STAR CM Holdings Limited
星空華文控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6698)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2023

Reference is made to the annual report (the "**Annual Report**") of STAR CM Holdings Limited (the "**Company**", together with its subsidiaries and consolidated affiliated entities, the "**Group**") for the year ended December 31, 2023. Unless defined otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

In addition to the information disclosed in the section "Independent Auditor's Report" and the section headed "Additional Disclosure Regarding the Audit Qualification" in the Annual Report, the Board would like to provide the following additional information in respect of the qualified opinion issued by Ernst & Young (the "**Auditor**"):

ADDITIONAL INFORMATION IN RELATION TO THE QUALIFIED OPINION

Background to the Qualified Opinion

In late August 2023, a large amount of negative information against the program "Sing! China" (中國好聲音) (the "**Program**") suddenly appeared on the Internet. On August 25, 2023, Zhejiang Satellite TV Station, the primary broadcasting platform of the Program, announced on its Weibo account that the broadcasting of the Program would be suspended (the "**Suspension**").

As the producer of the Program, Shanghai Canxing Culture & Media Co., Ltd. (上海燦星文化傳媒股份有限公司) ("**Canxing Culture**") has conducted a comprehensive internal investigation in response to audience feedback and taken measures to improve internal management and workflow. Canxing Culture has actively cooperated with the investigation conducted by Zhejiang Radio and Television Group (浙江廣播電視集團) (the "**Investigation**") and maintained communication.

In response to the intentional fabrication and dissemination of false and inaccurate information about the production process of the Program which suddenly appeared on Internet platforms in late August 2023, Canxing Culture has, since September 1, 2023, engaged a law firm to take legal measures to protect its rights. Hundreds of infringing messages as evidence have so far been collected and dozens of lawsuits have been initiated. Some infringers have voluntarily deleted and hid false content after the law firm's statement was issued, and several infringing accounts have publicly apologized to the Group. Some lawsuits are still in the trial or evidence-gathering stage.

Impact of the Suspension and its related public sentiment on the Group's operation

Canxing Culture is a consolidated affiliated entity of the Group, whose principal businesses include variety program IP production, operation and licensing. The popular variety program IPs it has successfully produced include the Program, "Street Dance of China" (這就是街舞) and "Guess the Singer" (蒙面唱將猜猜猜).

Mengxiang Qiangyin Culture Broadcast (Shanghai) Company Ltd. (夢想強音文化傳播(上海)有限公司) ("**MXQY**") is a wholly owned subsidiary of the Company, whose principal businesses include music IP operation and licensing, artist management, concert organization and production, and art education and training.

According to the cooperation agreements entered into between Canxing Culture and MXQY, Canxing Culture exclusively licenses to MXQY brand management, development and operation right, artists management right, derivatives development right, live performance right and audio content operation right of the TV programs that have been successfully produced and/or are planned to be produced by Canxing Culture, whereas MXQY pays an annual licensing fee to Canxing Culture as consideration.

MXQY independently operates music production and licensing, program music copyright licensing, derivatives development and operation, performance activities and artist management business, and the Group identified MXQY with its subsidiaries as a cash-generating unit ("**CGU**").

The Suspension has adversely affected Canxing Culture's advertising plans for other variety programs and negotiations on potential cooperation with broadcasting platforms, thereby impacting the music IP licensing of other variety programs operated by MXQY.

Management's view, position and assessment

After proactively communicating with the broadcasting platform and based on the information available to the Group's management (the "**Management**") at the relevant time, the Company was uncertain about (i) the possibility of producing and broadcasting the series Program and other music variety programs in the future; and (ii) whether the Suspension and its related public sentiment incidents would have a lasting impact on its other existing businesses.

Therefore, after cautiously evaluating all available information and based on the assumptions that (i) "Sing! China 2023" would not resume broadcasting; (ii) there would be no production and broadcasting of the series Program or other music variety programs by the Group in the future; and (iii) the adverse impact of the Suspension and its related public sentiment events on the Group's existing businesses would continue to last for an unpredictable period, the Management reduced its future earnings forecast for the MXQY CGU based on conservative projections.

Details of audit evidence required by the Auditor

Due to the fact that the Suspension and its related consequential impact on the MXQY CGU was unprecedented and the uncertainty surrounding the Investigation, the Auditor was concerned about the reasonableness of the Management's assumptions mentioned above and whether those assumptions were relatively prudent. As a result, the Auditor raised requirements regarding:

(i) whether and when "Sing! China 2023" would resume broadcasting, and whether the businesses directly related to the series Program would recover to a reasonable level in the future;

(ii) whether and when the revenue and cash flow from the music copyright licensing of the Group's other variety programs would recover to a reasonable level in the future; and

(iii) the supporting reasons and relevant documents underlying the assumption that there would be a significant decrease in projected revenue and cash flow from MXQY's regular businesses, both in terms of amount and length of period, including music copyright licensing to the karaoke television ("**KTV**") and KTV music copyright protection, as compared to actual performance in previous years.

