



30<sup>th</sup> ANNIVERSARY



DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

(Incorporated in Bermuda with limited liability)  
(Stock Code : 547)

ANNUAL REPORT 2022



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. SEAH Ang  
(Acting Chairman and Chief Executive Officer)  
Dr. SUN Ta-Chien

### Non-executive Directors

Mr. LI Weiqiang  
Mr. CUI Hao  
Ms. Alla Y ALENIKOVA  
Mr. Brian Thomas MCCONVILLE

### Independent Non-executive Directors

Mr. DUAN Xiongfei  
Ms. LAU Cheong  
Dr. Elizabeth Monk DALEY  
Mr. WOO King Hang

## AUDIT COMMITTEE

Mr. DUAN Xiongfei (Chairman)  
Ms. LAU Cheong  
Mr. WOO King Hang

## REMUNERATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)  
Mr. SEAH Ang  
Mr. Brian Thomas MCCONVILLE  
Ms. LAU Cheong  
Mr. WOO King Hang

## NOMINATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)  
Mr. SEAH Ang  
Ms. LAU Cheong  
Mr. WOO King Hang

## COMPANY SECRETARY

Ms. FOK Lai Yan

## STOCK CODE

547

## REGISTERED OFFICE

Clarendon House, 2 Church Street  
Hamilton HM11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 2005, 20/F  
West Tower, Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited  
4th Floor North, Cedar House, 41 Cedar Avenue  
Hamilton HM 12, Bermuda

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

## PRINCIPAL BANKERS

Bank of China Limited  
Bank of China (Hong Kong) Limited  
China CITIC Bank International Limited  
China Construction Bank (Asia) Corporation Limited  
Citibank India  
East West Bank  
EverTrust Bank  
HDFC Bank  
Industrial and Commercial Bank of China Limited  
Royal Bank of Canada  
UBS Switzerland AG

## INDEPENDENT AUDITOR

BDO Limited  
Certified Public Accountants  
Registered Public Interest Entity Auditor

## SOLICITOR

Reed Smith Richards Butler LLP



digitaldomain.com



Digital Domain  
Holdings



Digital  
Domain

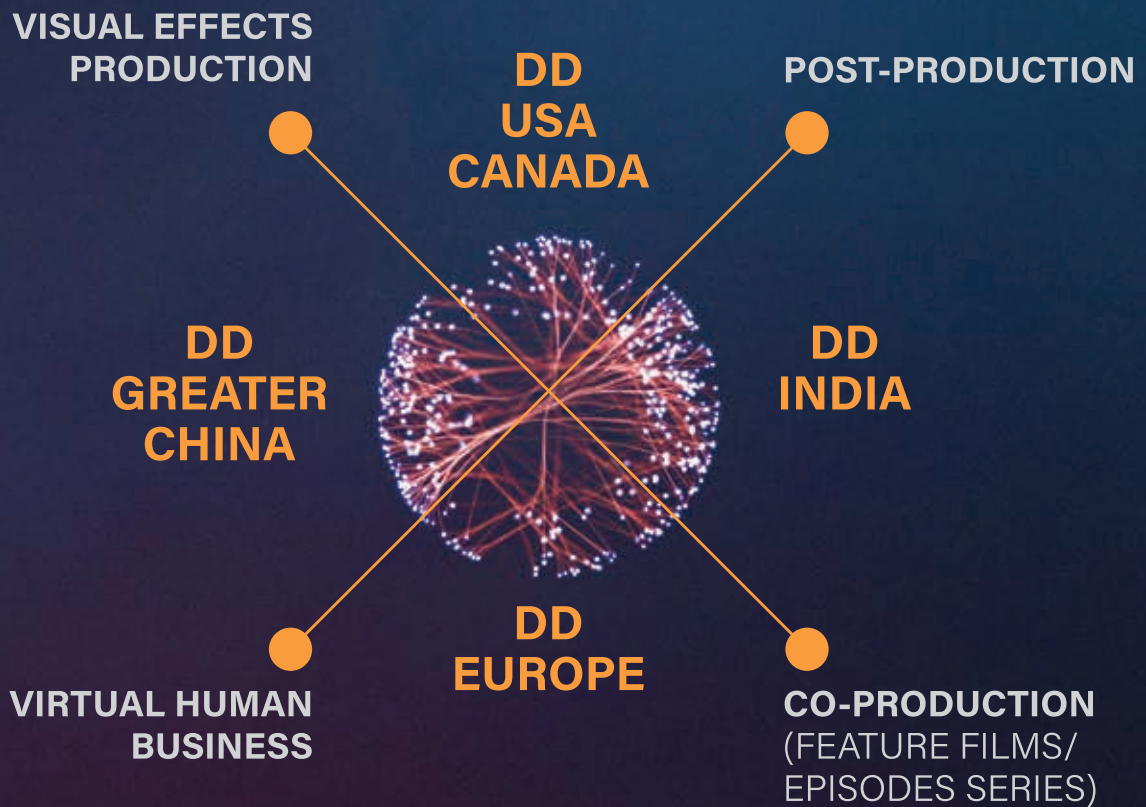


DigitalDomain  
數字王國

**DIGITAL DOMAIN CREATES TRANSPORTIVE EXPERIENCES THAT ENTERTAIN, INFORM AND INSPIRE. THE COMPANY IS A PIONEER IN MANY FIELDS, INCLUDING VISUAL EFFECTS AND VIRTUAL HUMANS.**

A creative force in visual effects and media applications, Digital Domain and its predecessor entities have brought artistry and technology to hundreds of motion pictures, commercials, video games, music videos and virtual reality experiences. Staff artists have won more than 100 major awards, including Academy Awards, Clios, BAFTA awards and Cannes Lions.

Digital Domain has offices in Los Angeles, Vancouver, Montreal, Luxembourg, Hyderabad, Beijing, Shanghai, Shenzhen and Hong Kong. The following is a simplified chart of major businesses of the Group.



**Note**

For details and full names of these businesses/projects/companies, please refer to "Chief Executive Officer's Review" section of this report from pages 6 to 35.

# CHAIRMAN'S STATEMENT

In the global studio's 30th year, Digital Domain continues its rich history of creating world-class premium services and technology advancement for our visual effects and virtual human businesses.

2022 was another extremely tough year for the Group and other businesses. Throughout the past year, we have continued to pursue our long-term strategic objectives, focusing on our clients, and delivered improved financial performance. However, recessionary and inflationary pressures will continue to impact the markets worldwide in which we operate, particularly in the first half of 2023.

While it believes the business environment in 2023 will be continue to be challenging and it expect many unpredictable changes (both threats and opportunities) in the months ahead, Digital Domain will continue our conservative approach and look to enhance our business models and products in order to cope with the changes globally.

By leveraging our integrated business model and global scale, we have a clear strategy to pursue high-growth opportunities in our markets through our two key business lines (visual effects and virtual human). Digital Domain will remain as a top-tier financially independent studio which combines the best digital artistry with the most advanced technologies and that is the root of our success in the past 30 years and coming future.

As I look back on COVID period, I am reminded of the many macroeconomic and operational challenges that Digital Domain had to navigate. That we have emerged even-keeled and on course to achieve our strategic goals is testament to my colleagues' perseverance and commitment. Many team members throughout the Group went through lengthy travel quarantines, faced lockdowns and had to do double-duty when their colleagues fell ill. I take pleasure to thank our staff for their commitment. At the same time, I would like to thank our Board Members for their invaluable advice and support during the year. It is truly an honour to create more chapters of the Digital Domain legacy with each and every one of you.

## SEAH Ang (DANIEL)

Acting Chairman

Hong Kong, 30 March 2023





SEAH Ang (DANIEL)  
*Chief Executive Officer*

## FINANCIAL AND BUSINESS REVIEW

During the year ended 31 December 2022, the Group achieved a revenue of HK\$958,651,000 (2021: HK\$864,214,000), showing an increase of approximately 11% compared to that of the previous year. The gross profit of the Group amounted to HK\$216,862,000 (2021: HK\$123,965,000) during the year under review, showing an increase of approximately 75%. The increase in turnover and gross profit were attributable to the growth in the media entertainment segment. As at 31 December 2022, the total assets of the Group amounted to HK\$1,029,703,000 (as at 31 December 2021: HK\$1,200,099,000). The loss attributable to the owners of the Company for the year was HK\$206,320,000 (2021: HK\$722,004,000). The loss for the year was approximately HK\$215,265,000 (2021: HK\$780,546,000). The loss for the year was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
  - (a) equity-settled share-based payments for the share options granted between 2014 and 2020 to the value of HK\$49,000 (2021: HK\$1,856,000);
  - (b) amortisation and depreciation expenses excluding depreciation related to Right-of-use Assets to the value of HK\$72,821,000 (2021: HK\$66,080,000);
  - (c) there was no impairment losses on goodwill and intangible assets attributable to a cash generating unit (CGU) (2021: HK\$232,472,000) and impairment losses attributable to associates of HK\$12,180,000 (2021: HK\$234,961,000);
  - (d) share of losses of associates of HK\$2,000 (2021: HK\$24,383,000);

- (e) fair value loss on financial assets measures at fair value through profit or loss of HK\$24,430,000 (2021: HK\$27,694,000); and
  - (f) impairment loss on investment in a joint venture of HK\$71,000 (2021: HK\$Nil);
- (ii) administrative and other project expenses; and
  - (iii) operating losses from the media entertainment segment.

