced by Paula Wagner, an experienced Hollywood producer, and starring Chadwick Boseman, the leading actor of “Black Panther”, and Sterling K. Brown, an Emmy Award winner and the leading actor of “This Is Us”. The movie was nominated for Oscar Best Original Song (theme song: Stand Up For Something) and received Top Ten Films of African American Film Critics Association Awards, Audience Choice Award of Chicago International Film Festival, Annual Song Award of Hollywood Film Awards, Best Original Song Award of Annual Satellite Awards as well as 18 other internationally renowned awards nominations.

Umma

“Umma” is a film that stands out for its fusion of horror with a poetic and lyrical representation of Asian culture. The film was distributed by Sony Pictures on March 15, 2022. It was produced by the renowned horror maestro Sam Raimi, who is known for his work on the “Spider-Man” series and “The Evil Dead” series. The director and writer of the film, Iris K. Shim, had previously been acclaimed for her documentary “The House of Suh,” which won six awards. The lead role in “Umma” was played by the talented Sandra Oh, who was celebrated as the first Asian actress to win a Golden Globe in 40 years. Her collaboration with Sam Raimi and Iris K. Shim brought a fresh and innovative perspective to Hollywood horror. It garnered interest from major studios and was praised for its unique blend of horror with an intimate portrayal of East Asian culture. With the backing of Sony Pictures, “Umma” made a significant impact in the film industry upon its release in 2022 and won the ReFrame Stamp award.

My Robot Boyfriend

My Robot Boyfriend, an urban love sci-fi comedy directed by Lai Chun Tsang and starring Chao Jiang and Xiaotong Mao, which has been firstly broadcasted on Zhejiang Satellite TV on 21 October 2019 with concurrently releasing on Tencent Video and Mango TV.

PROJECTS INCUBATING BY FILM DIRECTORS

With the commitment in further diversifying and enhancing the entertainment business of the Group so as to broaden the income sources, the Group has engaged 8 film directors.

James Wan, Roland Emmerich, Jon M. Chu, Robert Zemeckis, Alan Taylor, Jonathan Liebesman, F. Gary Gray, Sylvester Stallone, Nattawut Poonpiriya and Sam Raimi in relation to the development and production of motion picture projects, which enable the Group to tap into the business of film production and distribution. Reference may be made to the Company’s announcement dated 20 March 2020 for details of the profile of some of the projects under development. With respect to those projects that have not been completed prior to the terminations or expirations of the development agreements, the Company and those directors will continue to collaborate on the development of those projects.

Under the agreements, the Group has developed 44 feature projects, 38 among which have developed completed scripts.

Here are the projects developed under Development/Production Financing Agreements:

James Wan (9)	Malignant, Sentinel, Alien Santa, Golden, Roswell, The Magnificent Theater of Enchanted Puppet, The Call of Cthulhu, Mass Extinction, Border Patrol
Jon M. Chu (6)	Here and Now and Then, The Godfather, Sophia of Silicon Valley, Human Error, Cul-De-Sac, Project Human
Sam Raimi (7)	The Procession, Untitled Rob Savage Project, Bedtime Story, Umma, Sword of the Dead, Smooth Stones and Empty Bones, Little Snake
Nattawut Poonpiriya (2)	The Innkeeper, Homelands
Robert Zemeckis (2)	The Prisoner in His Palace, Empress Wu
Alan Taylor (2)	Gold Mountain, Stone Junction
Roland Emmerich (2)	Dreamland, Emergence
Jonathan Liebesman (1)	Scorpion
Sylvester Stallone (10)	Tier 1, Scavenger Hunt, Bellhop, Arcane, Dark Waters, Hunter, The Line that Held Us, Perfect Horse, Ghost, Safecracker
F Gary Gray (3)	Saints Row, Untitled Golf Action Comedy, Echo

Meanwhile, the Group has jointly developed 12 projects with A-list talents through collaboration, including: The Burden, GMO, Hunting Season, The Troop, The Devil Came to Saint Louis, The Monkey, The Fortunate Sons, The Pigeon, In the Shadow of the Mountain, Down Range, and RIP.

For these projects, the Group will take a diversified project structuring approach, including Films suitable for streaming platforms will be redirected towards them, which allows for relatively quick cost recovery, name recognition, increased exposure, and visibility through the widespread coverage of streaming platforms. Additionally, we will explore various channels for financing, such as international sales, tax refunds, minimum guarantees in North America, and derivative applications in the metaverse (NFT/digital collectible releases, metaverse construction, blockchain games), converting a portion of the budget allocated for visual effects into investments. By retaining the copyright, we aim to establish a new ecosystem.