In assessing the reasonableness of the Management's assumptions, the Auditor required the Company to provide the following audit evidence, including:

(i) the Management's expectation regarding the future broadcasting schedule of "Sing! China 2023", which was suspended in August 2023;

(ii) the supporting reasons and relevant documents for the forecasts made by Management for the impairment testing of MXQY's goodwill, assuming that there would be no revenue or cash flow from the businesses directly related to the Program. This include IP licensing, future music collaborations with the Group's long-term customers, and future music licensing of programs such as the Program with music platforms that have long-term cooperation with the Group;

(iii) the Management's expectation on whether the businesses directly related to the series Program would recover to a reasonable level in future;

(iv) the supporting reasons and relevant documents for the forecasts made by Management for the impairment testing of MXQY's goodwill, assuming that there would be no revenue or cash flow from music copyright licensing of the Group's other variety programs in future, such as the "Guess the Singer! " series of programs, and other planned music variety programs;

(v) the Management's expectation on whether revenue and cash flow from music copyright licensing of the Group's other variety programs would recover to a reasonable level in the future; and

(vi) the supporting reasons and relevant documents for the forecasts made by Management for the impairment testing of MXQY's goodwill, assuming that there would be a significant decrease in revenue and cash flow from MXQY's regular businesses, including music copyright licensing to KTV and KTV music copyright protection, as compared to actual performance in previous years.

Such audit evidence was not available to the Auditor due to the following reasons:

(i) prior to adopting the assumptions applied by the Management to estimate goodwill impairment, the Company had been actively communicating with the broadcasting platform. However, the Company's negotiations on advertising and cooperation with broadcasting platforms for its other variety programs had been largely affected by the Suspension and its related public sentiment events, and taking into account of these and other related factors, the Company was not able to reliably estimate the future production plans and schedules of other variety programs for the time being; and

(ii) based on the information available to the Management at the relevant time, MXQY's regular businesses had also been affected by the Suspension and its related public sentiment events; however, the Management was unable to evaluate the future impact on MXQY's regular businesses at the relevant time.

Therefore, given the unprecedented nature of the Suspension and its related consequential impacts on the MXQY CGU, there was a lack of reliable audit evidence for the Auditor to corroborate the Management's underlying assumptions used in its future cash flow projections of MXQY's businesses as well as the results of the projections. Considering the above, the Auditor issued a qualified opinion on the consolidated financial statements of the Group for the year ended December 31, 2023.

THE VALUATION

In determining the amount of impairment loss and the Board's assessment on the fairness and reasonableness of the impairment loss recognized, the Management engaged Shanghai Orient Appraisal Co., Ltd (上海東洲資產評估有限公司) (the "**Valuer**" or "**Shanghai Orient**"), a firm of independent qualified professional valuers not connected with the Group, to review the impairment of the goodwill (the "**Valuation**") after considering their relevant experience and expertise, appropriate qualifications and staff resources.

Shanghai Orient is an appraisal firm that has been reviewed and approved by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) and the China Securities Regulatory Commission (中國證券監督管理委員會) to engage in securities and futures related appraisal business.

In arriving at the valuation amount, the Valuer performed discounted cash flow calculation (the "**DCF**") of the recoverable amount of the MXQY CGU for a five-year forecast period ending December 31, 2028 (the "**DCF Period**"), using the following model:

$$p = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} + \frac{F_n \times (1+g)}{(r-g) \times (1+r)^n} - A$$

where:

"P" represents the recoverable amount of the MXQY CGU;
"F_i" represents the pre-tax cash flow in year i;
"r" represents the pre-tax discount rate;
"g" represents the terminal growth rate; and
"A" represents the initial working capital, equal to the operating current assets corresponding to the MXQY CGU minus the operating current liabilities corresponding to the MXQY CGU.

The key assumptions and inputs used in the Valuation are:

Revenue

The principal business segments of MXQY include (i) music IP operation and licensing; (ii) artist management; and (iii) concert organization and production.

For MXQY's music IP operation and licensing business segment, after cautiously considering all available information and based on the assumptions that (i) "Sing! China 2023" would not resume broadcasting; (ii) none of the Program or other music variety programs would be possible to be produced and broadcasted in the future; and (iii) the adverse impact of the Suspension and its related public sentiment incidents on the Company's existing businesses would continue to last for an unpredictable period, the Management reduced its future revenue forecast for MXQY's music IP operation and licensing business based on conservative projections.