## MEDIA ENTERTAINMENT SEGMENT

During the year under review, this segment recorded a revenue of approximately HK\$958,651,000 (2021: HK\$864,214,000) and incurred a loss of approximately HK\$91,356,000 (2021: HK\$398,994,000). The loss included the impairment loss on goodwill and related intangible assets (if applicable) of HK\$Nil (2021: HK\$232,472,000) and research and development costs incurred during the year under review relating to virtual human technology.

“The earnings before interest, tax, depreciation and amortisation (EBITDA)” of the media entertainment segment (including the impairment loss on goodwill and related intangible assets (if applicable) of HK\$Nil (2021: HK\$232,472,000)) for the year ended 31 December 2022 was a profit of HK\$6,148,000 (2021: loss of HK\$304,737,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company’s operating performance. EBITDA should not be considered in isolation or be construed as an alternative to cash flows, net income or any other measure of performance, or as an indicator of the Group’s operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA for the media entertainment segment is calculated based on the loss of the segment for the period but does not account for taxes, interest expenses, depreciation (of the segment’s property, plant and equipment) and amortisation charges (on the segment’s intangible assets).





## VISUAL EFFECTS PRODUCTION AND POST-PRODUCTION BUSINESS

This segment provides visual effects (“VFX”) production and post-production services which include visualisation, pre-visualisation, post-visualisation, visual effects, computer graphics (“CG”), animation, motion capture, facial capture, virtual production, real-time game engine production, live action filming, editing, design, and finishing for major motion picture studios, networks, streaming services, advertisers, brands and games.



### Digital Domain North America (“DDNA”) - USA and Canada:

The following list of recent awards and nominations offers recognition for Digital Domain’s artists and technology:

#### BAFTA Awards

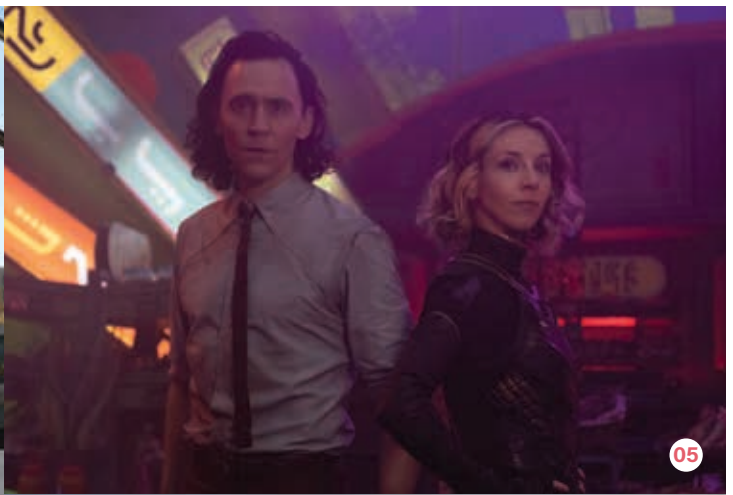
Three films Digital Domain contributed outstanding visual effects to, “Black Widow”, “Free Guy” and 01 “Shang-Chi and the Legend of the Ten Rings”, were longlisted for the BAFTA Awards. Of those three films, one was nominated for the BAFTA Awards.

Digital Domain VFX Supervisor Mr. Nikos KALAITZIDIS and his team were nominated for their work on 02 “Free Guy” for a BAFTA Award in the Special Visual Effects category.

#### Academy Awards (Oscars)

Four of our Digital Domain VFX Supervisors, Mr. Nikos KALAITZIDIS, Mr. Scott EDELSTEIN, Mr. David HODGINS and Mr. Kelly PORT, participated in the Academy Visual Effects Bake Off, which highlights the top ten best films in the category for their work on “Free Guy”, “Spider-Man: No Way Home”, and “Black Widow”, respectively. Of those three films, two were nominated for the Academy Awards.

VFX Supervisor Mr. Nikos KALAITZIDIS and the Digital Domain visual effects team were nominated for an Academy Award in the Visual Effects category for their work on “Free Guy”.



VFX Supervisors Mr. Kelly PORT, Mr. Scott EDELSTEIN and the Digital Domain team were nominated for an Academy Award in the Visual Effects category for their work on **03 "Spider-Man: No Way Home"**.

### The Emmy Awards

Supervised by Mr. Manolo MANTERO, Season 4 of the **04 Netflix series' "Stranger Things"** was nominated for "Outstanding Special Visual Effects in a Season or Movie".

### The Visual Effects Society Awards

Mr. Paul CHAPMAN, Mr. Tom TRUSCOTT, Mr. Biagio FIGLIUZZI, and Mr. Attila SZALMA received the award for Outstanding Compositing & Lighting in an Episode for their work on **05 "Loki"**.

Mr. Kelly PORT and Mr. Scott EDELSTEIN received a nomination for Outstanding Visual Effects in a Photoreal Feature for their work on **"Spider-Man: No Way Home"**.

Mr. Ryan DUHAIME, Mr. James STUART, Mrs. Bo KWON and Mr. Tristan John CONNORS received a nomination for Outstanding Model in a Photoreal or Animated Feature for their work creating the Red Room in Marvel Studios' **06 "Black Widow"**.

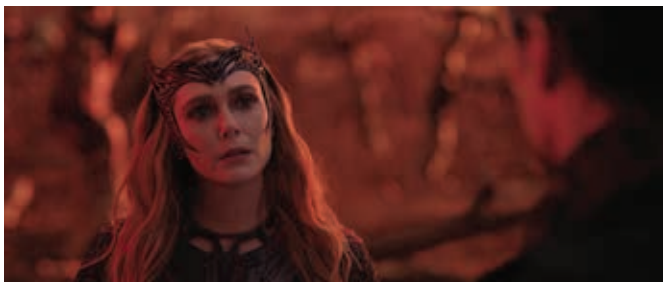
Mr. Michael MELCHIORRE, Mr. Simon TWINE, Mr. Daniel HARKNESS and Mr. Tim CROWSON received a nomination for Outstanding Compositing & Lighting in a Feature for their work on **"Black Widow"**.

Mr. Scott INKSTER alongside the team at The Third Floor received a nomination for their work on **"Loki"** in the Outstanding Virtual Cinematography in a CG Project category.

The artists of Digital Domain 3.0, Inc. ("DD3I"), a subsidiary of the Company, have provided VFX services for work including:



- **"Morbius"** – VFX Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their team completed work on this highly anticipated Sony Pictures film directed by Daniel ESPINOSA, which was released in April 2022.



- **"Doctor Strange in the Multiverse of Madness"** – VFX Supervisor Mr. Joel BEHRENS and his team completed work on the latest instalment in the Doctor Strange series. The film was released in May 2022.



- **"Fantastic Beasts: The Secrets of Dumbledore"** – VFX Supervisor Mr. Jay BARTON and his team completed work on Warner Bros.' third instalment in the "Fantastic Beasts" series, which was released in April 2022.

- **"Spider-Man: No Way Home"** – VFX Supervisors Mr. Kelly PORT, Mr. Scott EDELSTEIN and their team worked on the third instalment (in 2022) of the Spider-Man franchise released in December 2021.

- **"Ant-Man and the Wasp: Quantumania"** – VFX Supervisor Mr. David HODGINS and his team are working on the film that follows the adventures of Ant-Man and the Wasp due for release in 2023.



- **"Black Adam"** – VFX Supervisor Mr. Nikos KALAITZIDIS and his team worked on the "Shazam!" spin off starring Dwayne "The Rock" Johnson. The film was released October 2022.

- **"Chupa"** – VFX Supervisor Mr. Mitch DRAIN is working with Netflix Studios client side on an upcoming film, which is set to release in 2023.



- **"Children of the Corn"** – VFX Supervisor Mr. Mitch DRAIN and his team delivered visual work on this horror film released in March 2023 globally.



- **"Black Panther: Wakanda Forever"** – VFX Supervisor Mr. Hanzhi TANG and his team worked on the sequel to the Marvel film, which was released in November 2022.

- **“Extraction 2”** – VFX Supervisor Mr. Jean-Luc DINSDALE is working on the sequel to the Netflix action thriller due out in 2023.
- VFX Supervisor Mr. Jay BARTON began work on an upcoming Warner Bros. film due out in 2023.
- VFX Supervisors Mr. Joel BEHRENS, Mr. Matthew Butler and their teams began work on an upcoming Netflix film.
- VFX Supervisor Mr. Scott EDELSTEIN began work on an upcoming Sony Pictures film.
- VFX Supervisor Mr. Nikos KALAITZIDIS began work on an upcoming Lucasfilm series.
- VFX Supervisor Mr. Aladino DEBERT began work on an upcoming Amazon series.

**Digital Domain’s visual effects teams have completed work on several episodes for hit television and streaming shows such as:**



- **“Ms. Marvel”** – VFX Supervisor Mr. Aladino DEBERT and his team completed work on the first season of one of the newest Marvel Studios/Disney+ series.



- **“She-Hulk: Attorney at Law”** – VFX Supervisor Mr. Phil CRAMER led a team of artists to create the visual effects for the Marvel Studios series, which was released in August 2022.



- **“Stranger Things”** – VFX Supervisor Mr. Manolo MANTERO and Digital Domain artists completed work on season 4 of the popular Netflix series.

