基 石 金 融 控 股 有 限 公 司
CORNERSTONE FINANCIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8112)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual results announcement of Cornerstone Financial Holdings Limited (the "**Company**") dated 26 March 2019 for the year ended 31 December 2018 (the "**Annual Results Announcement**") and the annual report of the Company for the year ended 31 December 2018 (the "**Annual Report**"). Terms used herein shall have the same meanings as defined in the Annual Results Announcement unless otherwise stated.

The Board wishes to provide further information regarding the Annual Results Announcement and the Annual Report as follows:

IMPAIRMENT LOSS OF FILM DEPOSITS AND RIGHTS

As stated in the Annual Results Announcement and the Annual Report, the Company recognised a provision for impairment loss of film deposits and rights of approximately HK$102 million for the year ended 31 December 2018. The asset impairment was supported by an independent valuation, the principal basis of which are set out below.

Value of inputs used for the valuation and the basis and assumption

The table below sets out the value of inputs and the basis and assumption adopted by the independent valuer in the valuations for the years since the Company's acquisition of the film rights in 2015.

Basis and assumption for valuation (as at 31 December)	**2018**	**2017**	**2016**	**2015**
Box office earnings to production cost multiple				
• Realm	4.0	5.9	5.9	5.9
• The Annihilator	4.0	5.9	5.9	6.1
• Replicator and Antilight	4.0	5.8	5.8	5.8
Discount rate	22.0%	20.6%	19.6%	20.3%
Distribution cost	20%	20%	15%	15%
Profit sharing ratio	22.5%	22.5%	41.25%	41.25%
Production cost *(US$'million)*				
Realm	38.4	38.4	50.0	50.0
The Annihilator	65.0	65.0	65.0	65.0
Replicator and Antilight	60.0	60.0	60.0	60.0

Reasons for significant changes in the value of the inputs and assumptions from those previously adopted are as follows:

1. ***Box office earnings to production cost multiple***: The assumption in box office earning to production cost multiples for movies proposed to be produced from its film rights was lowered from 5.8 to 5.9 times in the few years before 2018 to 4.0 times in 2018, based on information available to the Company. The Company's film rights are based on new superhero characters created by the late Mr. Stan Lee in recent years and superhero films gained phenomenal success in term of box office results since 2008 and the superhero films were primarily dominated by two key producers; the lowest and the highest box office to production cost multiples of the superhero films produced by these key producers during 2017 and 2018 ranged from 2.1 times to 6.3 times with an average of approximately 4.1 times. Whilst the superhero films produced by these key producers are based on popular comic superhero characters with long history and high publicity some of which were created by the late Mr. Stan Lee, it was assumed that, in the absence of Mr. Stan Lee's continuous contribution to the development of the Company's superhero characters, the Company's superhero films would only achieve an average box office to production budget multiple in the value-in-use calculation. Therefore, lower box office earning to production cost multiple of 4.0 times in 2018 was adopted in the valuation because the Company's film rights are based on superhero characters newly created by the late Mr. Stan Lee who passed away in 2018 and the continuing development of the Company's superhero characters would not include further input from Mr. Stan Lee.

2. ***Discount rate***: The discount rate was derived with reference to the business nature of the film industry and several listed companies with business scope and operations comparable to the Company's business in film segment.

3. ***Distribution cost***: The change in distribution cost from 15% in 2016 to 20% in 2017 was mainly based on terms proposed by a potential co-financier ("**Potential Co-financier**"), with expertise and experience in the film business in China, and its explanation that additional work had to be done as a distributor in China as compared to other more matured market.

4. ***Profit sharing ratio***: The change in profit sharing ratio from 41.25% in 2016 to 22.5% in 2017 was based on the terms of co-financing arrangement proposed by the Potential Co-financier. The Company was originally planned to act as the sole investor of the films. With the terms proposed by the Potential Co-financier and a proposal to be equity partners of the film on a 50:50 basis with the Company, the profit sharing ratio was adjusted in 2017.

5. ***Production cost***: The production budget for Realm decreased from US$50.0 million in 2016 to US$38.4 million in 2017 as a result of a revision of the film script to a shorter story and a change in shooting location for cost saving and photography efficiency.

Valuation method and the reasons for using that method

According to the valuation report prepared by an independent valuer, the multi-period excess earning method ("**MEEM**") was adopted in the impairment assessment of the film rights and deposits as the value of the film rights and deposits depends heavily on the projected box office incomes. MEEM is explained to the Company as one of the generally accepted income-based approach for intellectual properties valuation.

There has been no change to the valuation method adopted since the Company's acquisition of the film rights.