The Group will be able to generate revenue from these projects and IPs through the following ways: recouping development costs plus a profit; getting producers fees and backend, investment payback, online distribution, theatrical releases, IP licensing, merchandising, web3 and metaverse monetization.

Media and culture operating results

During the year ended 31 December 2022, the Group's revenue generated from media and culture business amounted to approximately HK\$60.2 million (2021: restated as approximately HK\$199.4 million), with a gross profit of approximately HK\$4.0 million (gross loss of approximately HK\$95.4 million).

In recent years, the media business of the Group has been affected by the COVID-19 pandemic which has spread all over the world in the year of 2019. Business activities slowed down and some of the film and TV drama projects being developed by the Group have been postponed. Delays in distribution, settlement as well as receipt of income of TV drama and film investments of the Company significantly and negatively affected the future cash flow projections regarding these investments, which in turn reduced the amount of revenue recognized during recent years.

The recorded gross loss for last year (year of 2021) was mainly attributable to the amount of amortization recognized exceeded the revenue recognized from film investments.

FINANCIAL REVIEW

The Group reported a net loss attributable to owners of the Company of approximately HK\$135,867,000 for the year ended 31 December 2022 (2021: restated as approximately HK\$399,264,000).

The Board considers that while the Group recorded a reduction in gross loss and net loss in the year of 2022 compared to the year of 2021, the slow-down of business activities and postponement of some of the film and TV drama projects being developed by the Group in recent years due to the impact of COVID-19 continued to affect the financial results of the Group during the year.

Basic loss per share for the year amounted to approximately 16.50 HK\$ cents (2021: restated as approximately 48.48 HK\$ cents). Net deficit of the Group were approximately HK\$330,537,000 (2021: restated as approximately HK\$189,035,000).

FUTURE PLANS AND PROSPECTS

Up to the date of this results announcement, the COVID-19 epidemic seems to be almost over and the related restrictions upon travelling and social activities are for most of the part lifted. It can be reasonably foreseen that the business activities of the media and culture business of the Group would resume to a normal level in the long term.

However, as it takes time for the entire business cycle of the Group to be get back on track, it is probable that those negative impacts may continue to be reflected in the financial results of Group in the coming year(s).

The Company plans to utilize its existing Hollywood intellectual property resources to develop metaverse businesses, advance its digital product platform construction, and establish subsidiaries in Hong Kong and Mainland China to expand cross-border e-commerce operations. In light of and to support the implementation the above plans, the Company has appointed Mr. Chen, Lijun as the Chief Technology Officer of the Company, who will primarily lead the development and implementation of technology strategies to drive growth and innovation across the Company, and Mr. Guo Bingjun as the Chief Operating Officer of the Company, who will be responsible for coordinating and aligning the work of various departments and teams, as well as implementing strategies and initiatives to improve the Company's performance and growth, with effect from 24 March 2023.

On 8 May 2023, Star Media Digital Technology Group Limited (“**Star Media**”), an indirect wholly-owned subsidiary of the Company, entered into a reseller service agreement (the “**Reseller Service Agreement**”) with Alibaba Cloud (Singapore) Private Limited (“**Alibaba Cloud**”), being a global leader in cloud computing and artificial intelligence, pursuant to which Star Media as a partner, is entitled to distribute various products supplied by Alibaba Cloud, including but not limited to computing, container, storage, networking and content delivery network (CDN), security, middleware, and database.

The Directors are of the view that the entering of the Reseller Service Agreement enables the Group to commence distribution business of reliable and secure cloud computing and data processing. As such, the Directors believe that the Reseller Service Agreement could, on one hand, complement the business of the Group and, on the other hand, expand the client base of the Group. Accordingly, it will broaden the Group’s revenue base in the future and is expected to increase investment returns to the Shareholders.

With an aim to turnaround from the making of loss and safeguard a shareholder’s return, the Group is in the process of reviewing the future prospect and development of its other business segments, and at the same time exploring new business opportunities and making more efforts to explore market opportunities in Mainland China.

MATERIAL ACQUISITION AND DISPOSAL

There is no material acquisition and disposal conducted by the Group during the year that should be notified to the shareholders of the Company.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (31 December 2021: NIL).

CAPITAL STRUCTURE

As at 31 December 2022, the Company’s net deficit was approximately HK\$330,537,000 (2021: restated as approximately HK\$189,035,000).

LOSS ALLOWANCES OF TRADE RECEIVABLES

The Company had provided for loss allowances on trade receivables of approximately HK\$26.7 million for the year ended 31 December 2022. Details of the impairment analysis is set out in note 13 to this consolidated financial information.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cash flow, interest-bearing bank and other borrowings, advance from shareholder(s), issuance of promissory notes and/or convertible bonds.