- The Digital Domain team began work on an upcoming Marvel Studios series due out in 2023.
- The Digital Domain team completed work on a few shots for Halloween special **“Werewolf by Night”** that was featured on Disney+.
- The Digital Domain team began and completed work on **“The Last of Us”** and HBO series.

**Digital Domain’s visualisation studio provided previsualisation services for features and shows such as:**

- Marvel Studios’ **“Black Panther: Wakanda Forever”**
- Marvel Studios’ **“She-Hulk: Attorney at Law”**
- Marvel Studios’ **“Ant-Man and the Wasp: Quantumania”**
- Marvel Studios’ **“Doctor Strange in the Multiverse of Madness”**
- An upcoming Netflix Studios’ film
- An upcoming HBO series
- An upcoming Marvel Studios’ film

The team also provided motion capture services for a number of projects including:

- Marvel Studios' "Ms. Marvel".
- Marvel Studios' "Ant-Man and the Wasp: Quantumania".
- An upcoming Disney project with **Animatrik**.
- An upcoming **Electronic Arts** game with **Animatrik**.
- An upcoming **Skydance** game project with **The Werk House**.
- An upcoming game project with **MiHoYo Games**.
- An upcoming project with **The Werk House**.
- An upcoming Metaverse project with **Animatrik**.
- An upcoming Marvel game with **The Werk House**.
- An upcoming Bethesda Game Studio project with **Animatrik**.
- An upcoming **Square Enix** game.
- An upcoming **Netflix Studios'** film.

We provided VFX services for advertisements, special venue projects and games. Work completed in 2022 include:



- For **eToro**, the team delivered a Super Bowl LVI spot where they created crowd simulations of people flying through the sky.



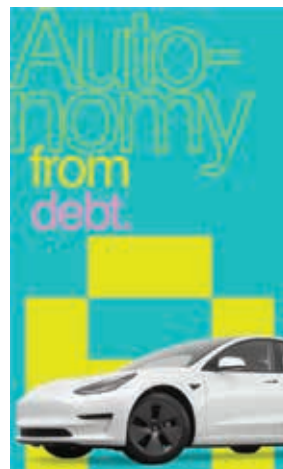
- For **Wendy's**, the advertising and games team worked on finishing for various spots, colour, clean up, and delivery on a wide array of spots with an extensive list of deliverables.



- For **Florida Power & Light**, the team delivered a television commercial creating a full CG world.



- For **Wwise**, Digital Domain delivered logo animation.
- For **Advanced Micro Devices, Inc.**, the team worked on concept development for the company's next generation of graphics processors.



- For **Autonomy**, the advertising and games team designed and animated a mo-graph spot for outdoor video billboards.

## Possible Indemnification

A wholly-owned subsidiary of the Company based in the United States (the "US Subsidiary") has used a combination of physical equipment and intellectual property to record images of human faces (the "Disputed IP"). The Disputed IP is one of several different technologies available to capture elements of a human face prior to visual effects enhancements that create the final image. The US Subsidiary's use of the Disputed IP had been under a 2013 license from an unaffiliated company based in the PRC (the "Original Owner").

In 2014, a dispute over the ownership of the Disputed IP between the Original Owner and another company based in the United States (the "Claimant") resulted in the filing of a lawsuit (the "Lawsuit") in the United States District Court, Northern District of California. Neither the Original Owner nor the Claimant is a member company of the Group. Another subsidiary of the Company agreed in 2015 to purchase the Disputed IP. The completion of the transfer of such Disputed IP is subject to the favourable outcome of the Lawsuit. On 11 August 2017, the court issued a statement of decision which concluded that the Claimant owned the Disputed IP. The US Subsidiary had already used alternative technologies. On appeal of the statement of decision, the court of appeal upheld the decision of the trial court that the Claimant was the owner of the Disputed IP.

During 2017, the Claimant filed four separate lawsuits against certain clients of the US Subsidiary relating to the use of the Disputed IP for certain visual effects projects that the US Subsidiary had completed (the "Other Lawsuits"). The US Subsidiary's clients filed two separate motions to dismiss the lawsuits brought against them. In response to these motions, the court dismissed a significant portion of the claims, but allowed the Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. The Claimant later voluntarily dismissed several of its claims.

The US Subsidiary's clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court initially granted that motion with respect to certain feature film projects that were the subject of the lawsuit but, after reconsideration proceedings took place, ultimately granted the motion as to all films except one. Thus, the claims against the US Subsidiary's clients in the Other Lawsuits have been narrowed.

On 21 April 2022, the Claimant filed a new lawsuit against one of the US Subsidiary's clients and its affiliates' copyright infringement against those entities with respect to two films that are not part of the Other Lawsuits (the "New Lawsuit"). However, the US Subsidiary did not use the Disputed IP on either of these films. On 21 February 2023, the court dismissed the New Lawsuit on the grounds that

the facts, as plead, in the lawsuit did not give rise to legally-actionable claims. The court gave the Claimant until 4 April 2023 (subject to a possible further extension) to file a new amended complaint that rectifies the pleading defects that the court identified.

Discovery is now taking place and counsel for the US Subsidiary is assisting counsel for the clients to defend the Other Lawsuits and the New Lawsuit. The Court has scheduled the trial of the Other Lawsuits to commence on 4 December 2023.

In its production services agreements for the films that are the subject of the Other Lawsuits, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested that the US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits. The US Subsidiary has submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company initially acknowledged its obligation to provide a defence for the US Subsidiary's clients, but subsequently communicated to the US Subsidiary that it no longer believed that coverage existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

In its production services agreements for the films that are subject of the New Lawsuit, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested that the US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the New Lawsuit. The US Subsidiary has submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. No determination regarding insurance coverage for the New Lawsuit has been communicated to the US Subsidiary.

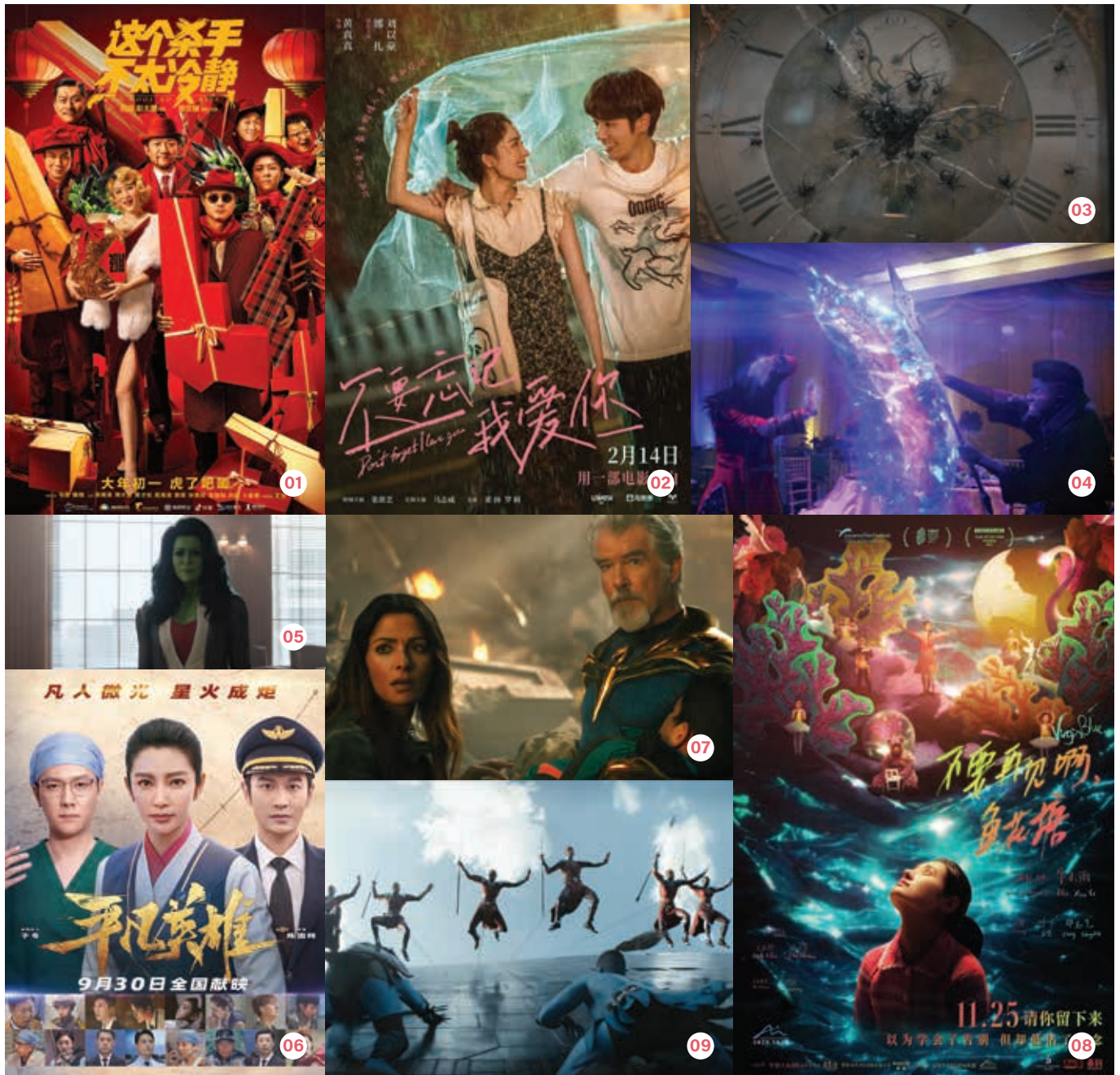
The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits and the New Lawsuit.

