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**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 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

UNAUDITED ANNUAL RESULTS

For the reasons explained below under “IMPACT OF COVID-19 UPON THE GROUP’S OPERATIONS AND FINANCIAL RESULTS”, the auditing process for the annual results of Starlight Culture Entertainment Group Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) has not been completed. The unaudited consolidated results of the Company have not yet been agreed with the auditor of the Company.

IMPACT OF COVID-19 UPON THE GROUP’S OPERATIONS AND FINANCIAL RESULTS

For the entire year of 2020, the media business of the Group was affected by the COVID-19 pandemic which has spread all over the world. As the business activity slowed down and the film and TV drama projects currently being developed by the Group postponed, revenue from TV drama and film investments for the year of 2020 derived entirely from the media products already released/published in the years in 2019 and 2018.

Based on the preliminary review of the unaudited management accounts and the information of the Group currently available to the Company after the Lunar New Year 2021, the Company has issued a profit warning announcement on 26 February 2021 stating that the Group is expected to record an unaudited consolidated net loss attributable to owners of the Company of approximately HK\$28.5 million for the year ended 31 December 2020.

During March of 2021, upon more information and document regarding the TV drama and film investments of the Company was available, the Company reassessed the financial performance and position of the Group, discussed with the Company's auditor as well as obtained its suggestions, and then finalized this unaudited annual results.

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 as well as the recoverability of receivables regarding these investments, which in turn reduced the amount of revenue recognized during the year. The gross loss of approximately HK\$28.2 million recorded in this unaudited annual results was therefore mainly attributable to the amount of amortization recognized exceeded the revenue recognized from these investments.

Compared to the profit warning dated 26 February 2021, the unaudited consolidated net loss attributable to owners of the Company for the year ended 31 December 2020 further increased to approximately HK\$157.0 million as shown in this unaudited annual results. The management considers that the further increase in loss of approximately HK\$128.5 million was mainly attributable to the further decrease in revenue of approximately HK\$33.7 million, further increase in amortization expense charged to cost of sales of approximately HK\$52.0 million, and further increase in impairment losses of approximately HK\$40.7 million.

As more time is required by the Company for collection of further information and for completion of certain procedures for financial reporting and auditing, in particular the valuation of certain assets and liabilities of the Group as well as USA tax provision review, this unaudited consolidated results of the Company have not yet been agreed with the auditor of the Company, in particular, the amounts of investment loss on investment in films and television programs and program rights, the change in fair value of derivative financial liabilities, other expenses, income tax credit/(expense), deferred tax assets, investment in films and television programs and program rights, derivative financial liabilities, tax payables, and deferred tax liabilities shown in this announcement are subject to further review of the auditor of the Company, and the expected date for publication of audited annual results of the Company and its subsidiaries for the financial year ended 31 December 2020 would be expected to be postponed to April 2021, which would be further announced by the Company.

In the meantime, the board (the "**Board**") of directors (the "**Directors**") of the Company announces its unaudited annual consolidated results for the year ended 31 December 2020, together with the corresponding comparative audited figures for the year ended 31 December 2019, which was reviewed by the audit committee of the Company, as follows.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

		(Unaudited) 2020 <i>HK\$'000</i>	(Audited) 2019 <i>HK\$'000</i>
	<i>Notes</i>		
CONTINUING OPERATIONS			
REVENUE	5	47,761	323,949
Cost of sales		<u>(75,997)</u>	<u>(92,593)</u>
Gross (loss)/profit		(28,236)	231,356
Other income and gains		3,775	12,672
Selling and distribution expenses		–	(5,966)
Administrative expenses		(24,219)	(38,022)
Reversal of impairment loss on investment in films and television programs and program rights		–	10,356
Impairment losses on financial and contract assets, net		(89,749)	(3,569)
Change in fair value of derivative financial liabilities		–	(15,144)
Change in fair value of convertible bonds		–	(548)
Finance costs	7	(13,602)	(38,675)
Other expenses		<u>(12,911)</u>	<u>–</u>
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	(164,942)	152,460
Income tax credit/(expense)	8	<u>7,949</u>	<u>(51,212)</u>
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		(156,993)	101,248
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	9	<u>(152)</u>	<u>(3,754)</u>
(LOSS)/PROFIT FOR THE YEAR		<u>(157,145)</u>	<u>97,494</u>