The major shareholders of the Company have been able to provide financial resources (in form of loan advance, equity finance etc.) to support the Group's operations. For example, the Group obtained an advance of HK\$472,229,000 (equivalent to RMB415,000,000) (“**Advance**”) from the then controlling shareholder (江陰星輝文化傳播有限公司) in the year of 2019. The Group has fully repaid the Advance and the then controlling shareholder also confirmed the full repayment of the Advance during the year of 2020. The Company believes that its shareholders will continue to provide financial support to the Group where necessary and in due course.

As at 31 December 2022, the Group's bank balances and cash amounted to approximately HK\$79,420,000 (2021: restated as HK\$175,638,000).

As at 31 December 2022, current ratio was approximately 0.28 (2021: restated as approximately 0.52) based on current assets of approximately HK\$255,264,000 (2021: restated as HK\$480,412,000) and current liabilities of approximately HK\$897,134,000 (2021: restated as HK\$918,820,000).

Further details regarding the liquidity of the Group are set out in “going concern assumption” of note 2 of the consolidated financial statements.

Referring to the sections of “Disclaimer of Opinion”, “Basis for disclaimer of opinion” and “The Board's response to the Auditor's Opinion”, the Company will continue to strive to improve its operating results and financial position and provide further information and communicate with the Company's auditors from time to time for their assessment of the going concern assumption for subsequent financial reporting periods.

While the management would strive to recover the trade receivables of gross carrying amount of HK\$105,291,000 as at 31 December 2022 to further improve its financial position, and procure the possible loan or equity finance where necessary and in due course, the Company will continue to allocate more resources to media and culture segment (e.g. film and TV series investment and production) which are the Group's major growth drivers.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the Group's assets, liabilities and business transactions are denominated in Hong Kong dollars, Renminbi and U.S. dollars which have been relatively stable during the year. The Group was not exposed to material foreign exchange risk and has not employed any financial instruments for hedging purposes.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed 13 (2021: 22) employees as at 31 December 2022. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Employees may also be invited to participate in the share option scheme of the Group.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the Group has entered into agreements with lenders of other borrowings of the Group, among others, to extend the repayment date of the other borrowings and to mitigate the liquidity issues of the Group. Further details are set out in "going concern assumption" of note 2 of the consolidated financial information.

Other than disclosed elsewhere in this announcement, there is no major event after the reporting period that should be notified to the shareholders of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors consider that the Company has complied with all applicable provisions of the Corporate Governance Code contained in Appendix 14 (the "Code") of the Listing Rules throughout the year ended 31 December 2022 except for deviations as stated below:

Code Provision C.1.6

Under code provision C.1.6, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Due to other pre-arranged commitments, one of the independent non-executive directors were unable to attend the Company's annual general meeting held on 3 August 2022.

Code Provision F.2.2

Under code provision F.2.2, chairman of the board should attend the annual general meeting. Due to other pre-arranged commitments, the then chairman of the Board was unable to attend the Company's annual general meeting held on 3 August 2022.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2022.

INTERNAL CONTROL REVIEW

Referring to the Company's announcement of 23 March 2023, the Audit Committee decided to appoint an independent professional advisor to conduct an internal control review on the Group, in particular, the bank accounts maintenance procedures and financial reporting system of Starlight Media ("**IC Review**"). Up to the date of this announcement, the IC Review has completed and the Company is in the process of review the findings of the IC Review and remedial actions will be taken to address the matters therein. The Company will keep shareholders informed of the matter by way of further announcement(s) as and when appropriate.

AUDIT COMMITTEE

As required by Rule 3.21 of the Listing Rules, the Company has established an Audit Committee with written terms of reference which deal clearly with its authority and duties. Its principal duties are to review and supervise the Group's financial reporting process, risk management and internal control systems. The Audit Committee has discussed with the external auditor of the Company, Baker Tilly Hong Kong Limited, on the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2022, and is of the opinion that the preparation of the consolidated results complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

SCOPE OF WORK OF BAKER TILLY HONG KONG LIMITED

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been compared by the Group's auditor, Baker Tilly Hong Kong Limited ("**Baker Tilly**"), to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by Baker Tilly in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

The followings are extracted from the independent auditors report on the consolidated financial statements of the Group for the year ended 31 December 2022.

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Starlight Culture Entertainment Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 4 to 99, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of matters described in the “Basis for Disclaimer of Opinion” section of our report, we have not been able to obtain sufficient appropriate audit evidence to support the use of going concern basis and therefore to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As set out in note 2.1 to the consolidated financial statements, the Group incurred net loss of HK\$135,197,000 for the year ended 31 December 2022. As at 31 December 2022, the Group had net current liabilities and net liabilities of approximately HK\$641,870,000 and HK\$330,537,000 respectively. As at 31 December 2022, the Group defaulted on repayment of certain interest-bearing borrowings and film investment loans (including those classified as financial liabilities at fair value through profit or loss and derivative financial liabilities) with principal amounts of HK\$166,712,000, and have a further interest-bearing borrowings and film investment loans (including those classified as financial liabilities at fair value through profit or loss and derivative financial liabilities) with principal amounts of HK\$411,000,000, which were repayable within one year. These borrowings and film investment loans of HK\$577,712,000 in total exceed the Group’s cash and cash equivalents of HK\$79,420,000 as at 31 December 2022.