On 20 January 2022, the Claimant, the US Subsidiary's clients, the US Subsidiary and its insurance company commenced a settlement process through a neutral third party mediator. Although this mediation process was initially unsuccessful, the parties anticipated that another mediation will take place in the future.

With the establishment of Digital Domain China (“DD China”), the Group has a strong operating platform in China.

DD China provides VFX production and post-production services for commercials, TV drama series, and feature films in China, including offline and online editing, compositing, colour grading, design, music and audio, CG and VFX production. It also provides production services for the making of commercials, VR/360 degree videos and feature films.

Visual effects and colour grading services delivered for feature films and episodic this year include 01 “Too Cool To Kill”, 02 “Don’t Forget I Love You”, 03 “Stranger Things Season 4”, 04 “Ms. Marvel”, 05 “She-Hulk: Attorney at Law”, 06 “Ordinary Hero”, 07 “Black Adam”, 08 “Virgin Blue”, 09 “Black Panther: Wakanda Forever”, as well as the upcoming “Ride on”, “Ali’s Dream Castle”, “The Furious Sandstorm”, “Qian Qiu Ling”, “Wang Dao” and “Lost You-Forever”.



In 2022, DD China continues to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile clients, including: **Bananain, Bosch, 01 Bosideng, Burberry, Budweiser, Ctrip, Curél, Fanta, HARBIN, HONOR, 02 HUAWEI, IKEA, IM, Jay Chou "Greatest Works of Art", Kiehl's, LANCÔME, LEGOLAND Shanghai Resort, L'ORÉAL, Luzhou Laojiao, 03 Meizu, 04 MI, Nutrilite, 05 Papergames "Bloom Up", Samsung "Starry Night" ft. Lu Chuan, 06 Starbucks, Tencent Games "SPARK 2022" and XPENG.**



01



04



02



05



03



06

### Digital Domain China's professionals participated in several publicity activities:



- From December 2021 to March 2022 – The travelling exhibition **BEFORE LIGHT IN MOTION** held by eyepetizer roared into Hangzhou Powerlong Art Center, with the virtual reality experience **"Micro Giants"** featured at the venue of Rabbit Hole. The exhibition ended successfully in March 2022.

- In May 2022 – Mr. David Rivero MARTIN, Director of Digital Intermediate (D.I.), revealed his to-do list as colourist through MI's documentary series Xiaomi Fan Story **"Digital Inker"**, which was shot on Xiaomi 12 Pro with himself credited.
- In May 2022 – The Jiangxi Cultural Industry Fair come to its first edition in Shangrao from 25 May to 29 May. In order to spotlight how advanced technologies, such as artificial intelligence, transform the creations, virtual reality experience **"Micro Giants"** and **Virtual Human Teresa Teng** were showcased.
- In August 2022 – Mr. David Rivero MARTIN discussed the innovations that reshaped filmmaking through **CGTN's** documentary series.
- In November 2022 – Mr. Wang GUO, Digital Domain Visual Effects Supervisor, was invited to join the jury of **2022 Golden Lion Awards**.



## Digital Domain India:

Entering into its sixth year, Digital Domain India ("DD India") has established itself as a dependable VFX service provider. Over the years DD India has played a pivotal role in delivering significant amount of work and is a critical part of our global resource pool supporting the North American operations. In addition to the role it plays internally, DD India continues to provide world-class VFX services to its international and domestic clientele.

In 2023, in addition to the support it provides to our internal North American teams, the focus is to double DD India's current capacity and make a significant shift in executing more shots and sequence production works. Aim is to increase and improve the Group's VFX services' top line and margins while organically scaling up our headcount globally. In 2022, DD India worked on two of the biggest commercial hits features coming out of India, i.e. 01 "RRR" and "KGF Chapter 2", and International shows such as 02 "House of the Dragon" and the critically acclaimed 03 "Thirteen Lives".

DD India provides services across platforms for features, television, web and over-the-top (OTT) media. DD India considers data security to be of the utmost importance and is a certified facility under the Trusted Partner Network (TPN), a joint venture between two major entertainment industry associations, The Motion Picture Association of America, Inc. (MPAA) and the Content Delivery & Security Association (CDSA), the worldwide leaders in third-party entertainment industry assessments. This is in addition to Walt Disney Studios Motion Pictures (Disney) and Marvel Studios, LLC (Marvel) content security certification.



# B

## NEW MEDIA AND VIRTUAL HUMAN BUSINESS

The Group remains strongly committed to business development in the area of virtual human technology, and continues to seek opportunities for financing and collaboration with strategic partners, and the recruitment of appropriate global talent.



### North America Region:

- 01 **"The Quarry"** – Digital Domain and **Supermassive Games** partnered up in 2019 to embark on their biggest, highest fidelity video game. Released on 10 June 2022, our team captured 32 hours of facial and body performance capture across 15 characters, and utilised our **Masquerade 2.0** proprietary facial capture process to solve 4,500 shots with machine learning and only 27 shots were touched by an animator throughout all talent acquisition on this truly massive new game project. **"The Quarry"** was the number one downloaded game in the PlayStation store in North America, and number two in Europe.
- Digital Domain has partnered with a large theme park on a new attraction, which will showcase some of Digital Domain's most recent groundbreaking achievements in real-time technology.
- Digital Domain is partnering with **ITEC Entertainment Corporation** to create a Pepper's Ghost type experience at **Billy Graham Library** in North Carolina. This will serve as an homage to the late Reverend Graham. In addition to a body double, we employed VHG's own proprietary **Charlatan** process to bring a more authentic lifelike experience to the project.
- Digital Domain is continuing its relationship with the team from **Studio Wildcard** as they prepare for the highly anticipated release of **ARK 2**, the follow up to its award-winning predecessor, ARK. Currently, Digital Domain is assisting with the creation of several "in-game" assets. Digital Domain anticipates being intimately involved in all aspects of the project through the game's release in spring of 2025.

### Digital Domain's Virtual Human Group ("VHG") in North America – research and development aided multiple projects and resulted in new developments in 2022:

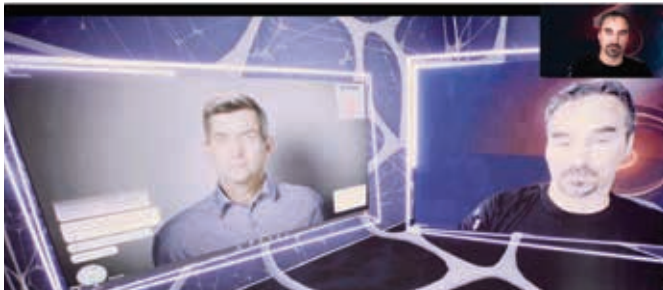
- VHG has partnered with the episodic team to use **Masquerade 2.0** on the Marvel Studios' series 02 **"She-Hulk: Attorney at Law"**. VHG's body deformations also took a huge leap forward with the continued development to their machine learning cloth systems, which was also used on the series. Additionally, the team tested **Charlatan Geo**, which captures geometry of a performance from a single camera.
- VHG utilised **Masquerade 2.0** on **Supermassive Games' "The Quarry"** in partnership with the New Media Team.
- Digital Domain worked with a large theme park client to create digital real-time humans based on a long running movie franchise. The attractions will go live in 2024.



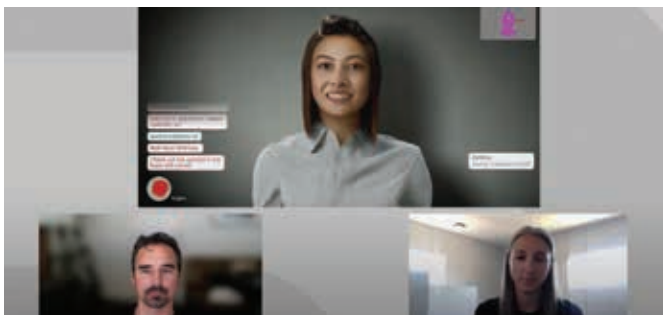
- VHG created and revealed a new autonomous character **"Zoey"**. The team developed everything from look development to animation. Users can now have a full conversation with Zoey. For Zoey's voice, VHG partnered with WellSaid Labs.

**VHG participated in several events this year, including:**

- Mr. Matthias WITTMANN presented the autonomous **Virtual Human “Douglas”** for the Hong Kong’s **South China Morning Post**.
- Ms. Melissa CELL and Mr. Deke KINKAID participated in a recruiting event with **WomenHack**.



- Ms. Melissa CELL and Mr. Matthias WITTMANN participated in a virtual presentation and Q&A for **Design Academy Eindhoven’s Research Festival 2022**, where they presented the autonomous **Virtual Human “Douglas”**.



- Ms. Melissa CELL and Mr. Matthias WITTMANN participated in a virtual presentation and Q&A for **Film and Media Exchange (“FMX”)** where they revealed Digital Domain’s latest autonomous **Virtual Human Zoey**, in a presentation titled “Giving a Face to AI”.



- Ms. Melissa CELL participated in **Siggraph Asia Daegu** conducting an in-person presentation and Q&A showcasing **Virtual Human Zoey** entitled **“Leveraging Visual Effects Technology to Create High-Quality, Autonomous Virtual Humans”**.