		(Unaudited)	(Audited)
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Attributable to:			
Owners of the parent		(157,012)	98,181
Non-controlling interests		(133)	(687)
		<u>(157,145)</u>	<u>97,494</u>
 (LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
	<i>11</i>		
 Basic and diluted			
– For (loss)/profit for the year		<u>HK (19.06) cents</u>	<u>HK13.37 cents</u>
– For (loss)/profit for continuing operations		<u>HK(19.04) cents</u>	<u>HK13.88 cents</u>

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	(Unaudited) 2020 <i>HK\$'000</i>	(Audited) 2019 <i>HK\$'000</i>
(LOSS)/PROFIT FOR THE YEAR	<u>(157,145)</u>	<u>97,494</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>8,531</u>	<u>(138)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>8,531</u>	<u>(138)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>8,531</u>	<u>(138)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u>(148,614)</u>	<u>97,356</u>
Attributable to:		
Owners of the parent	<u>(148,485)</u>	98,038
Non-controlling interests	<u>(129)</u>	<u>(682)</u>
	<u>(148,614)</u>	<u>97,356</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		(Unaudited) 2020	(Audited) 2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,781	1,743
Right-of-use assets		4,384	6,062
Club debenture		–	320
Deferred tax assets		4,889	802
		11,054	8,927
TOTAL non-current assets			
CURRENT ASSETS			
Trade receivables	12	16,156	257,963
Prepayments, other receivables and other assets		404,567	322,817
Contract assets		145,789	144,753
Investment in film and television programs and program rights		301,062	259,719
Cash and cash equivalents		142,837	180,404
Assets of a disposal group classified as held for sale	9	2,568	–
		1,012,979	1,165,656
TOTAL current assets			
CURRENT LIABILITIES			
Trade payables	13	–	3,162
Other payables and accruals		174,600	149,625
Contract liabilities		92,618	71,936
Amounts due to non-controlling shareholders of subsidiaries		–	20,900
Interest-bearing bank and other borrowings		154,583	211,827
Derivative financial liabilities		15,144	15,144
Amount due to a shareholder		–	175,652
Promissory notes		1,000	9,000
Lease liabilities		1,938	2,241
Tax payable		38,175	47,725
Liabilities directly associated with the assets classified as held for sale	9	4,833	–
		482,891	707,212
TOTAL current liabilities			

		(Unaudited) 2020 <i>HK\$'000</i>	(Audited) 2019 <i>HK\$'000</i>
	<i>Notes</i>		
NET CURRENT ASSETS		<u>530,088</u>	<u>458,444</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>541,142</u>	<u>467,371</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		355,336	149,874
Amount due to a shareholder		1,188	–
Lease liabilities		2,780	4,071
Deferred tax liabilities		<u>–</u>	<u>3,874</u>
Total non-current liabilities		<u>359,304</u>	<u>157,819</u>
Net assets		<u>181,838</u>	<u>309,552</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>14</i>	82,356	82,356
Reserves		<u>125,455</u>	<u>273,940</u>
		207,811	356,296
Non-controlling interests		<u>(25,973)</u>	<u>(46,744)</u>
Total equity		<u>181,838</u>	<u>309,552</u>

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Starlight Culture Entertainment Group Limited (the “**Company**”) is 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 Room 1203, 12/F, 118 Connaught Road West, Hong Kong.

During the year and up to 31 December 2020, the Company and its subsidiaries (the “**Group**”) were involved in 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 (formerly known as CICFH Innovation Investment Limited) (“**Timcha**”). As of 31 December 2020, Timcha is wholly owned by 江陰星輝文化傳播有限公司 (Jiangyin Starlight Communications Co., Ltd.*). In the opinion of the Directors, as of 31 December 2020, the Company has no controlling shareholder.

* *The English names of the entities registered in the People’s Republic of China (the “**PRC**”) represent the best efforts made by the management of the Company to translate their Chinese names as these entities do not have official English names.*

2. BASIS OF PREPARATION

These financial statements 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 derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. 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).

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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.
- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

4. 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 Media and culture business segment, which engages in investment, production and distribution of entertainment content such as films and television programs.

Segment assets and segment liabilities information is set out below.