The directors of the Company (the “**Directors**”) have prepared a cashflow forecast covering eighteen months ending 30 June 2024 for the Group’s going concern assessment (the “**Cashflow Forecast**”). The validity of the going concern assumption on which these consolidated financial statements have been prepared depends on the outcome of the measures to improve the Group’s liquidity and financial position, including whether (i) new sources of finance will be obtained to support the Group’s operating and financing cash outflows; (ii) re-financing or extensions will be obtained for the Group’s existing interest-bearing borrowings and film investment loans (including those classified as financial liabilities at fair value through profit or loss and derivative financial liabilities); and (iii) the implementation of the Group’s cost control strategies on its selling, distribution and administrative costs and film investment expenditures could reduce the cash outflows of the Group. However, we have not been provided with sufficient supporting information of the key assumptions and inputs adopted in the Cashflow Forecast, including documents or evidence relating to potential renewal and extension for repayments of the existing borrowings and loans and potential new sources of finance.

In view of the above, we were not able to obtain sufficient appropriate audit evidence to satisfy ourselves about the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated financial statements. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the Group's assets to their realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by another independent auditor who expressed a disclaimer of opinion on those consolidated financial statements on 21 June 2022 due to significance of the matter leading on multiple uncertainties of the Group's going concern.

The Board's response to the Auditor's Opinion

In regard to the matters described in the section headed "Basis for Disclaimer of Opinion" in the Independent Auditor's Report, the Board would like to take this opportunity to provide the Board's response and other relevant information, as well as measures taken or to be taken by management of the Company for information purpose.

The Board's response to the basis for disclaimer of opinion

The directors of the Company (the "**Directors**") have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements.

The Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. The following plans and measures are formulated to mitigate the liquidity pressure, to improve the financial position of the Group, and to remediate the overdue repayments to the lenders:

- (a) The Group has been actively negotiating with all of the lenders for renewal and extension for repayments of the overdue borrowings. Subsequent to end of the reporting period, the Group entered into extension agreements with lenders of borrowings and film investment loans (including financial liabilities at fair value through profit or loss and derivative financial liabilities) with principal amounts of HK\$123,150,000 to extend the repayment due date to June 2024.

- (b) The Group has also been negotiating with various financiers and potential investors of the film industry to secure new sources of finance and identifying various options for financing the Group's working capital and commitments in the foreseeable future. The Directors believe that, considering the Group's track record of film investments and relationship with famous film directors, the Group will be able to obtain new financing.
- (c) The Group will continue to take active measures to control costs and prioritise film investments expenditures so as to improve the Group's cashflows.

PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Board proposes to amend the existing memorandum and articles of association ("**Memorandum and Articles of Association**") of the Company and to adopt an amended and restated memorandum and articles of association of the Company ("**Proposed Amendments**") in order to (i) bring the Memorandum and Articles of Association in line with the amended Appendix 3 to the Listing Rules which came into effect on 1 January 2022; (ii) expressly provide for the co-chairmen arrangement on the Board; (iii) provide the Company with more flexibility and provide Shareholders with the option of attending general meetings through electronic means; and (iv) incorporate certain housekeeping amendments.

The Proposed Amendments are subject to the approval of the Shareholders by way of a special resolution at the forthcoming annual general meeting, and will become effective upon the approval by the Shareholders at the annual general meeting.

A circular of the annual general meeting containing, among other matters, details of the Proposed Amendments, together with a notice of the annual general meeting will be despatched to the Shareholders in due course.

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

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF RESULTS AND ANNUAL REPORT

The results announcement is available for reviewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under “Latest Listed Companies Information” and the website of the Company at www.starlightcul.com.hk. The annual report will be dispatched to the shareholders and will also be available on these websites around end of July 2023.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Monday, 3 April 2023. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 3 July 2023.

By Order of the Board
Starlight Culture Entertainment Group Limited
Mr. Tang Liang
Chairman

Hong Kong, 30 June 2023

As at the date of this announcement, the Board comprises six executive directors, namely Mr. Tang Liang, Mr. Jing Xufeng, Mr. Chau Chit, Mr. Luo Lei, Mr. Sang Kangqiao, and Ms. Wu Xiaoli; and three independent non-executive directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, and Mr. Wu Hongliang.