**The Greater China Region:**

**The virtual human team of the Greater China region participated in several events or projects (including those with our business partners):**



- From January 2022, Digital Domain cooperated with Firenze Culture to create a **virtual human of the Mona Lisa** in the **Renaissance Alive Art Exhibition**, using artificial intelligence to make the Mona Lisa come to life in modern times and take pictures with the visitors.



- March 2022, at **Cloudmile’s “Cloud the future” conference**, Digital Domain’s **virtual human host “Cloudy”** co-hosted the opening, creating memorable moments through the interaction with the guests.



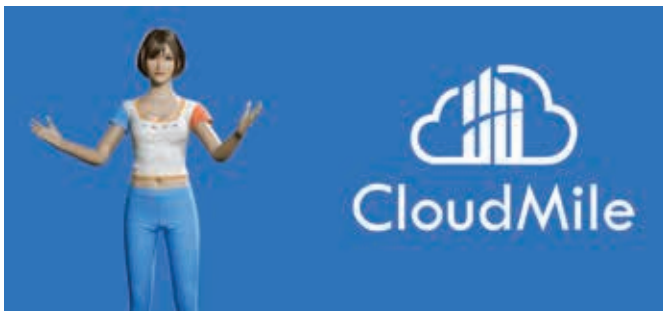
- From March 2022, Digital Domain’s **virtual human IP “Metaverse Girl Eve”** began to share photos of her own life on social media platforms. Through the power of art and technology, Digital Domain once again created a new generation of virtual internet celebrities for the metaverse world.



- March 2022, at **Taishin Bank's 30th anniversary press conference**, Taishin Bank **virtual human tellers "Ms. Rose" and "Mr. Sunny"** served as important performance guests, introducing the corporate philosophy and values of Taishin Bank's 30th anniversary in a wonderful way.



- March 2022, the emerging designer and brand, **Claudia WANG (王子欣)**, cooperated with Digital Domain to create her new collection show at **Taipei Fashion Week AW22**, featuring **Metaverse Girl Eve** to walk the catwalk together. This was the first appearance of Eve in the fashion week, fully demonstrating the stage charm of combining technology and art. She put on Claudia's brand clothing, interpreting the clothing with retro classic plaid and innovative colours, making the performance across dimensions become a new generation of fashion topics.



- From April 2022, **Cloudmile** started to work with Digital Domain in a series of marketing campaign videos on their YouTube channel. The lovely **Vtuber "Cloudy"** was the host to introduce various functionalities and applications of Google Workspace with different scenarios.

- April 2022, Digital Domain's virtual human host showed up on a giant LED screen for the opening of **Future Commerce Exhibition in Taipei**. By interacting in real-time with its human host counterpart and the audience, switching roles and scenes in the opening ceremony, virtual human technology echoed the theme of this exhibition – **"Beyond Infinity"**, presenting the infinite possibilities of the metaverse.



- April 2022, Digital Domain collaborated with **Asiabots** and **LiteMAX** and presented the latest technology integration – **"AI virtual human"** for the first time at the **2022 Future Commerce Exhibition**. AI virtual human solution provides new possibilities to the business field and become an important part of future commerce.



- May 2022, LINE launched the **LINE MUSIC LIVE** commercial video to social media. Inviting the Digital Domain avatar metaverse girl Eve as the protagonist of the advertisement, Digital Domain used its real-time capture and render technology to drive **Virtual Human Eve** to perform with the band together.

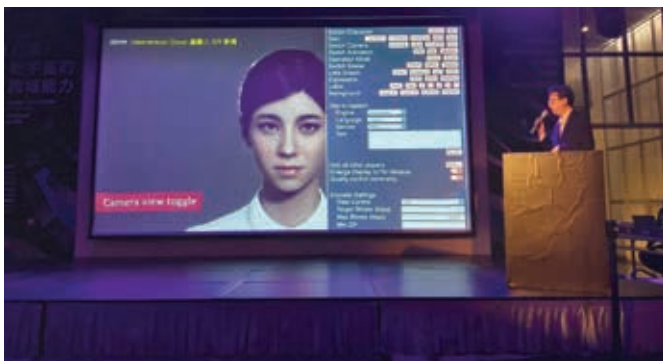


- May 2022, at **Acer's Global Press Conference 2022 "next@acer"**, the **3D Virtual Human Star** showed up on the computer screen and talked with the real host, having a lively interaction.

- May 2022, by integrating Digital Domain's **Momentum Cloud Service** and **Acer's SpatialLabs** at the **COMPUTEX 2022**, virtual humans can be seen in a glasses-free stereoscopic 3D display and the viewer can interact with the virtual human with simple keystrokes in front of the 3D-screen.
- June 2022, **Digital Solutions Multimedia Asia (DSMA), Intel Corporation and World Peace Industrial Group (WPI)** held a forum to discuss the future smart retail solutions from the various aspects of Internet of Things (IOT), digital transformation and AI. At the forum, Digital Domain demonstrated the **"AI virtual human"** as a solution in the smart retail industry.



- June 2022, Digital Domain collaborated with **Abico Group** to exhibit **AI virtual human** at the **2022 ESG Summit** in Taipei, inviting visitors to inquire about its AI virtual human for the various core concepts of Environmental, Social and Governance (ESG).



- Digital Domain was invited to participate in the annual forum **"Visual Effects - Across boundaries to the new metaverse"** held by **Adobe Creative Cloud**, introducing 3D forward-looking trends-virtual human production and applications. The sharing aimed for bringing inspiration to more partners in the visual effect field: "Metaverse is still on the way, but virtual humans are already around us".

- Digital Domain was invited to participate in the conference and forum held by the **Taiwan Hotel Technology Association**, to demonstrate the potential of using autonomous virtual humans for hotel check-in in the future.
- October 2022, in the metaverse virtual branch created by **Taishin Bank** at the **"FinTech Taipei 2022 Taipei Financial Technology Exhibition"**, virtual human **Rose** is transformed into a "navigator" to introduce the feature of the virtual branch to the participating public audiences. In addition, Rose, as a bank attendant, could interact with people through AI functions, bringing a new virtual banking service experience.
- Digital Domain and **Ubestream** cooperated on a demonstration project to create an intelligent **virtual tour guide - Gao Yin** for the **Kaohsiung Music Center**. Gao Yin is able to introduce the specific events, stores or advertising information. Public can also inquire about business hours and transportations. This project was also featured in Public Television Service's AI in-depth coverage.



- In December 2022, the new music project **"NANA JUMP"** led by the well-known music group **Warner Music Taiwan** was released. Warner Music Taiwan and Digital Domain jointly create a new generation of **virtual singer "Nana"**. In the "NANA JUMP" project, Nana will cooperate with many new generation singers to cover many classic Taiwanese songs, and during the show Nana performed the song "A Kind of Sorrow". The song album was officially released on major music platforms on 6 December 2022.



- From December 2022, the **virtual idol "Murichi"** produced by Digital Domain started sharing her character design sketches and live recording videos on social media platforms. Digital Domain used the game engine system to create a real-time control function, allowing Murichi to record various videos in real time. Even though Murichi is cartoon material, the powerful scenes make the character's performance fascinating.



- Through **WAS partner**, the virtual human technology has been demonstrated to many well-known TV stations and different entertainment groups in Japan, including NHK, Fuji TV and TV Tokyo. These agencies are very interested in Digital Domain's virtual human technology and its combination of VR products or metaverse applications. Besides, the creation of specific applications such as "automatic virtual announcers" or "virtual idols" may be the key to the future development of these industries. Business opportunities include fully customised virtual humans, virtual human contents production, and virtual human SDK (Momentum Cloud), etc.



- V2 Indonesia** expanded a new business called **Digital Industry** in 2022. Digital Industry is expected to bring V2 Indonesia becoming the leading technology company in multimedia and advanced 3D technology. V2 Indonesia showcased Digital Domain's Momentum Cloud solution to key customers in Indonesia at The Digital Transformation Forum, digital concept store in shopping mall - Plaza Indonesia and other major trade events.

- Momentum Cloud System** is a virtual human SDK by taking text, voice and gesture as input and generates real-time life-like lip-synced virtual human video stream as output. It can be easily integrated into conversational AI chatbot, Natural Language Processing (NLP) and other web-based systems requiring a visual cue for automated interaction.