Year ended 31 December 2020	Media and culture business HK\$'000	Total HK\$'000
Segment assets	1,021,465	1,021,465
<i>Reconciliation:</i>		
Assets related to a discontinued operation		<u>2,568</u>
Total assets		<u><u>1,024,033</u></u>
Segment liabilities	(837,362)	(837,362)
<i>Reconciliation:</i>		
Liabilities related to a discontinued operation		<u>(4,833)</u>
Total liabilities		<u><u>(842,195)</u></u>
	Media and culture business HK\$'000	Total HK\$'000
Year ended 31 December 2019		
Segment assets	1,170,198	1,170,198
<i>Reconciliation:</i>		
Assets related to discontinued operations		<u>4,385</u>
Total assets		<u><u>1,174,583</u></u>
Segment liabilities	(835,064)	(835,064)
<i>Reconciliation:</i>		
Liabilities related to discontinued operations		<u>(29,967)</u>
Total liabilities		<u><u>(865,031)</u></u>

Geographical information

(a) Revenue from external customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
United States of America	47,761	143,532
Mainland China	—	180,417
	<u>47,761</u>	<u>323,949</u>

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

(b) Non-current assets

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
United States of America	5,028	5,894
Mainland China	—	1,732
Hong Kong	1,137	499
	<u>6,165</u>	<u>8,125</u>

The non-current asset information above of continuing operations is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A	—	127,476
Customer B	—	53,342
Customer C	—	52,938
Customer D	13,372	41,689
Customer E	13,970	—
Customer F	11,176	—
Customer G	7,451	—
	<u>45,969</u>	<u>275,445</u>

5. REVENUE

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers	<u>47,761</u>	<u>323,949</u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

For the year ended 31 December 2020

<u>Segments</u>	Media and culture business <i>HK\$'000</i>
Types of goods or services	
Revenue from motion pictures	13,391
Film production services	15,743
Other services	<u>18,627</u>
Total revenue from contracts with customers	<u>47,761</u>
Geographical markets	
United States of America	<u>47,761</u>
Total revenue from contracts with customers	<u>47,761</u>
Timing of revenue recognition	
At a point in time	32,018
Services transferred over time	<u>15,743</u>
Total revenue from contracts with customers	<u>47,761</u>

For the year ended 31 December 2019

<u>Segments</u>	Media and culture business <i>HK\$'000</i>
Types of goods or services	
Revenue from motion pictures	143,532
Revenue from television programs	52,941
Sale of television programs and program rights*	<u>127,476</u>
Total revenue from contracts with customers	<u><u>323,949</u></u>
Geographical markets	
United States of America	143,532
Mainland China	<u>180,417</u>
Total revenue from contracts with customers	<u><u>323,949</u></u>
Timing of revenue recognition	
At a point in time	<u>323,949</u>
Total revenue from contracts with customers	<u><u>323,949</u></u>

- * During the year ended 31 December 2019, sale of television programs and program rights included a net gain of approximately HK\$127,476,000. The Group was entitled to gross proceeds from sale of approximately HK\$446,521,000 (including tax) under these sales agreements.

Set out below is a reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the year ended 31 December 2020

HK\$'000

Revenue from contracts with customers

External customers	<u>47,761</u>
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For the year ended 31 December 2019

HK\$'000

Revenue from contracts with customers

External customers	<u>323,949</u>
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(b) Performance obligations

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

Revenue from motion pictures and television

Revenue from motion pictures is recognised at the later of when the subsequent sale or usage of the royalties occurs, or the performance obligation to which some or all the sales or usage-based royalty has been allocated and has been satisfied (or partially satisfied). The actual amounts due to the Group under these arrangements are generally not reported to the Company until after the close of the reporting period. The Group records revenue under these arrangements for the amounts due and 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 titles in that market or territory, the performance of the title in other markets, and/or data available in the industry.

Revenue from television is recognised when master tapes and materials have been delivered to broadcasting sources and the right to play has been licenced in accordance with the terms of the underlying agreements, and the right to receive payment is established, based on the pre-determined share of the sales proceeds from the licensing of the related television programs set out in the respective agreements.

Film production services

Revenue from film production services is recognised over time, using the output method to measure progress towards complete satisfaction of the service, because the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The output method recognises revenue based on the proportion of the workload completed relative to the estimated total workload.

Sale of television programs and program rights

Revenue from sale of television programs and program rights is recognised at the point in time when the interests in the underlying investments are transferred to the customer, principal obligations in the agreement have been fulfilled and the right to receive payment is established.

Other services

Revenue from the other services is recognised at the point in time when the services is fully delivered to the customer, and the right to receive payment is established.

