

The Issue of Goodwill Impairment Behind Mergers and Acquisitions Of Cultural Media Enterprises

Zihan Diao *

College of Business, Macau University of Science and Technology, Macau, China

* Corresponding Author Email: 1230006757@student.must.edu.mo

Abstract. In recent years, with the continuous introduction of merger and acquisition policies, an increasing number of enterprises have been seizing market shares and enhancing their development capabilities through mergers and acquisitions. However, mergers and acquisitions in the cultural and media industry are often accompanied by the risk of goodwill impairment. This paper conducts a dual-case analysis of Beijing Culture and Huayi Brothers as typical cases, using methods such as case analysis, event study, Aggregate Management Performance Score Model (AMPS) model, and predictive analysis, and in combination with industry characteristics and policy environments, deeply analyzes the causes and consequences of goodwill impairment. The research finds that the optimistic assumptions of the income approach in high-premium mergers and acquisitions, the performance fluctuations of the target companies, and the impact of industry environments jointly trigger goodwill impairment, not only causing a sudden drop in enterprise performance but also having a profound impact on the development of the industry. The research suggests that a long-term risk prevention and control mechanism for the industry should be constructed by optimizing valuation methods, strengthening regulatory disclosure, and promoting digital transformation.

Keywords: Cultural and media enterprises; goodwill impairment; high-premium mergers and acquisitions

1. Introduction

The cultural and media industry once witnessed a merger and acquisition (M&A) boom due to the logic of "binding core talents and seizing Intellectual Property (IP) resources" and the continuous introduction of national M&A policies. However, the frequent risks of goodwill impairment caused by high-premium M&A have frequently shaken the capital market. Beijing Culture and Huayi Brothers, as typical representatives of the industry, have significant research value in their M&A history and goodwill impairment events. However, existing studies mostly focus on single case analysis. This paper adopts a dual-case study to better reflect the commonalities of the industry. It aims to reveal the inherent logic of goodwill impairment through a comparison of the two cases and propose innovative solutions in line with the characteristics of the digital economy era.

Goodwill refers to the value of a company's ability to generate excess profits under the same conditions, and it is a component of the overall value of the company [1]. Generally speaking, the higher the proportion of goodwill in assets, the greater the impact of goodwill impairment on the company. The Chinese capital market created a large amount of goodwill assets after several waves of mergers, acquisitions, and restructuring. The potential risks posed by these goodwill assets to the continued stable development of the business during subsequent impairments cannot be ignored [2].

However, unlike other industries, the cultural and media industry has the nature of being "asset-light", meaning that the assets of enterprises are mainly determined by intangible assets such as corporate culture, brand influence, and star resources, rather than tangible assets [3]. This makes star artists an important resource in the cultural and media industry. To bind stars, cultural and media companies are willing to pay far more than the book value to acquire companies under star artists to achieve the effect of binding stars. Therefore, its "asset-light" nature leads to the accumulation of huge goodwill invisibly.

At the same time, industry is significantly affected by policies, market preferences, and content risks, and has high business risks [4]. For instance, in 2018, the "dual contract" incident led to a tax rectification in the film and television industry, directly impacting the performance of the target

company; in 2019, the National Film Administration strengthened content reviews, restricting historical dramas and foreign films, causing many movies to fail to be released on schedule, and enterprises suffered huge losses. This characteristic of being a light-asset industry with high business risks actually reveals the underlying logic that the cultural and media industry is more prone to goodwill impairment issues after mergers and acquisitions compared to other industries.

This paper adopts case analysis, Aggregate Management Performance Score Model (AMPS) model, event study method, predictive analysis and other methods. The AMPS model provides a process for evaluating data analysis, achieving a closed loop from raising questions to obtaining data, conducting analysis, and presenting results. This paper uses the AMPS model and raises questions of what causes the frequent goodwill impairment in mergers and acquisitions of cultural media enterprises and what consequences it brings as the primary data analysis issues. It collects data such as industry analysis reports of the cultural media industry, annual reports of Huayi Brothers and Beijing Culture Company, merger and acquisition announcements, policy documents, and related news reports. Through the obtained text data, it conducts data analysis on the causes and consequences of goodwill impairment after mergers and acquisitions in the cultural media industry. Finally, it summarizes and presents the research results through visual tools such as charts, providing integrated optimization suggestions for mergers and acquisitions of cultural media enterprises.

2. The Issue of Goodwill Impairment at Huayi Brothers and Beijing Culture

After the country relaxed the merger and acquisition management policies in 2014, as can be seen from the following chart, the cultural and media industry also witnessed a merger and acquisition boom shown in the following Figure 1.

