ELEGANCE OPTICAL INTERNATIONAL HOLDINGS LIMITED
高 雅 光 學 國 際 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 907)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2022

Reference is made to the annual report (the "**Annual Report**") of Elegance Optical International Holdings Limited (the "**Company**" together with its subsidiaries collectively referred to as the "**Group**") for the year ended 31 March 2022 published on 29 July 2022. The Board (the "**Board**") of Directors (the "**Director**") of the Company would like to provide additional information in respect of the fair value loss on investments in film production and impairment loss on investment in associate as disclosed in the Annual Report.

FAIR VALUE LOSS IN FILM PRODUCTION

As stated in the Annual Report, the Company recognised a fair value loss in film production (the "**Fair Value Loss**") of approximately HK$42.8 million (2021: a fair value gain of approximately HK$2.3 million) for financial year ended 31 March 2022 ("**FY2022**"). The Fair Value Loss was mainly attributable to the difference between the carrying amount of the films as at 31 March 2021 of approximately HK$61.2 million and distribution receivables of approximately HK$21.4 million, which was charged to "other operating expenses" in the profit and loss account as "loss on change in fair value of financial assets at fair value through profit or loss – investments in film production". Such Fair Value Loss was attributable to the unexpected delay on the recovery of film industry from COVID-19 pandemic which lead to the significant difference in actual outcome of the film investments.

The Group has invested an aggregate of RMB46.8 million in film A and RMB14.4 million in film B respectively.

For film A, the release was originally scheduled in late November 2019, and subsequently postponed to January 2020. However, due to the outburst of the pandemic in mainland China, it was decided to further postpone the release time of film A in December 2019. After then, the cinema operation in mainland China has been suspended in first half of 2020 and as the result, film A could not be released on screen during the period. On 24 June 2020, it was decided not to release the film A on cinema. Instead on 24 July 2020 film A was release through online media platforms.

For Film B, it was first released on limited cinemas in mainland China on 2 April 2021, and replayed on cinemas in mainland China on 7 August 2021. Simultaneously, film B was also released on various online media platforms in mainland China.

In consideration of the fact that both films had been released for quite a period of time on various platforms, the responsible management was of the view that no more income could be earned from these films. In December 2021, the responsible management negotiated with the counterparties and entered into the investment settlement agreements which set out the distribution amount of the films. Eventually, the Company recorded the Fair Value Loss of approximately HK$23.8 million as mentioned in the afore-paragraph.

IMPAIRMENT LOSS IN ASSOCIATE

On 11 July 2018, the Group acquired 25% equity interest in an entity, Filmko Culture Limited ("**Filmko Culture**"), for a consideration of HK$110.0 million. The management of the Group conducted a review of the recoverable amount of the investment in Filmko Culture by reference to business valuation performed by independent professional valuer. The business valuation of the Filmko Culture as at 31 March 2022 (the "**Valuation**") was HK$41.0 million (2021: HK$93.0 million).

The Board has engaged an independent valuer ("**Valuer**") to perform the Valuation. In order to assessed the reasonableness and fairness of the Valuation, the Directors have reviewed the qualification, experience and the track record of the Valuer and the Directors are of the view that the Valuer is qualified, experienced and competent in performing the Valuation. The Company confirmed to the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Valuer is independent of and not connected to the Company.

The key assumptions of the Valuation were mainly comprised of (i) no material changes to existing political, legal, fiscal, technological, economic and market conditions, taxation laws and interest rate, (ii) the implementation of the financial and operational strategies and the level of knowledge and experience of the senior management of the company and (iii) all relevant approvals of the business. The Board has reviewed all the assumptions and agreed that these were appropriate and necessary.

In respect of the valuation methodology, the Valuer has considered three generally accepted valuation approaches, namely the income approach, the market approach and the asset approach. The determination of valuation approach was based on, among other criteria and quality of the information provided, access to available data, supply of relevant market transactions, type and nature of the subject asset, purpose and objective of the valuation and professional judgment and technical expertise. The Board concurred with the Valuer that the adoption of market approach, with guideline public company method, was the most appropriate approach as it could more likely to reflect current market expectation over corresponding industry and the price multiples of the comparable companies were arrived from market consensus and capture the future development potential of the company. For the income approach, the Board agreed that it was less appropriate in this case as it required more subjective assumption and hence higher uncertainty.