# C

## DIGITAL DOMAIN STAFF FROM THE GLOBAL STUDIO PARTICIPATED IN SEVERAL EVENTS

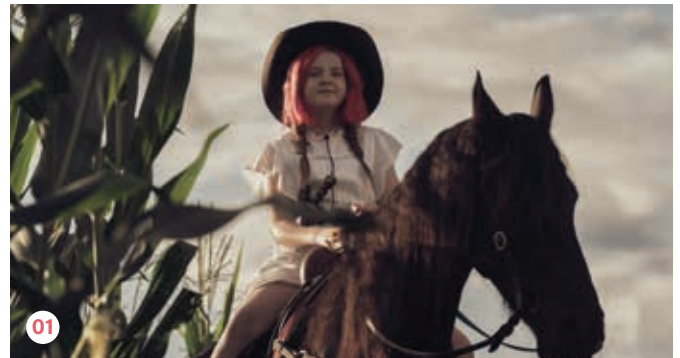
- Mr. Scott EDELSTEIN participated in a virtual panel with the **Visual Effects Society** where he discussed Digital Domain's work on **"Spider-Man: No Way Home"**. He also presented Digital Domain's work on **"Spider-Man: No Way Home"** to University of Southern California ("USC") film students.
- Mr. Nikos KALAITZIDIS joined a **Disney** virtual panel moderated by Shawn Levy to discuss Digital Domain's work on **"Free Guy"** alongside other VFX supervisors on the project.
- Mr. Kelly PORT participated in a virtual panel by the **VIEW Conference**, which featured the five VFX supervisors contending for the Academy Awards. He also hosted a guest lecture at USC for students that highlighted the VFX process and his work on the **"Avengers"** and **"Spider-Man: No Way Home"**.
- Ms. Heldden BYUMVUHORE participated in **Festival Vues d'Afrique** where she spoke to students and interested adults from minority backgrounds interested in the VFX industry and helped answer questions in regards to entering the industry.
- Ms. Samantha MCCONNELL joined career day at **Henry H. Filer Middle School** and discussed her background in visual effects.
- Mr. Aruna INVERSIN participated in career day at **Culver City Unified School District** and talked to students about his career and roles as Creative Director and Visual Effects Supervisor.
- Mr. David CUNNINGHAM joined **"Spider-Man: No Way Home"** supervisors for an **FMX 2022 presentation**. At FMX, Mr. CUNNINGHAM also showcased Digital Domain's work in **SideFX tool Solaris** in a separate presentation title, **"Solaris at Digital Domain"**.

# D

## CO-PRODUCTIONS

### Feature Films:

The Group partnered with **Mr. Lucas FOSTER** (a producer of famous films, such as "Ford v Ferrari", "Mr. & Mrs. Smith", "Man on Fire", etc.) to produce a film **01 02 "Children of the Corn"**. Shooting of the film took place in Australia during the pandemic in 2020 and the film was released globally in March 2023.



The film **"Ender's Game"** was released in November 2013 in the US. The film continues to generate income from non-box office channels both within and outside the US. "Ender's Game" is based on a best-selling, award winning novel. It is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, Abigail Breslin and Ben Kingsley. It is distributed by Summit Entertainment in association with OddLot Entertainment and is a Chartoff Productions/Taleswapper/ OddLot Entertainment/K/O Paper Products/DD3I production. The profit sharing from DD3I's participation rights in "Ender's Game" was recognised under "Other income and gains" in the Group's consolidated income statement.



## DDCP AND INVESTMENTS IN EUROPE

### Formation of DDCP

Digital Domain Capital Partners S.à r.l. (“DDCP”), an indirect wholly-owned subsidiary of the Company, was incorporated in the Grand Duchy of Luxembourg in 2021.

### Investment in asknet

On 3 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 248,431 common shares (“asknet Sale Shares”) of asknet Solutions AG (“asknet”), a publicly traded German e-commerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) for an aggregate consideration of approximately EUR3,709,000 (approximately HK\$34,586,000), i.e. amounting to approximately EUR14.93 (approximately HK\$140.79) per asknet Sales Share. The asknet Sale Shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021. On 30 May 2022, asknet announced that its executive board with the approval of the supervisory board decided to delist its shares on the Frankfurt Stock Exchange with effect from 31 August 2022 because the economic benefit of the inclusion of its shares in the Regulated Unofficial Market of the Frankfurt Stock Exchange no longer justifies the associated expenses. As at 31 December 2022, the asknet Sale Shares represented approximately 7.6% of the total issued common shares of asknet. Founded in 1995, asknet is an established procurement, e-commerce and payment specialist in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors.

### Investment in HLEE

During the first half of 2021, DDCP as the purchaser entered into two sale and purchase agreements with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell a total of 265,000 bearer shares (“HLEE Sale Shares”) of Highlight Event and Entertainment AG (“HLEE”), a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) for an aggregate consideration of EUR7,214,000 (approximately HK\$67,808,000), i.e. amounting to approximately EUR27.22 (approximately HK\$255.88) per HLEE Sale Share. The HLEE Sale Shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021. As at 31 December 2022, the HLEE Sale Shares represented approximately 2.8% of the total issued bearer shares of HLEE. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.



## INTERESTS IN ASSOCIATES

The Group invested in several associates and the review of the significant associates are summarised as below. The Group will continue to monitor the development and opportunities in this challenging operating environment with respect to the Group's associates.

### Virtual Human Teresa Teng

In 2014, Digital Domain Media (HK) Limited ("DDM"), (originally an indirect wholly-owned subsidiary of the Company, now an associate of the Company since 1 February 2019), and TNT Production Limited ("TNT") entered into a cooperation framework agreement for the formation of a joint venture company to engage in the production and utilisation of 3D hologram technology relating to the music works of the deceased Taiwanese pop diva, Miss Teresa Teng ("Virtual Human Teresa Teng"). The joint venture company, DD & TT Company Limited ("DDTT"), was formed in 2015. DDTT's business focuses on the production of a series of Virtual Human Teresa Teng events and activities, targeting audiences in Chinese communities around the world. The latest 3D hologram technology can be widely applied in the entertainment business, including but not limited to concerts, albums, movies and advertisements.

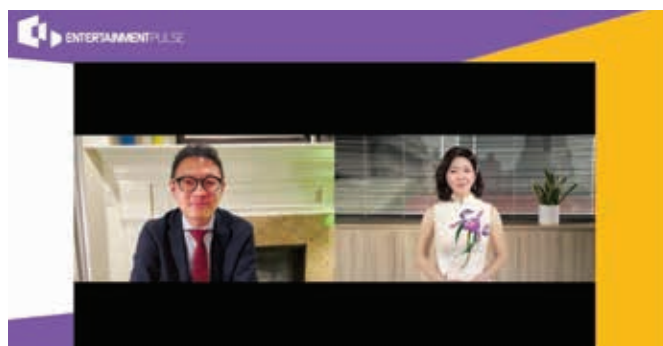
- The Digital Domain Group's virtual human team of the Greater China region keep on developing the latest virtual human technology, combining deep learning and real time rendering technology. With the new virtual human technology developed and owed by Digital Domain, a new version of the Virtual Human Teresa Teng (under associate business) was developed and "she" can be controlled live by the **Mystique Live System** and perform in various types of shows, such as live streaming concert, hologram show etc.



- From January 2022, Digital Domain cooperated with Teresa Teng Foundation and VS Media to operate "**Terra's life (小鄧Life)**" social media account. By sharing daily life or releasing her special projects with fashion designers and celebrities, **Virtual Human Teresa Teng, aka Terra**, can communicate with her fans more closely.



- February 2022, Virtual Human Teresa Teng performed her songs at a special program for celebrating 6th anniversary of "**Yahoo TV Mickey Live Show (佼心食堂)**" with famous singers - Henry HSU (許富凱) and Julia PENG (彭佳慧). Henry HSU said that he had been a fan of Teresa for a long time and thought about singing with her. He was very touched that his dream could finally come true through Digital Domain's advanced technology.



- March 2022, Daniel SEAH, CEO of Digital Domain, gave an online speech at **Entertainment Pulse**. He talked about how the animation industry unites entertainment and technology, also expanding the territory of Digital Domain to combine artificial intelligence and multiple applications. He even invited Virtual Human Teresa Teng to meet the audience together. The conversation across time and space, as well as the wonderful singing of Virtual Human Teresa Teng, also attracted tens of thousands of online and offline audiences to watch together.



- March 2022, Virtual Human Teresa Teng teamed up with **Metaverse Girl Eve** to support the cutting-edge fashion designer **Claudia WANG (王子欣)** in **Taipei Fashion Week**. This time, Virtual Human Teresa Teng did not perform as a singer but as a model who dressed up in the clothing created by Claudia WANG, the show of the 2022/23 Autumn Winter Collection.

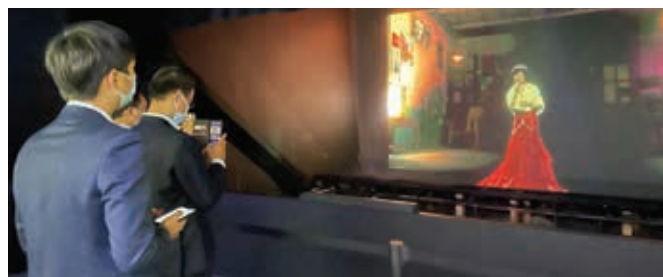


- During the 2022 Mid-Autumn Festival, the **Yunlin County Government** and Digital Domain jointly held **"Teresa Teng Once More Concert"** at the Yunlin County Stadium. More than 10,000 fans came from all over Taiwan to watch the concert and appreciate the charm of the Virtual Human Teresa Teng. The Virtual Human Teresa Teng sang many classic golden songs, and let the wonderful singing accompany everyone to spend a very beautiful Mid-Autumn Festival. This concert also won the platinum award, which is the highest honor in the Muse Creative Award issued by the International Awards Associate (IAA).

### 2022虚拟数字人商业价值潜力TOP50

排名	虚拟数字人	综 (备注: 创新性、影响力、技术支持、文化输出、商业活跃度)
20	虚拟邓丽君 (数字王国)	88.58
21	小净 (腾讯)	88.02
22	RiCH BOOM (爱奇艺)	87.97

- In July 2022, **"Internet Weekly"** of the Chinese Academy of Sciences, Deben Consulting, and eNet Research Institute jointly surveyed and counted a variety of virtual human forms. According to the innovation, influence, technical support, cultural output and commercial activity of the virtual human IP, etc. Based on comprehensive factors, the 50 virtual humans with the most commercial value were selected. The virtual Teresa Teng, as the top of super-realistic virtual humans in China, was on the list of **"2022 TOP50 Commercial Value Potential of Virtual Humans"**.