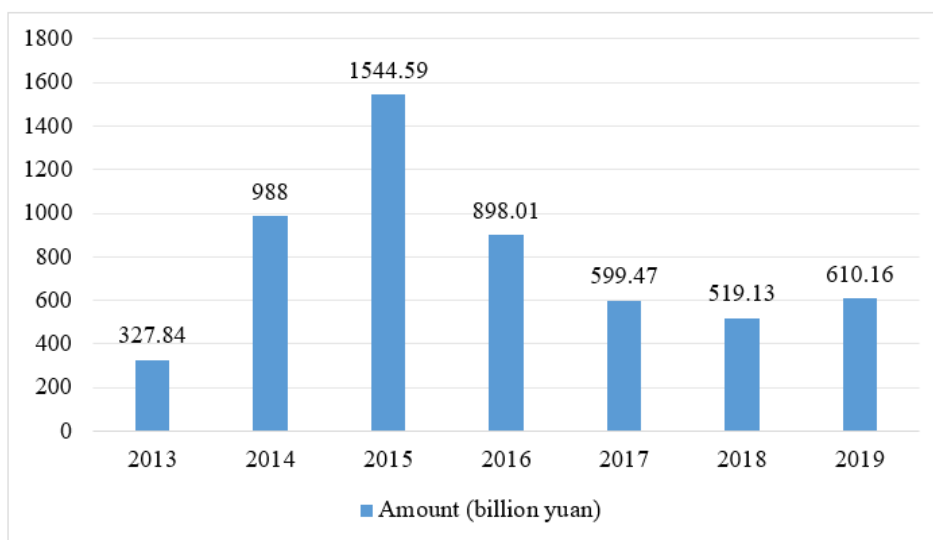


Fig 1. The investment amount of mergers and acquisitions and reorganizations in the cultural media industry (Picture credit: Original).
Data from: <https://market.chinabaogao.com/chuanmei/0Y550R02021.html>.

2.1. Huayi Brothers: The Dependence on Capitalizing on Stars

Huayi Brothers Media Corporation was established in 1994, and its business covers multiple areas, including films, TV series, brand licensing, and real-scene entertainment. Since 2010, Huayi Brothers has successively acquired several companies in various fields such as film, games, and the Internet. In 2015, Huayi Brothers acquired 70% of the shares of Dongyang Meila, owned by director Feng Xiaogang, for 1.05 billion yuan. The equity change is shown in the following Figure 2. This acquisition created 1.0465 billion yuan of goodwill for Huayi Brothers, with the intention of binding the core director and consolidating the content advantage through a high premium. Feng Xiaogang promised to achieve the profit target within five years of the acquisition; otherwise, he would make

up the difference between the actual profit and the performance commitment target with cash. However, after two years of normal operation, Dongyang Meila failed to meet the performance commitment, and Huayi Brothers made a large impairment provision for goodwill. According to the annual report, in 2024, Huayi Brothers offset the debt to Alibaba Pictures Culture Co., Ltd. with Dongyang Meila's equity worth 350 million yuan. The book balance of the goodwill still reached 1.047 billion yuan. As of the end of 2024, the company's asset-liability ratio was as high as 79.79%, and it suffered consecutive losses for seven years.

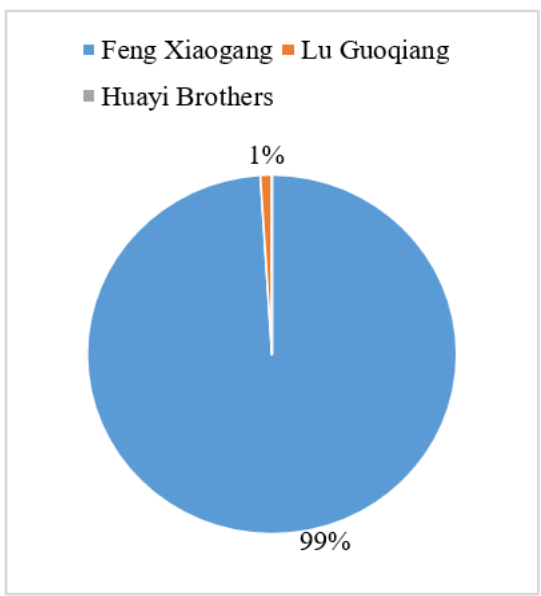


Fig 2. Equity changes of Dongyang Meila before merger and acquisition (Picture credit : Original).
Data from: Huayi Brothers Annual Report.

