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SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual report of China 33 Media Group Limited (the “**Company**”) for the year ended 31 December 2021 (the “**Annual Report**”). In addition to the information disclosed in the Annual Report, the board (“**Board**”) of directors (“**Directors**”) of the Company would like to provide additional information in relation to the provision for film rights and impairment for prepayment for film and entertainment business.

Provision for film rights and impairment for prepayment for film and entertainment business

As stated in the Annual Report, the Group recognized a provision for film rights of approximately RMB37.9 million and impairment loss of approximately RMB65.4 million on prepayment for film and entertainment business (together known as “**Impairment Loss**”) during the year ended 31 December 2021. In line with the industry norm, the Group is required to contribute investment amount at the early stage of the production, so as to support the upfront costs required during the production process. The prepayments primarily represent production costs, design and promotion fees prepaid to the relevant independent third-party service providers. The Group has assessed the creditworthiness of all service providers before entering into agreements with them. Save as disclosed in the Annual Report, further information regarding the Impairment Loss is set out below:

The Impairment Loss was caused by the challenge faced by the industry landscape and the deep adjustments in recent years. The pandemic has exacerbated an already cold film and television capital market. Most of the film and television companies continued to shrink in market value since the years of 2020 and 2021. During the pandemic, a number of Chinese and foreign films adopted a distribution model that prioritized online streaming which cause the traditional film production into extremely keen competition. The capital market has become more rational in its investments in the film industry since the risks in the film and television industry have increased significantly given the international and the PRC environment, technological changes, regulatory systems, and changes in the social environment. As a result, a number of small and medium-sized film and television companies have fallen on hard times.

The recognition of the Impairment Loss was mainly due to the uncertainty on recoverability of the prepayments made to certain production companies who are independent third parties and the unfavorable expected results of film rights. Since the first quarter of 2021, the management identified that certain production companies that the Company signed contract with are having financial difficulties or have gone out of business. In addition, the management observed several film productions were delayed significantly or might generate far below income as initially expected, the management must make the rationale decision to cut further loss or cease further investment on those film productions. Annual assessment on the progress of utilization and the recoverability of the prepayments as well as the future economic benefits of the film rights were made and Impairment Loss was recognized during the year ended 31 December 2021 for prudence sake due to the above-mentioned reasons.

The Group has issued demand letters for the remaining balance of prepayments and is negotiating with the production companies for the repayment plans. At the same time, the Group has been seeking legal opinion and would take legal action against those companies if no positive results on the repayment arises. The Group will continue to use its best effort to liaise with those companies in order to recover the prepayments.

Key value of inputs used and assumptions adopted in valuation

The Company has engaged an independent valuer, Vincorn Consulting and Appraisal Limited, to conduct a valuation to support the relevant impairment assessment in respect of the Impairment Loss. The valuer comprises of a team of qualified professionals with various international professional accreditations, including but not limited to Chartered Financial Analysts, Certified Financial Risk Managers, Registered Valuers of Royal Institution of Chartered Surveyors.

The film rights and prepayments have been valued on value in use basis. Value in use is defined as “the present value of the future cash flows expected to be derived from an asset or cash-generating unit” in accordance with HKAS 36. The valuer has adopted the income approach, this approach estimates the future economic benefits and discounts these benefits to their present value using an appropriate discount rate for all risks associated with realizing those benefits. The valuation was based on the five-year cash flow projection of the film rights and prepayments and a discount rate was used to calculate the present value of the cash flow. The same valuation basis and approach have been adopted for the year ended 31 December 2020 and 2021.

There were changes in the value of the inputs used for the year ended 31 December 2020 and 2021, i.e. the discount rate, which was mainly due to the increase of Hong Kong long-term risk-free rate and the decrease of debt-to-equity ratio derived from comparable companies. The table below sets forth a comparison in the value of the inputs used:

	31 December 2021	31 December 2020
Risk-free rate	1.4%	0.7%
Net profit margin	0% to 24.5%	0% to 35.8%
Tax rate	16.5%	16.5%
Discount rate	10.3%	9.8%

There were no significant changes in the key assumptions for the year ended 31 December 2020 and 2021. The key assumptions adopted in the valuation include the following:

- The current financial, economic, taxation, market and political conditions which prevail in the regions in which the film rights and prepayment for film production locate will have no material change;
- Inflation and interest rates will have no material change from the rates prevailing as at the valuation date; and
- Competent management, key personnel and technical staff will be maintained to support the ongoing operation.

The above additional information does not affect other information contained in the Annual Report, and save as disclosed in this announcement, the content of the Annual Report remains unchanged.

By Order of the Board
China 33 Media Group Limited
Ruan Deqing
Chairman and Executive Director

Hong Kong, 19 July 2022

As at the date of this announcement, the executive Directors are Mr. Ruan Deqing (Chairman) and Mr. Ma Pun Fai; and the independent non-executive Directors are Ms. Tay Sheve Li, Ms. Lam Man Chi and Mr. Yau Kit Yu.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk for at least seven days from the date of its posting and the Company’s website at www.china33media.com.