DEVELOPMENT OF THE FILM BUSINESS SINCE THE ACQUISITION

As disclosed in the announcement of the Company dated 10 August 2015, the Company acquired RMI in August 2015 for a consideration for HK$100,000,000 (payable as to HK$50 million in cash and the remaining balance of the consideration by an allotment and issue of fully paid Shares in the capital of the Company) (the "**Acquisition**"). RMI indirectly held 75% equity interest in Stan Lee Global Entertainment, LLC ("**SLGE**"). SLGE is engaged in the business of film development, production and distribution and owned intellectual property ("**IP**") rights in three films in the script development phase, namely Realm, The Annihilator and Replicator & Antilight.

Reasons for and background of the Acquisition

Since its founding in April 2004, the Group was principally engaged in the business of media, advertising and content production. At the time of the Acquisition in 2015, the movie industry had good track records and the general market condition was promising and the China movie market was expected to grow. The late Mr. Stan Lee (through POW! Entertainment) was then a 25% shareholder of SLGE and was the creator of over 100 comic book characters with a worldwide reputation as the "icon" in the comic world. As the Group was already involved in media and content production and with the Company's then strategy to expand its business into content productions, it was believed that the opportunity to be involved and working with one of the global icon in the comic industry and participates in relevant projects would optimize the chance for the Company to gain success in this business sector. It was also believed at the time that association with Mr. Stan Lee would enhance the Company's reputation, publicity and increase the ability to raise fund for production of the films and that such relationship would help to escalate the profile of the Company in the media entertainment positively and further, could potentially bring about synergies to the existing business carried on by the Company in the media and advertising sector.

Under the circumstances at the time, which require a decision within a limited and short period of time, it was believed that the Acquisition presented an unique, one of its kind and rare opportunity for the Company to enter into a new business of film making involving one of the most well-known figures in the industry; and based on information available to the Company at the time, it was believed that the transaction would be in the interest of the Company and its Shareholders as a whole.

Development and current status of the film rights

Since completion of the Acquisition, the Company worked continually in furthering its development in the media entertainment business, particularly finding different ways to exploit and further the development and production of the three film projects. These efforts include discussions with different potential parties for identifying potential production partners, financiers and investors; production fund raising; revisions of film scripts, negotiations with actors/actresses, search of avenues for the development of the film projects.

It is a common practice in the industry for a production company to concurrently engage in development of multiple projects and the progress of different productions would often be dependent on factors (e.g. progression of script development, financing, availability of actors/actresses) that are often not within the control of the production company. Development of the film projects was delayed by a number of factors:

The Annihilator: The first script was originally prepared in 2012 based on the treatment created by the late Stan Lee and was subsequently revised to tailor for the Chinese audience. Having considered various production suggestions on particularly the genre and elements of this movie provided by a potential co-production partner interested in this movie and in *Realm of the Tiger* with extensive experience in dealing with the Chinese government authorities that regulate movie productions and knowledge of the China movie market, it was proposed that the development of *Realm of the Tiger* would take priority over *The Annihilator*.

Realm of the Tiger: The first script was prepared in early 2016 and was revised to reduce the length of the story for cost saving and photography efficiency. In the same year, a producer and the leading actress was appointed for the project but the production had to be postponed because of a need to change the filming location and the financing could not be put in place.

The Company originally planned to be the sole investor of the films in order to maximize the profit generated from these film productions. After the regulator rejected in 2015 a fundraising proposal by the Company through an issuance of HK$400 million convertible loan, the Company have had to pursue other financing alternatives. The Company had since been engaged and has continued its effort in pursuing other potential investors and production companies on different means and models for investment, financing and participation in the production of the three film rights but no agreement has been concluded.

In early 2019, the Company received an expression of interests from a high profile producer in both China and the USA film industry in the script for *Realm of the Tiger* and executed a non-disclosure agreement for further discussions on potential collaboration. The parties have not reached any agreement on any terms to date.

Replicator & Antilight: The first script was prepared in 2016 and was revised by the late Mr. Stan Lee. In order to better manage the Company's resources and with the more progressive interests received by the Company in the other two movie projects, it was believed that the Company should give priority to the development of *Realm of the Tiger* and *The Annihilator* and that the Company planned to use the proceeds from those two films to finance the production of *Replicator & Antilight*.

With the occurrence of various unforeseeable and uncontrollable events that affected the development plan of the film projects, the Company will endeavor to adjust its business strategy to accommodate changing circumstances. The Board believes that the provision of impairment is appropriate for the sake of prudence and the Group will continue to explore ways to identify investors and/or partners to monetize the assets attributing to the film rights and to realise the potential value attributing to the film business.

By Order of the Board
CORNERSTONE FINANCIAL HOLDINGS LIMITED
An Xilei
Chairman

Hong Kong, 11 June 2019

As at the date of this announcement, the Board comprises Mr. An Xilei (Chairman), Mr. Wong Hong Gay Patrick Jonathan, Mr. Mock Wai Yin and Mr. Wang Jun as executive Directors; and Mr. Chan Chi Keung Alan, Mr. Lee Chi Hwa Joshua and Ms. Lau Mei Ying as independent non-executive Directors.