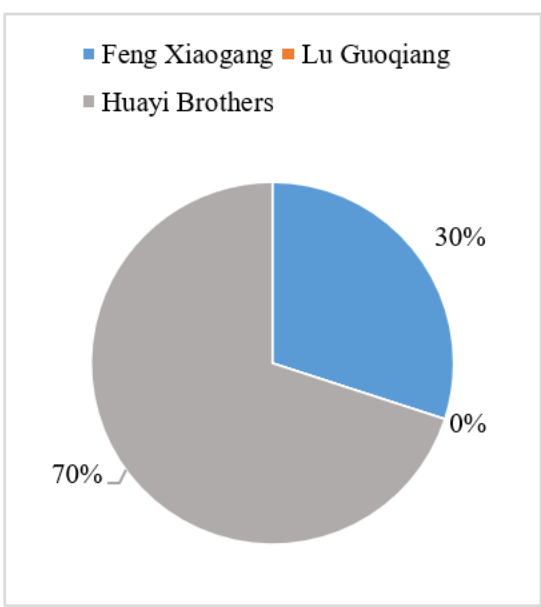


Fig 3. Equity changes of Dongyang Meila after merger and acquisition (Picture credit: Original).
Data from: Huayi Brothers Annual Report.

2.2. Beijing Culture: Reliance on Blockbusters and the "Explosion" of Goodwill

Beijing Jingxi Culture and Tourism Co., Ltd. was established in 1997. In 2013, it began to add a film and media business segment, aiming for stable growth in the tourism business and cross-industry development in the film and cultural business. In 2016, Beijing Culture acquired Century Partner and

Star River Culture for 1.35 billion yuan and 750 million yuan, respectively, adding 1.476 billion yuan in goodwill. Facing the high-premium goodwill from mergers and acquisitions, Century Partner and Star River Culture, respectively, made performance commitments and signed the "Equity Purchase Agreement" and the "Profit Forecast Compensation Agreement" with Beijing Culture. From 2014 to 2017, Century Partner and Star River Culture barely fulfilled their performance commitments with the help of blockbusters such as "Wolf Warrior 2" and "The Wandering Earth". However, due to stricter industry regulations, the loss of core teams in the target companies, and a lack of content creation capabilities, the performance of Century Partner and Star River Culture dropped significantly in 2019. Beijing Culture wrote off 834 million yuan and 641 million yuan of its goodwill. Since then, from 2019 to 2024, Beijing Culture's operating profit has been negated for six consecutive years.

3. Analysis of the Causes of Goodwill Impairment

3.1. The Valuation Method Expands the Acquisition Price

In the merger and acquisition cases of Huayi Brothers and Beijing Culture, the income approach was adopted for valuation. The income approach applies to companies whose future earnings can be objectively predicted. However, the cultural and media industry has characteristics such as light assets and high business risks, and is greatly affected by macroeconomic fluctuations, making the prediction parameters prone to deviate from reality and making it difficult to reasonably predict their long-term earnings [5]. Huayi Brothers and Beijing Culture were optimistic about the future development of the target companies and adopted the wrong valuation method, which inflated the acquisition price and led to a large amount of goodwill impairment in the later stage.

3.2. The Performance of the Target Company has been Continuously Declining.

In the cases of Huayi Brothers and Beijing Culture, both signed performance commitments with the target companies to avoid risks. However, the performance of the target companies declined, and the performance commitment compensation did not make up for the actual losses. As can be seen from table 1 below, in the case of Huayi Brothers' acquisition of Dongyang Meila, Dongyang Meila failed to meet the performance commitments in 2018 and 2020. Although Dongyang Meila compensated Huayi Brothers 236.2544 million yuan according to the performance commitment, the sum of this amount and the net profit of 70% of the shares brought to Huayi Brothers, which was 316.9669 million yuan, was still far from the 880-million-yuan impairment loss of goodwill that Huayi Brothers had accrued.

Table 1. The performance completion status of Dongyang Meila.

Year	Performance Commitment (ten thousand yuan)	Actual profit (ten thousand yuan)	Differential Value (ten thousand yuan)	Completion ratio
2016	10000.00	10114.06	114.06	101.14%
2017	11500.00	11699.95	199.95	101.74%
2018	13225.00	6501.50	-6723.5	49.16%
2019	15208.75	16427.12	1218.37	108.01%
2020	17490.06	560.43	-16929.63	3.20%
2021		6975.55		

Data from: Data organization of Huayi Brothers' annual report

In the Beijing Culture acquisition cases, although Star River Culture did not meet the promised net profit amount in 2017, Beijing Culture allowed it to be considered as meeting the target by using the cumulative amount. As can be seen from table 2 below, although Century Partner and Star River Culture seemingly met the targets on the surface, in fact, their profitability had declined in terms of completion quality and fulfillment capacity. After the commitment period, the profitability of both continued to decline. Century Partner even fabricated profits of 8.63 million yuan to cover actual losses, forcing Beijing Culture to make large provisions for impairment of goodwill.