6. (LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	<i>Note</i>	2020 HK\$'000	2019 <i>HK\$'000</i>
Cost of sales*		75,997	92,593
Amortisation of investment in films and television programs and program rights*		64,425	92,592
Depreciation of property, plant and equipment		966	1,213
Depreciation of right-of-use assets		2,719	2,608
Lease payments not included in the measurement of lease liabilities		842	1,058
Auditor's remuneration		2,446	1,943
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		5,496	6,890
Pension scheme contributions		162	155
		5,658	7,045
Foreign exchange differences, net		2,377	(105)
Impairment of financial and contract assets, net:			
Impairment of trade receivables, net	<i>12</i>	63,808	2,606
Impairment of contract assets, net		25,941	963
		89,749	3,569
Reversal of impairment loss on investment in film and television programs and program rights		–	(10,356)
Fair value losses, net:			
Convertible bonds		–	548
Derivative financial liabilities		–	15,144
		–	15,144

* Cost of services provided and amortisation of investment in films and television programs and program rights are included in "Cost of sales" in the consolidated statement of profit or loss.

7. FINANCE COSTS

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

	2020	2019
Interest on bank loans and other borrowings (including convertible bonds)	13,073	22,363
Interest on lease liabilities	306	441
Interest expense on promissory notes	<u>223</u>	<u>15,871</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u><u>13,602</u></u>	<u><u>38,675</u></u>

8. INCOME TAX CREDIT/(EXPENSE)

No provision for Hong Kong profits tax was made as the Group did not generate any assessable profits in Hong Kong during the year ended 31 December 2020 and 2019. 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 income tax charged on the Group in Mainland China and United States of America (“USA”). Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% on the assessable income of the PRC companies during the years ended 31 December 2020 and 2019. USA income tax applicable to the Group is charged at the federal tax rate of 21% and state tax rate, net of federal effect, of 7% during the years ended 31 December 2020 and 2019.

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Elsewhere	–	48,140
Deferred	<u>(7,949)</u>	<u>3,072</u>
Total tax (credit) charge for the period from continuing operations	<u><u>(7,949)</u></u>	<u><u>51,212</u></u>

9. DISCONTINUED OPERATION

The Company's board of directors decided to cease its entertainment and gaming business ("Ceased Gaming Business") on 20 February 2020, and to cease its trading of chemical products, energy conservation and environmental protection products business ("Ceased Trading Business") on 12 October 2020, to focus its resources on its media and culture business. The underlying companies of the Ceased Trading Business was then disposed on 30 November 2020. The disposal of the Ceased Gaming Business was completed in February 2021. As at 31 December 2020, the Ceased Gaming Business and Ceased Trading Business were classified as discontinued operations. With the classification as discontinued operations, the Ceased Gaming Business and Ceased Trading Business segments were no longer included in the note for operating segment information.

The results of the Ceased Gaming Business and Ceased Trading Business are presented below:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	–	3,116
Cost of sales	–	(3,025)
Gross profit	–	91
Other income and gains	9	1
Loss on disposal of subsidiaries	–	(14)
Administrative expenses	(2,616)	(4,441)
Loss before tax from the discontinued operation	(2,607)	(4,363)
Gain on the disposal of the discontinued operation	2,455	–
Loss before tax from the discontinued operation	(152)	(4,363)
Income tax:		
Related to pre-tax loss	–	609
Loss for the year from the discontinued operation	<u>(152)</u>	<u>(3,754)</u>

The major classes of assets and liabilities of Ceased Gaming Business segment classified as held for sale as at 31 December are as follows:

	2020	2019
	HK\$'000	HK\$'000
<i>Assets</i>		
Prepayments, other receivables and other assets	2,561	–
Cash and cash equivalents	<u>7</u>	<u>–</u>
Assets classified as held for sale	<u>2,568</u>	<u>–</u>
<i>Liabilities</i>		
Tax payable	(190)	–
Other payables and accruals	<u>(4,643)</u>	<u>–</u>
Liabilities directly associated with the assets classified as held for sale	<u>(4,833)</u>	<u>–</u>
Net liabilities directly associated with the disposal group	<u>(2,265)</u>	<u>–</u>

The net cash flows incurred by the Ceased Gaming Business and Ceased Trading Business are as follows:

	2020	2019
	HK\$'000	HK\$'000
Operating activities	<u>(366)</u>	<u>(607)</u>
Net cash outflow	<u>(366)</u>	<u>(607)</u>
Loss per share:		
Basic, from the discontinued operation	HK0.02cents	HK0.51cents
Diluted, from the discontinued operation	<u>HK0.02cents</u>	<u>HK0.51cents</u>

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	2020	2019
Loss attributable to ordinary equity holders of the parent from the discontinued operation	HK\$139,000	HK\$3,754,000
Weighted average number of ordinary shares used in the basic and diluted loss per share calculations	<u>823,564,799</u>	<u>734,518,224</u>

10. DIVIDENDS

No dividend has been paid or declared during each of the years ended 31 December 2020 and 2019. The directors do not recommend the payment of any dividends for 2020 (2019: Nil).

11. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 823,564,799 (2019: 734,518,224) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2020 and 2019.

The calculations of the basic and diluted (loss)/earnings per share are based on:

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>(Loss)/earnings</u>		
(Loss)/profit attributable to ordinary equity holders of the parent		
Attributable to:		
Continuing operations	(156,873)	101,935
Discontinued operations	(139)	(3,754)
	<u>(157,012)</u>	<u>98,181</u>
	Number of shares	
	2020	2019
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>823,564,799</u>	<u>734,518,224</u>

12. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	86,591	267,201
Impairment	<u>(70,435)</u>	<u>(9,238)</u>
	<u>16,156</u>	<u>257,963</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit periods are usually from 30 to 90 days (2019: 30 to 90 days) for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group generally does not charge interest for credit granted. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	–	257,963
1 to 3 months	–	–
Over 3 months	<u>16,156</u>	<u>–</u>
	<u>16,156</u>	<u>257,963</u>

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

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year	9,238	6,633
Impairment losses	63,808	2,606
Disposal of a subsidiary	(6,632)	–
Exchange realignment	4,021	(1)
	<hr/>	<hr/>
At end of year	<u>70,435</u>	<u>9,238</u>

Increase in the loss allowance included an amount of HK\$63,808,000 (2019: HK\$2,606,000) which represented for receivables for television programs and program rights sold, including two television programs and program rights sold to a customer in 2019. The incidents happened to the producer and distributor of the two television programs led to a limitation of distribution television programs they produced. The Directors, upon consulting its legal advisor, are of the view that the Group has no additional obligation for the two television programs and program rights sold, including the refund of considerations partially received. The Directors assessed the loss allowance of these 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 provision rates are based on 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

13. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Over 3 months	<u><u>–</u></u>	<u><u>3,162</u></u>

The trade payables are derecognized as a result of the disposal of subsidiaries.

14. SHARE CAPITAL

Shares

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Issued and fully paid: 823,564,799 (2019: 823,564,799)	<u><u>82,356</u></u>	<u><u>82,356</u></u>
Authorised: 20,000,000,000	<u><u>2,000,000</u></u>	<u><u>2,000,000</u></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 2020 and 31 December 2020	<u><u>823,564,799</u></u>	<u><u>82,356</u></u>

15. EVENTS AFTER THE REPORTING PERIOD

The companies underlying the Ceased Gaming Business were either dissolved or disposed of during February 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATION REVIEW

The Group reported an unaudited net loss attributable to owners of the Company of approximately HK\$157.0 million for the year ended 31 December 2020 (2019: net profit of approximately HK\$98.2 million) as revenue from its media and culture business reduced to approximately HK\$47.8 million, compared with approximately HK\$323.9 million of last year.

For the entire year of 2020, the media business of the Group was affected by the COVID-19 pandemic which has spread all over the world. As the business activity slowed down and the film and TV drama projects currently being developed by the Group postponed, revenue from TV drama and film investments for the year of 2020 derived entirely from the media products already released/published in the years in 2019 and 2018.

The Group will continue to monitor the development of COVID-19 situation closely and assess its impacts on the financial position and operating results of the Group.

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\$573.0 million as at 31 December 2020, 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\$238,538,736.

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

The movie is independently co-financed by the Group and Midas Innovation. The motion picture written by Akela Cooper, based on a story by James Wan and Ingrid Bisu and directed and produced by James Wan, is the first project to go into production since the development deal was inked. New Line has the exclusive right to distribute the picture throughout the world excluding mainland China but including Hong Kong, Macau and Taiwan. The movie is starred by Annabelle Wallis. Currently, it is expected to be released in the second half of 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.

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.

During the year ended 31 December 2020, the Group's revenue generated from media and culture business amounted to approximately HK\$47.8 million (2019: HK\$323.9 million), with a gross loss of approximately HK\$28.2 million (2019: gross profit of HK\$231.4 million).