- On 21 October 2022, the **China (Macao) Creative Industry Conference Exhibition** kicked off. Digital Domain unveiled its innovative achievements to explain how the continuous iterative virtual technology can help multiple innovations in consumer-level experience during the commercialisation process spurred by the vigorous development of the Metaverse. The exhibition attracted more than 3,000 visitors, and the Virtual Human Teresa Teng hologram show made the audience surprise.



- On 29 October 2022, the Virtual Human Teresa Teng stood on the **Genting Stage in Malaysia** for the first time. Through Digital Domain's virtual human technology, the concert restored Teresa Teng's elegance and charm on the stage back then, presenting that touch to the audience again. The concert attracted more than 3,000 spectators. And in the chorus of the singers, the mood of the concert was brought to the highest point, and this wonderful concert ended with the applause of the audience.
- On 1 December 2022, **Tencent Research Institute** released the **"Virtual Human Industry Development Trend Report"**, and the Virtual Human Teresa Teng was included in the report as a typical case of high-quality virtual human applications in the industry.



- In 2022, the Virtual Human Teresa Teng holographic concerts in **Hongyadong, Chongqing** continue to be staged hotly. As a landmark attraction of Hongyadong, it has attracted a large number of tourists to visit.

## Beijing Xu Gu (虚谷未来科技(北京)有限公司)

In 2019, Beijing Xu Gu was set up as an associate of the Company and operates several virtual human projects within Mainland of China. Using Digital Domain Group's virtual human technology, Beijing Xu Gu continues to innovate and develop virtual IP live broadcasts, content marketing and business development, around the four core strengths of "new technology lightweight operation, multi-form virtual person creation, multi-content development, and multi-scenario business development". Beijing Xu Gu's projects break the barriers between virtual space and the real world, and create a "real person + virtual human" immersive live broadcast experience based on high-precision real-time interaction, and lightweight operation. Beijing Xu Gu brings innovation and new opportunities to the live broadcast industry.



- On the eve of the Chinese New Year in 2022, **Virtual Human Alice** participated in a series of activities jointly launched by **People's Daily Online x Sina News**. As the only virtual IP for children, she sent New Year's greetings to everyone.



- On the eve of the Chinese New Year in 2022, **Virtual Human Alice** was successfully selected into the **Xinhua News Agency's virtual human beings to celebrate the New Year**, becoming the first virtual human for children selected. The New Year's greeting video was released on various new media platforms of Xinhua News Agency.



- In April 2022, **iiMedia Research**, a world-renowned third-party data mining and analysis agency for the new economy industry, released the **"iiMedia Gold List | Top 100 Chinese Virtual Humans in the First Half of 2022"**, Beijing Xu Gu's original virtual human IP Alice, entered the list and became the only IP for children's avatars on the list.

- In April 2022, **iiMedia Research** released the **"2022 China Virtual Humans Commercialisation Trend Report"**, and Beijing Xu Gu was rated as "the best virtual human full-stack operation and maintenance service provider".

- In April 2022, Beijing Xu Gu, as a representative enterprise of virtual human, participated in the forum live broadcast hosted by **Baidu APP** with the theme of **"Positioning and significance of virtual human under the wind of the Metaverse?"**.



- In April 2022, Beijing Xu Gu created the first virtual spokesperson pre-heating promotional film for **CELSIUS**, and **Virtual Human Nonoka** participated in the performance as a close friend of the CELSIUS brand.



- On 11 May 2022, **Alibaba Cloud** and **NVIDIA** jointly held the **"2022 Alibaba Cloud Visual Computing Private Sharing Conference"**. The conference was held in the **"NetEase Yaotai" immersive event platform**. As a representative enterprise of virtual human, Beijing Xu Gu shared with other virtual humans, digital space, XR platforms and other enterprises. The lecturers and guests of this conference can control the exclusive characters to interact in the virtual conference scene, and chat face-to-face in the realistic scene.



- In May 2022, the first batch of digital collections of the first children's **Virtual Human Alice** will be sold in the form of blind boxes on TheOne.Art platform. This **"Alice Series Digital Collection"** was limited to 2,022 copies worldwide, including **5 Alice NFT dynamic works**, collect 5 models, you can unlock the mysterious composite map. Alice series of digital collections were snapped up as soon as they went online, and the current price of second-hand collections has increased nearly a thousand times.

- On 16 June 2022, the **first Chinese brand Metaverse Marketing Ranking List** with Metaverse Marketing as a reference dimension in the Chinese language world was officially unveiled in the Metaverse virtual space, and **Digital Domain's virtual human business was rated as a service provider top 1**.



- The **2022 ChinaJoy Online Exhibition (CJ Plus)** presented for the first time in the **MetaJoy metaverse digital scene** and provide an unprecedented online interactive experience. Online audiences can freely shuttle between the gorgeous exhibition areas created by many participating brands and experience customisation. Many innovative gameplays such as avatars, socialising with friends, synchronising official events, digital derivatives exchange, etc., make the vast C-end audience linger here and experience a unique online entertainment feast. Beijing Xu Gu was selected as a service provider for the 2022 ChinaJoy Online Exhibition (CJ Plus).

- In July 2022, **"Internet Weekly"** of the **Chinese Academy of Sciences**, Deben Consulting, and eNet Research Institute jointly surveyed and counted a variety of virtual human forms. According to the innovation, influence, technical support, cultural output and commercial activity of the virtual human IP, etc. Based on comprehensive factors, the top 50 virtual humans with the most commercial value were selected. As the only virtual IP for children, **Alice** was on the list of **"2022 TOP50 Commercial Value Potential of Virtual Humans"**.



- In 2022, from 2 to 3 August 2022, the **2022 WISE Metaverse & Game Industry Summit** hosted by 36Kr was held in Beijing. The **Virtual Human Nonoka** of Beijing Xu Gu was invited to be the host of the summit, **Beijing Xu Gu** provided technical support for the summit.
- In September 2022, as a well-known virtual human in the education track, **Virtual Human Alice** launched the "Homecoming" series of digital collections.



- On 1 September, 2022, the **2022 World Artificial Intelligence Conference** was grandly opened in Shanghai. As a leading domestic high-quality virtual human full-stack operation and maintenance service provider, **Virtual Human Alice** of Beijing Xu Gu appeared at the World Artificial Intelligence Conference, demonstrating high-quality virtual human solutions such as real-time rendering, real-time interaction, real-time live broadcast, etc.



- On 12 September 2022, the launching ceremony of the **2022 National Intelligent Driving Test Competition** was held in Beijing. The **Virtual Human Nonoka** showed up at the ceremony and served as a virtual host.

- On 20 October 2022, **China (Macao) Creative Industry Conference and Exhibition** was held in Macao. Digital Domain brought **Virtual Human Alice** to Macao, becoming the first batch of virtual humans to show up in Macao.



- On 11 November 2022, the **12th** opening ceremony of **2022 China (Macao) International Automobile Exposition** was grandly held in Macau. The **Virtual Human Nonoka** surprisingly showed up as a special host, presenting a virtual human with a real person to co-host the event. Nonoka also became the spokesperson of the Macau Auto Show.

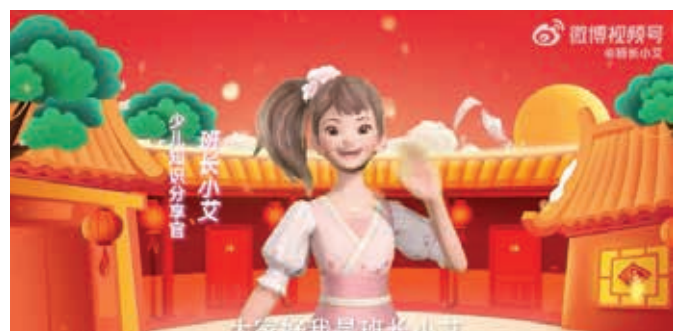
- On 17 December 2022, **TheOne.Art's "Future Nonfigurative"** surreal imagination digital exhibition officially opened in **Beijing Kuntai Jiarui Cultural Center**, kicking off an immersive themed art feast that transcends reality. As an outstanding representative of digital collections on the platform, Alice was invited to participate in the exhibition.



- On 1 December 2022, Tencent Research Institute released the 2023 **"Virtual Human Industry Development Trend Report 2023"**, and several virtual human projects in Beijing Xu Gu were included in the report as typical cases in the industry.



- On 12 December 2022, **Tencent Music Entertainment Group (TME)**, co-created by **TME, RM LABS,** and **Beijing Xu Gu**, signed the first **super-realistic virtual idol LUCY** to officially announce her debut to become a Tencent musician. On the day of its debut, it attracted the attention of the online world, and received the support and business opportunities from around 20 top brands such as Weibo Music, ELLE family, and Billboard. At the same time, LUCY is also the first super-realistic AI virtual singer who launched music made by Dolby Atmos.