Table 2. The performance completion status of Zhejiang Xinghe Culture.

Year	Performance commitment (millions)	Actual profit (millions)	Difference (millions)	Completion ratio
2014	49.7	49.62	-0.08	99.84%
2015	65.3	68.7	3.4	105.21%
2016	84.3	86.74	2.44	102.89%
2017	100.4	100.4	0	100%

Data from: <https://static.cninfo.com.cn/finalpage/2017-03-17/1203169069.PDF>

Table 3. The performance completion status of Century Partners.

Year	Performance commitment (millions)	Actual profit (millions)	Difference (millions)	Completion ratio
2014	90	94.92	4.92	104.3%
2015	110	113.62	3.62	102.44%
2016	130	135.25	5.25	104.04%
2017	150	150.23	0.23	100%

Data from: <https://www.hanghangcha.com/cms/detail/20220802643430.html>

3.3. Major Changes have Occurred in the Industry.

The market environment of the cultural and media industry is complex with many uncertain factors. Once negative public opinions arise around a star or an artist, it may lead to the inability of a film company's high-investment movies to be released, causing severe losses to the enterprise [6]. From 2018 to 2019, the National Film Administration strengthened content review, restricted costume dramas, foreign TV dramas and the remuneration of stars, which suppressed the development of the film industry. The performances of Beijing Culture, Huayi Brothers and its subsidiaries were all affected. In 2018 and 2019, Huayi Brothers and Beijing Culture successively made large provisions for goodwill. In 2018, Huayi Brothers' net profit dropped to -3.814 billion yuan, and in 2019, Beijing Culture's net profit dropped to -2.327 billion yuan. Under the combined effect of the expansion of acquisition prices by the income approach, the decline in the performance of the target company, and significant changes in the industry environment, a systemic goodwill impairment was ultimately triggered.

4. Analysis of the Consequences of Goodwill Impairment

4.1. Stock Price Analysis

The event study method is used to evaluate the short-term performance of corporate mergers and acquisitions. Specifically, it involves analyzing the changes in abnormal returns calculated based on stock prices within the event window period [7]. In this paper, the Cumulative Abnormal Return (CAR) value is calculated through the event study method to make judgments and evaluations on the short-term market response, and to analyze the impact of goodwill impairment on the stock value of Huayi Brothers and Beijing Culture.

Based on the announcement of Huayi Brothers regarding the impairment of goodwill related to Dongyang Meila, April 28, 2021, was selected as the event date. Considering the influence of other events, this paper takes the three days before and after the announcement date as the window period for the study, that is, T(-3, 3). To calculate the normal return rate and determine the clean period, this paper takes 210 trading days before the announcement date to the 11 trading days before as the clean period, that is, T(-210, -11), which is used as the normal return rate interval. As shown in Figure 3, according to the market model: $R_{i,t} = \alpha_i + \beta_i R_{m,t}$ Calculate the normal rate of return. The formula for the normal rate of return of Huayi Brothers is obtained as follows: $R_{i,t} = 0.5249R_{m,t} - 0.0001$.