For the entire year of 2020, the media business of the Group was affected by the COVID-19 pandemic which has spread all over the world. As the business activity slowed down and the film and TV drama projects currently being developed by the Group postponed, revenue from TV drama and film investments for the year of 2020 derived entirely from the media products already released/published in the years in 2019 and 2018.

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 the year. The recorded gross loss was therefore mainly attributable to the amount of amortization recognized exceeded the revenue recognized from these investments.

Trading of chemical products, and energy conservation and environmental protection products

As this segment was no longer revenue or profit generating to the Group, and the management decided to allocate more resources to media and culture segment, this segment's business was ceased in October 2020 and the underlying companies was disposed of on 30 November 2020.

Entertainment and Gaming

For the year ended 31 December 2019, the Group has not generated any revenue from entertainment and gaming business. In view of the continued tightened credit control policy of the Group and the poor results recorded in the previous reporting periods, the management had been reviewing the future prospect and development of this segment as at 31 December 2019.

On 20 February 2020, the board of directors of the Company decided to cease its business in the entertainment and gaming segment taken account of, among other factors, absence of revenue generated for over one year, the minimal assets kept and the hardship in keeping its operations. As at 31 December 2019 and 31 December 2020, there were no long-term assets or liabilities in the entertainment and gaming business segment.

As disclosed in "EVENTS AFTER THE REPORTING PERIOD" below, during February 2021, the underlying companies of this segment were either dissolved or disposed of.

FINANCIAL REVIEW

The Group reported an unaudited loss attributable to owners of the Company of approximately HK\$157,012,000 for the year ended 31 December 2020 (2019: profit of approximately HK\$98,181,000).

The Board considers that the retrogression in the overall performance of the Group was mainly attributable to the decrease in gross profit (turn to gross loss) of approximately HK\$259.6 million.

Basic loss per share (unaudited) for the year amounted to approximately 19.06 HK cents (2019: earning per share 13.37 HK cents). Net assets (unaudited) of the Group were approximately HK\$181,838,000 (2019: approximately HK\$309,552,000).

FUTURE PLANS AND PROSPECTS

The management will continue to allocate more resources to media and culture segment which are the Group's major growth drivers.

With an aim to safeguard a higher 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 2020 (31 December 2019: NIL).

CAPITAL STRUCTURE

As at 31 December 2020, the Company's equity attributable to its owners was approximately HK\$207,811,000 (2019: approximately HK\$356,296,000).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated cash flow, interest-bearing bank and other borrowing amount due to a holding company, and through issuance of promissory notes and convertible bonds.

Prudent financial management and selective investment criteria have enabled the Group to maintain a stable financial position. As at 31 December 2020, the Group's bank balances and cash amounted to approximately HK\$142,837,000 (2019: HK\$180,404,000).

As at 31 December 2020, the current ratio was approximately 2.10 (2019: approximately 1.65) based on current assets of approximately HK\$1,012,979,000 (2019: HK\$1,165,656,000) and current liabilities of approximately HK\$482,891,000 (2019: HK\$707,212,000).

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 27 (2019: 28) employees as at 31 December 2020. 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

Further to cessation of business of entertainment and gaming segment on 20 February 2020, the Company has completed either the dissolution or disposal of the underlying companies of this segment during February 2021.

Other than disclosed above, 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 2020 except for deviations as stated below:

Code Provision A.6.7

Under code provision A.6.7, 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, three of the independent non-executive directors were unable to attend the Company's annual general meeting held on 30 June 2020.

Code Provision E.1.2

Under code provision E.1.2, 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 30 June 2020.

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 2020.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2020 has not been completed due to delay in provision of accounting information and documents of the USA segment as a result of local lockdown arrangements imposed to combat with COVID-19. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

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, Ernst & Young on the accounting principles and practices adopted by the Group and the unaudited consolidated results of the Group for the year ended 31 December 2020 during the review process.

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

During the year ended 31 December 2020, 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.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, business partners, bankers and other business associates for their trust and support.

The financial information of the Group for the year ended 31 December 2020 contained herein in respect of the annual results of the Group for the year ended 31 December 2020 have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises six executive directors, namely Mr. Tang Liang, Mr. Chau Chit, Mr. Luo Lei, Mr. Sang Kangqiao, Mr. Gao Qun, and Ms. Wu Xiaoli; and four independent non-executive directors, namely Mr. Wong Wai Kwan, Mr. Michael Ngai Ming Tak, Mr. Ma Runsheng and Mr. Wong Wai Hung.