As a result, no revenue was forecasted by the Management from the Program under the segment of music IP operation and licensing for the DCF period. The forecasted revenue from other music IP operations and licensing business not directly related to the Program was stable during the DCF Period as it consisted of recurring licensing contracts based on the past licensing contracts signed.

For MXQY's artist management business segment, the forecasted revenue was primarily based on the actual revenue generated by its artists in previous years, adjusted by the artists' management agreement period, the actual quotation of the artists' management services in subsequent period and the expected market development.

For MXQY's concert organization and production business segment, the revenue forecast was derived from two main sources. For routine concerts such as the final competition of the Program held every year, the forecasted revenue from which was primarily based on the actual revenue generated in previous years. In contrast, for non-routine concerts, the forecasted revenue was mainly based on the budgets of the projects in negotiations. Cautiously assuming that "Sing! China 2023" would not resume broadcasting and none of the other music variety programs would be produced and broadcasted in the future, and based on the fact that there has been no negotiation for any non-routine concerts, the Management projected no revenue from the segment of concert organization and production in the future.

Budgeted gross margins

The budgeted gross margin of the MXQY CGU adopted for the DCF calculation ranged from 36.78% to 37.85%. The basis used to determine the value assigned to the budgeted gross margin of each business was the gross margin achieved in the year immediately before the budget year, adjusted for expected market development.

Pre-tax discount rate

The discount rate of 13.13% was before tax. It was determined by reference to the average rates for similar industries and the business risks of the relevant business units as of December 31, 2023. As the impact of the Suspension has been considered in the above forecasted revenue, no additional adjustment was made for the pre-tax discount rate.

Growth rates

The growth rates used were based on historical data and the Management's expectation of the future market. There is no significant fluctuation for the forecasted revenue from the business of music IP operation and licensing during the five-year forecast period because the forecasted revenue mainly include revenue generated from licensing of music libraries which was not adversely impacted by the Suspension and the reduced revenue from KTV music copyright protection as mentioned above. The reduction in forecasted revenue from the business of artist management in 2025 compared to 2024 was mainly due to the expiration of a certain artist management agreement in June 2024.

The terminal growth rates used to extrapolate the cash flows beyond the five-year period applied similar long term growth rates of music IP operation and licensing and other IP-related business as of December 31, 2023. The Directors prudently estimated that there would be no growth or reduction of its business for the DCF period.

ACTION PLAN AND THE AUDITOR'S VIEW

As disclosed in the Annual Report, the Company is actively exploring opportunities with all major broadcasting platforms and clients with advertising needs to develop a viable plan for the production and broadcasting of the Group's music variety programs. The Company will continue to assess the feasibility of producing related music variety programs in the future, aiming to address the qualified opinion. For details of the Company's action plan, please refer to page 21 of the Annual Report.

The action plan aims to (i) ensure the stability of the Company's business in the future; and (ii) maintain open lines of communication with the broadcasting platform in order to provide sufficient and appropriate audit evidence to the Auditor concerning the impairment loss against the goodwill allocated to the MXQY CGU.

The Company believes that there are no fundamental differences in its views with the Auditor regarding the application of the accounting principles to the Suspension and its related consequential impact.

The Auditor is of the view that assuming over the next financial year (i) the Company could get confirmed evidence that the broadcasting of "Sing! China 2023" and the series Program will not be resumed in the future; and (ii) as such, together with the additional passage of time, the impact of the Suspension on the other variety programs and MXQY's business, including music copyright licensing to KTV and KTV music copyright protection, may become more definitive in supporting the forecast used in goodwill impairment test as at the year end of 2023, the qualification may be resolved. The removal of the qualification will depend largely on the Company's progress on its plan, and whether such progress will provide the necessary audit evidence to satisfy the requirements as raised by the Auditor stated above.

The Board confirms that the supplemental information provided in this announcement does not affect any other information contained in the Annual Report and, save as disclosed in this announcement, the contents of the Annual Report remain unchanged.

By Order of the Board
STAR CM Holdings Limited
Mr. Tian Ming
Chairman, Executive Director and Chief Executive Officer

Hong Kong, July 12, 2024

As at the date of this announcement, the Board of Directors of the Company comprises (i) Mr. Tian Ming, Mr. Jin Lei, Mr. Xu Xiangdong, Mr. Lu Wei, Ms. Wang Yan and Ms. Shen Ning as executive Directors, and (ii) Mr. Li Liangrong, Mr. Chen Rehao and Mr. Sheng Wenhao as independent non-executive Directors.