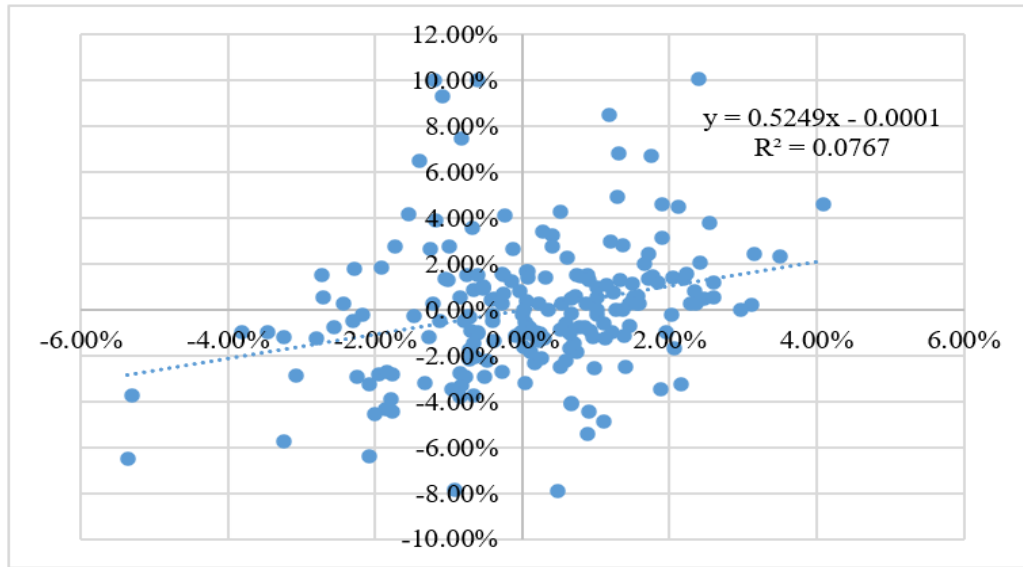


Fig 4. The normal rate of return of Huayi Brothers (T -210, -11) (Picture credit: Original).
Data from: <https://cn.investing.com/equities/huayi-brothers-media-corp-historical-data>

Finally, through $AR_t = R_{it} - E(R)$ calculate the daily excess return and through $CAR = \sum AR_t$ calculating cumulative excess return, and the following table 3 and table 4 was obtained:

Table 4. Huayi Brothers CAR calculation.

T	R_{mt}	R_{it}	$E(R)$	AR_t	CAR
-3	0.01000	-0.00510	0.00515	-0.01025	-0.01230
-2	-0.00890	0.01790	-0.00477	0.02267	0.01037
-1	0.00280	-0.00760	0.00137	-0.00897	0.00140
0	0.00940	0.05580	0.00483	0.05097	0.05237
1	0.00460	-0.00960	0.00231	-0.01191	0.04045
2	-0.00180	-0.00240	-0.00104	-0.00136	0.03910
3	-0.01580	-0.06810	-0.00839	-0.05971	-0.02061

Data from: <https://cn.investing.com/equities/huayi-brothers-media-corp-historical-data>.

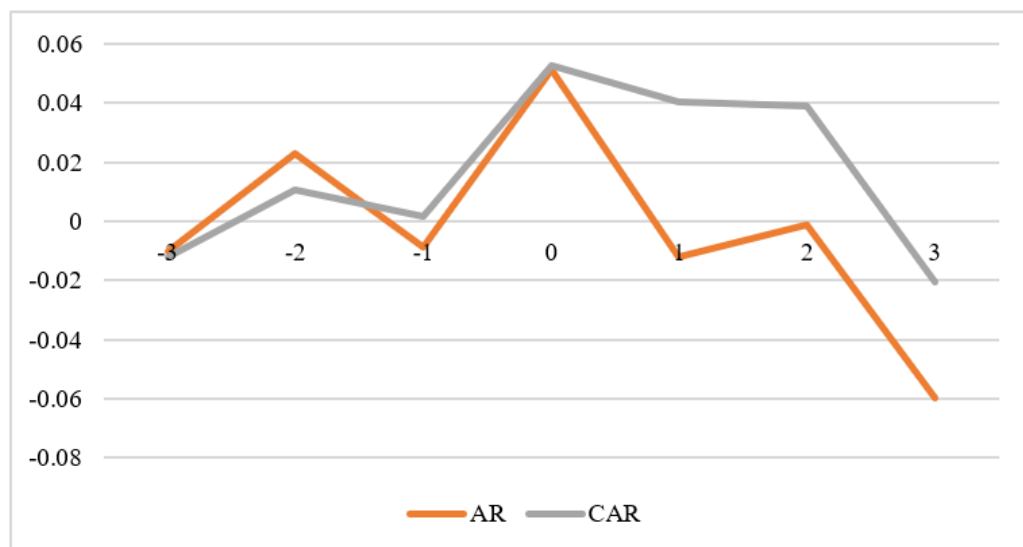


Fig 5. The changes in Abnormal Return (AR) and CAR of Huayi Brothers during the window period (Picture credit: Original).
Data from: <https://cn.investing.com/equities/huayi-brothers-media-corp-historical-data>.

As can be seen from the above chart, in the days before the event, both AR and CAR fluctuated around 0. On the event day, they reached the highest point within the window period. However, on the day Huayi Brothers released the "Announcement on Provision for Impairment of Assets and Write-off of Assets for 2020", both AR and CAR showed a downward trend. During the T(0,3) period, AR and CAR continued to decline significantly, and the negative substantive impact of the impairment announcement became apparent. Investors reassessed the company's value, and the excess return of the stock price continued to weaken, reflecting the severe impact of goodwill impairment on the stock price.