The price multiple adopted for the Valuation was the adjusted enterprise value (“**EV**”)-to-earnings before interest and tax (“**EBIT**”) multiple (“**Adjusted Valuation Multiple**”). The Board concurred with the Valuer that the EV-to-EBIT multiple is used for a better measurement of the comparable companies for the valuation. Adopting this EV-to-EBIT allows a better comparison as opposed to price-to-book multiple as EBIT is used as a measure of profitability and normalises for effects of different capital structures. When comparing to price-to-earning, EBIT provides a better picture of the financial performance of a company since it strips out debt costs and taxes.

The major input to the Valuation are outlined as followed:

1. Adoption of EBIT for Filmko Culture

The adopted EBIT as at 31 March 2022 was calculated by 3 years average of EBIT immediately before 31 March 2022. The Directors, having discussed with the Valuer, understood that the average EBIT of 3-year for the Valuation was adopted in light of COVID-19 pandemic. During the pandemic, the film industry had been severely impacted. As shown on the market by other comparable companies, the EBIT fluctuated greatly in the last 3 years. Adopting only the latest EBIT may omit some variables that may affect the final outcome. Also, it is aware that the EBIT of Filmko Culture reported in the financial year ended 31 March 2022 is negative, therefore after considering the effects of the pandemic, and the reported EBIT, the 3-year average EBIT has been adopted in the calculations.

2. Adoption of Adjusted Valuation Multiple

The adjusted valuation multiple for the valuation as at 31 March 2022 was calculated by the average of the EV-to-EBIT of the comparable companies with applicable adjustment by Valuer.

In determining the Adjusted Valuation Multiple, the Valuer had selected appropriate comparable companies. The Board has reviewed the criteria in the selection of comparable companies. Those (1) were companies that principally engaged in entertainment/film production and distribution business in mainland China, (2) have positive operating income and (3) have sufficient information from the public resources. As confirmed by the Valuer, the list of comparable companies represented an exhaustive list. The Directors considered the number of the comparable companies was sufficient to reflect the overall industrial performance of the entertainment/film investment and distribution business as those comparable companies were considered as leading companies that engaged in entertainment/film production and distribution business in mainland China, which the shares were listing in Shanghai/Shenzhen exchange with market capitalisation raging from RMB9.6 billion to 58.3 billion as at 31 March 2022.

After selected comparable companies, the Valuer has calculated the 3 year average EBIT for each comparable companies, then further adjusted by (i) the market capitalization to invested capital ratio and (ii) the size difference compared to the target company. After the adjustments, the Valuer has adopted the average of the Adjusted Valuation Multiple of the comparable companies. It is understood that using the average of price multiple of the comparable companies is normal market practice under market approach as it is able to reflect the perspective of investors of the overall industry. Also, it is understood that since the number of comparable companies selected is limited, which are all engaged in entertainment production and distribution business, every price multiple is significant in the calculation, hence the average of all price multiples was adopted.

In light of the above, the Directors are of the view that the comparable companies were representative, fair and reasonable comparisons and the adoption of the Adjusted Valuation Multiple is reasonable.

3. Adoption of lack marketability adjustment

A downward adjustment to the Valuation has been designated by the Valuer to reflect the marketability difference between public comparable companies and the Group's private associate. The Board considered such downward adjustment was reasonable as the value of a share in a privately held company is usually less than that in a publicly held company when compared with the selected comparable companies.

In light of the above, the Directors are of the view that the Valuation is a reasonable reference for determine the business value of the Group's 25% equity interest in Filmko Culture.

The impairment loss of HK$46.12 million represents the difference in the respective business valuation of last year of HK$93.0 million, and this year of HK$41.0 million minus the share of post-acquisition reserves movement of approximately HK$5.88 million.

By order of the Board
Elegance Optical International Holdings Limited
Wong Chong Fai
Executive Director

Hong Kong, 13 September 2022

As at the date of this announcement, the executive Directors are Mr. Yu Baodong, Mr. Chung Yuk Lun and Mr. Wong Chong Fai; and the independent non-executive Directors are Mr. Man Wai Lun, Mr. Cheng Chun Man and Mr. Hui Man Ho, Ivan.