The same as the above steps, the impact of the impairment of Beijing Culture's goodwill on its stock price was studied. The event date was selected as April 29, 2020, with a window period of T(-3, 3), and the normal return rate range was T(-210, -11). As shown in Figure 4 and Figure 5, according to the market model: $R_{i,t} = \alpha_i + \beta_i R_{m,t}$ calculate the normal rate of return. The formula for the normal rate of return of Beijing culture is obtained as: $R_{i,t} = 1.0631R_{m,t} - 0.0012$.

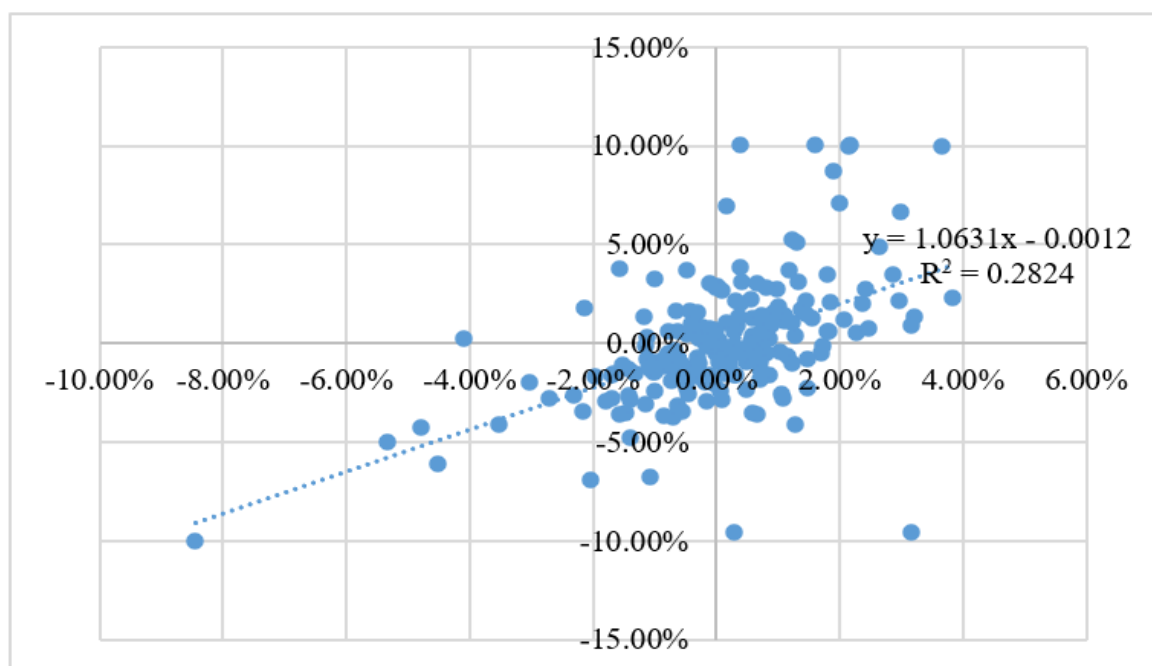


Fig 6. The normal rate of return of Beijing Culture T(-210, -11). (Picture credit : Original).
Data from: <https://cn.investing.com/equities/beijing-jingxi-culture-a>.

Finally, through $AR_t = R_{it} - E(R)$ calculate the daily excess return and through $CAR = \sum AR_t$ calculating cumulative excess return, and the following table 5 was obtained:

Table 5. Beijing Culture CAR Calculation Table.

T	R_{mt}	R_{it}	E(R)	AR_t	CAR
-3	-0.01330	-0.02290	-0.01534	-0.00756	-0.00756
-2	0.00280	-0.03580	0.00178	-0.03758	-0.04514
-1	0.00470	-0.09970	0.00380	-0.10350	-0.14863
0	0.00120	0.09230	0.00008	0.09222	-0.05641
1	0.01970	-0.10010	0.01974	-0.11984	-0.17625
2	0.01510	-0.09970	0.01485	-0.11455	-0.29081
3	-0.00180	-0.03850	-0.00311	-0.03539	-0.32619

Data from: <https://cn.investing.com/equities/beijing-jingxi-culture-a>

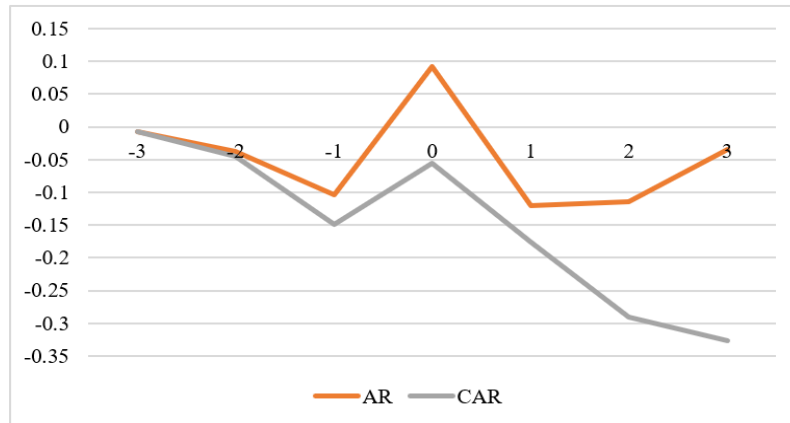


Fig 7. The changes in AR and CAR within the window period of Beijing culture(Picture credit: Original).

Data from: <https://cn.investing.com/equities/beijing-jingxi-culture-a>.

As can be seen from the above chart, the changes in AR and CAR during the window period of Beijing Culture are extremely similar to those of Huayi Brothers. Both reached their peak on the event day and dropped significantly after the announcement of goodwill impairment. This indicates that goodwill impairment has a universal and significant negative impact on the excess returns of a company's stock price shown in the following Figure 6 and Figure 7.

4.2. Analysis of Profitability

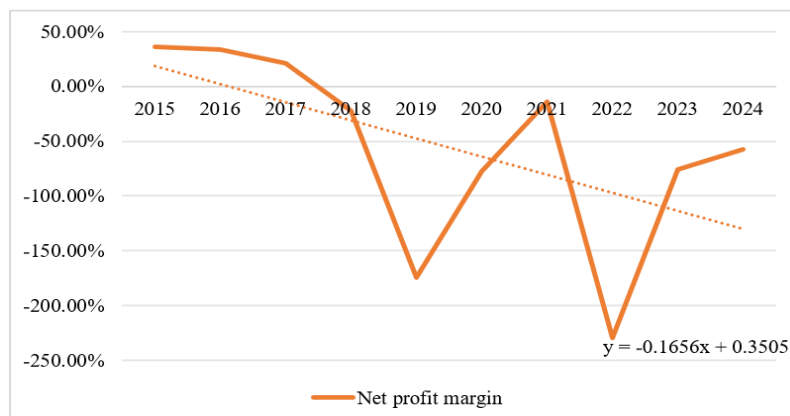


Fig 8. Net profit margin trend chart of Huayi Brothers (Picture credit: Original).
Data from: Annual Report of Huayi Brothers.

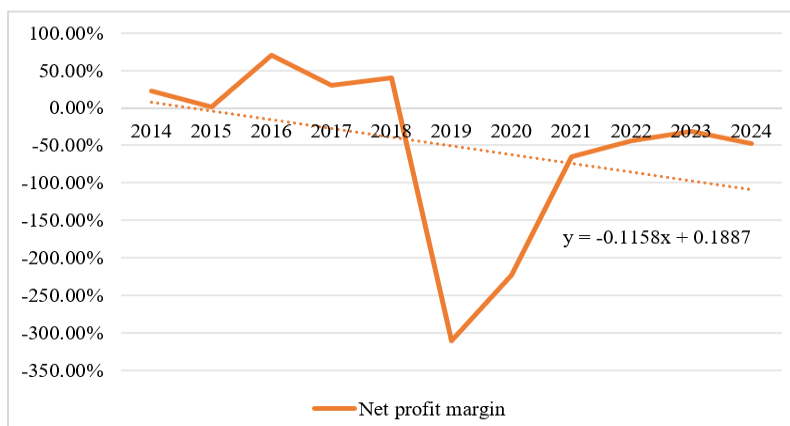


Fig 9. Trend chart of net profit margin of Beijing Culture (Picture credit : Original).
Data from: Annual Report on Beijing Culture.

Net profit is a crucial indicator for measuring profitability. The impairment of goodwill can reduce net profit, thereby leading to a decline in the company's profitability [8]. This paper analyzes the impact of goodwill impairment on the profitability of two companies from 2015 to 2024 based on the financial indicator: net profit margin. As shown in Figure 8 and Figure 9, the net profit margin of Huayi Brothers and Beijing Culture has been declining year by year. After a significant drop in 2018, it began to show negative values and has remained so until now. According to the linear regression analysis, it is predicted that the net profit margin of the two companies will continue to be negative in the coming years, which reflects that the impairment of goodwill has caused a severe impact on the company's profitability, and the restoration of the company's profitability is difficult [9].

4.3. Industry Development Analysis

Goodwill impairment not only causes severe financial losses to companies but also accelerates industry reshuffling. From 2019 to 2024, a total of six cultural and media enterprises have been delisted due to the chain reaction of goodwill impairment, accounting for 12.5% of the total number of delistings on the A-share market during the same period. This delisting wave has triggered a systemic shock in the capital market: the valuation system has been reshaped, regulatory authorities have strengthened the review and constraints on high-premium mergers and acquisitions, and at the same time, it has intensified industry fragmentation. The market concentration of leading enterprises has risen from 32% to 58%, and the proportion of technology investment has increased to 7.5%. Technologies such as AI and blockchain have gradually been implemented in valuation and operation, promoting the industry's transformation towards centralization and digitalization [10].

5. Conclusion

The impairment of goodwill in mergers and acquisitions of cultural media enterprises is the result of the optimistic assumptions of the income approach in high-premium M&A, the fluctuation of the performance of the target company and the changes in the industry environment. Taking Beijing Culture and Huayi Brothers as examples, their excessive reliance on star IPs, neglect of the core competitiveness and risk management of the target company will eventually lead to the "explosion" of goodwill. This reflects the common deficiencies in the valuation and integration process of M&A in the current cultural media field.

In response to the above issues, this article offers the following suggestions: First, adopt reasonable valuation methods and disclosure mechanisms. When the acquirer values the target enterprise, it should conduct a thorough risk assessment, carefully select valuation methods, and adjust the acquisition price accordingly. The real options model can be introduced to quantify the uncertainty of IP development, and the assessment agency should disclose the sensitivity analysis of parameters. In terms of disclosure, blockchain technology can be utilized to record the entire process of the acquisition transaction, enhancing the transparency of valuation. Second, strengthen supervision and risk control. For unreasonably high-premium acquisitions, regulatory authorities should intensify supervision, refine the guidelines for goodwill impairment tests, and require enterprises to disclose the basis for asset group division and cash flow forecast data. At the same time, industry risk warning indicators can be established, such as a mandatory third-party assessment when the proportion of goodwill to net assets exceeds 30%. Third, promote digital transformation and strategic adjustment. Utilize AI technology to enhance content production efficiency and valuation accuracy and minimize issues such as excessive reliance on a single author and hit works by companies like Huayi Brothers and Beijing Culture, as well as overly optimistic future performance valuations of target companies. Enterprises can also build a diversified business matrix to reduce reliance on traditional film and television businesses.

Reference:

- [1] Ji H. Financial analyses and corporate evaluation on sustainable ability to generate excess profit. *Sustainability*, 2020, 12(11): 4647.
- [2] Zhao X, Tham J, Mu Q. M&A goodwill impairment, management ability, and firm performance: empirical evidence from Chinese A-shares. *Journal Of Eastern European And Central Asian Research*, 2023, 10(5): 741-752.
- [3] Yang H R. Research on the impairment of goodwill in the media industry: a case study of Anta Sports. *Shandong Agricultural University*, 2025,14(6): 17-19.
- [4] Wang L T. Research on the motivations and economic consequences of goodwill impairment in the media industry: a case study of Wanda Film. *Soochow University*, 2025, 24(6): 21-27.
- [5] Zhao L B. Research on the high premium mergers and acquisitions risks in the film and television industry: a case study of Huayi Brothers' acquisition of Dongyang Meila. *Guangdong Polytechnic Normal University*, 2024, 16(8): 8-10.
- [6] Yao H X, Li J. The impact of economic policy uncertainty on merger and acquisition goodwill. *Accounting Monthly*, 2021, 16(04): 57-64.
- [7] Ding L. Research on the motives and performance of mergers and acquisitions in the film and television industry: a dual case study of Yuewen Group and Huayi Brothers. *Chang'an University*, 2024, 12(5): 4-5.
- [8] Han X. Analysis of the motivation and consequences of accounting treatment for impairment of goodwill in enterprises. *Accounting And Finance Newsletter*, 2019, 11(10): 66-70.
- [9] Yan Y, Bi W, Wang M, et al. Sustainable Supply Chains for Poverty Alleviation: Considering Branding and Nash Bargaining Fairness Concerns. *Systems*, 2025, 13(3): 182-182.
- [10] Sun J, Xia P, Xue L, et al. The impact of excess goodwill on stock market crash risk from an external auditing perspective. *Finance Research Letters*, 2025, 74(10): 106-108.