- Virtual Human Alice** continues to release original content about **children's science popularisation** on platforms such as **WeChat Channels, Penguins, Douyin, Kuaishou, Xiaohongshu, Bilibili, Weibo, Bai Jiahao, Himalaya, and Watermelon Video**, and has cooperated with Xinhua News Agency, Peopletech, Clean Air Asia and other platforms for many times. In 2022, the **total exposure of Alice's short video had exceeded 10 million.**

## GOODWILL AND INTANGIBLE ASSETS OF THE GROUP

As at 31 December 2022, the Group had intangible assets of approximately HK\$522,211,000 (being approximately 51% of the Group's total assets as at the same date). Such intangible assets comprised goodwill of approximately HK\$294,341,000 that has been allocated to two cash generating units (or "CGUs") of our media entertainment segment, namely the CGUs for (i) visual effects production ("VE CGU") and (ii) post-production ("PP CGU").

For the purposes of impairment testing, the recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to professional valuation reports issued by Knight Frank Asset Appraisal Limited, an independent firm of professional qualified valuers. The recoverable amount of each CGU, the period of cashflow projections, the key assumptions used for the value-in-use calculations (including the average growth rate and pre-tax discount rate) for each CGU as at 31 December 2022 are set out in Note 16 to the financial statements included in this report.

The pre-tax discount rate, corporate income tax rate, post-tax weighted average cost of capital, market rate of return and levered equity beta and terminal rates adopted in the valuations as at 31 December 2022 were determined on a basis consistent with that which was applied in the value-in-use calculations of the same CGUs as at 31 December 2021, with the absolute values of each rate varying by reference to the market data of the jurisdiction(s) in which the relevant CGU operates.

The average growth rate of each CGU was determined based on the projected revenue for the financial year ending 31 December 2023 that the Company expects to be derived from (i) projected work supported by signed contracts ("Committed Work"), (ii) budgeted engagements based on prospective identified projects and subject to negotiations (discounted for likelihood of success ("Success Discount"), based on management assessment by reference to historical success rate as well relationships with the counterparty ("Likely Work") and (iii) other projects that are not under negotiation at the time of forecast but may become available during the year, based on the prior year's operating experience ("Possible Work"), while cost projections were based largely on historical rates with adjustment for inflation. This approach is consistent with that adopted in prior years.

The Group's revenues are generally project based and the projects are often the subject of competitive tender, so it is not possible to make predictions with certainty. Shareholders should note that in addition to the goodwill and intangible assets of the Group that are subject to impairment review or are amortised over the years, certain research and development costs of technology being developed in-house are also expensed and charged to the income statement in the year of incurrence (instead of being capitalised) contributing to the Group's losses in the media entertainment segment over the years.

### VE CGU

As at 31 December 2022, the goodwill allocated to the VE CGU was approximately HK\$209,155,000 (2021: HK\$208,691,000) with headroom of approximately HK\$335,866,000 (2021: HK\$107,731,000) based on the value-in-use ascribed to this CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 12.0% (2021: 12.1%) and a pre-tax discount rate of 19.1% (2021: 18.6%). Based on a sensitivity analysis carried out by the independent valuer, the headroom attributable to the VE CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

Please see the sections titled "Visual Effects Production and Post-Production Business – Digital Domain North America (USA and Canada)" and "Prospect" for a further discussion of the projects and prospects for this CGU.

### PP CGU

As at 31 December 2022, the goodwill allocated to the PP CGU was approximately HK\$85,186,000 (2021: HK\$85,186,000) with headroom of approximately HK\$92,978,000 (2021: 48,874,000) based on the value-in-use ascribed to this CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 5.3% (2021: 16.4%) and a pre-tax discount rate of 16.4% (2021: 17.4%). Based on a

sensitivity analysis carried out by the independent valuer, the headroom attributable to the PP CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

Please see the sections titled "Visual Effects Production and Post-Production Business – Digital Domain China" and "Prospect" for a further discussion of the projects and prospects for this CGU.

## EVENTS AFTER THE REPORTING PERIOD

### Subscription of New Shares under General Mandate

On 17 January 2023, the Company entered into the subscription agreements with ADATA Technology Co., Ltd. ("ADATA") and Mr. Choi Chiu Fai Stanley ("Mr. Choi") (collectively the "Subscribers") in relation to the subscription. Pursuant to the subscription agreements, the Company conditionally agreed to allot and issue 146,250,000 shares to ADATA and 73,125,000 shares to Mr. Choi respectively at the subscription price of HK\$0.32 per subscription share (the "Subscription"). The Subscription was completed on 2 February 2023 and the Subscription shares were allotted and issued pursuant to the general mandate of the Company. The Subscription shares represent approximately 5.07% of the issued share capital of the Company of 4,329,027,625 shares as at the date of announcement of the Subscription and approximately 4.83% of the issued share capital of the Company of 4,548,402,625 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are HK\$70,200,000 and approximately HK\$69,760,000 respectively, and are intended to be applied towards the development of the Group's media entertainment segment and general working capital of the Group. For details, please refer to the Company's announcements dated 17 January 2023 and 2 February 2023.

On 13 February 2023, Digital Domain Pictures (HK) Limited ("DD Pictures"), an indirect wholly-owned subsidiary of the Company, entered into the loan agreement with Digital Eve Technology Limited ("Digital Eve") to provide the principal amount of US\$3,000,000 with a tenor of three years at a fixed interest rate ranging from 8% to 12% per annum. Digital Eve is indirectly owned by Mr. Zhu Xi ("Mr. Zhu"), a director of a number of subsidiaries of the Company. Under the circumstance, Mr. Zhu is a connected person of the Company. Accordingly, the provision of the loan by DD Pictures to Digital Eve pursuant to the loan agreement constitutes a connected transaction of the Group under Chapter 14A of the Listing Rules. For details, please refer to the Company's announcements dated 13 February 2023.

## CAPITAL

### Shares

As at 31 December 2022, the total number of the Company shares of HK\$0.01 each in issue (the "Shares") was 4,329,027,625 Shares.

On 17 January 2023, the Company entered into the subscription agreements with the Subscribers in relation to the Subscription. For details, please refer to the above section named "Events after the Reporting Period", and the Company's announcements dated 17 January 2023 and 2 February 2023.

### Share Options

The share option scheme of the Company was adopted on 27 April 2012 and amended on 3 April 2014 (the "2012 Option Scheme"). The 2012 Option Scheme was effective for a period of 10 years and expired on 27 April 2022. The adoption of a new share option scheme (the "2022 Option Scheme") was approved by the shareholders of the Company at the special general meeting held on 16 June 2022. The 2022 Option Scheme is valid and effective for a period of 10 years commencing on 16 June 2022. For illustrative purpose, the exercise price and the number of the share options under the 2012 Option Scheme have been adjusted for the effect of capital reorganisation effective on 11 October 2021.

On 28 May 2014, a total of 98,006,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 98,006,000 new Shares at an exercise price



of HK\$0.98 per Share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the year under review, no share option was exercised, cancelled or has lapsed. 4,657,000 share options were exercised and 14,076,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

On 6 May 2015, a total of 7,800,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 7,800,000 new Shares at an exercise price of HK\$13.20 per Share. For details, please refer to the Company's announcement dated 6 May 2015. During the year under review, no share option was exercised, cancelled or has lapsed. 1,000 share options were exercised and 300,000 share options were cancelled or have lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 37,950,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 37,950,000 new Shares at an exercise price of HK\$4.13 per Share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the year under review, no share option was exercised, cancelled or has lapsed. No share option was exercised and 2,566,669 share options were cancelled or have lapsed since the grant-date (29 January 2016).

On 22 June 2016, a total of 10,000,000 share options were granted under the 2012 Option Scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 10,000,000 new Shares at an exercise price of HK\$4.95 per Share. For details, please refer to the Company's announcement dated 22 June 2016. During the year under review and since the grant-date (22 June 2016), no share option was exercised, cancelled or has lapsed.

On 29 July 2016, a total of 5,000,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 5,000,000 new Shares at an exercise price of HK\$5.66 per Share. For details, please refer to the Company's announcement dated 29 July 2016. During the year under review, no share option was exercised, cancelled or has lapsed. No share option was exercised and 1,320,007 share options were cancelled or have lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 30,000,000 share options were granted under the 2012 Option Scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 30,000,000 new Shares at an exercise price of HK\$4.69 per Share. For details, please refer to the Company's announcements dated 13 February 2017 and 1 June 2017, and the circular dated 27 April 2017. During the year under review and since the grant-date (13 February 2017), no share option was exercised, cancelled or has lapsed.

On 24 April 2019, a total of 13,000,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 13,000,000 new Shares at an exercise price of HK\$1.30 per Share. For details, please refer to the Company's announcement dated 24 April 2019. During the year under review and since the grant-date (24 April 2019), no share option was exercised, cancelled or has lapsed.

On 21 May 2020, a total of 47,800,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 47,800,000 new Shares at an exercise price of HK\$0.46 per Share. For details, please refer to the Company's announcement dated 21 May 2020. During the year under review, no share option was exercised, cancelled or has lapsed. 170,000 share options were exercised and 2,000,000 share options were cancelled or have lapsed since the grant-date (21 May 2020).

No share option under the 2022 Option Scheme was granted, exercised, cancelled or has lapsed from the date of adoption to 31 December 2022.

## **LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO**

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on a secured basis or an unsecured basis, non-bank loans on a secured or an unsecured basis and non-regular contributions (such as placement of shares, issuance of convertible notes or financing through shareholder loans) from shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

In 2022, the Company had banking facilities from two banks in the United States amounting to US\$16,000,000 (approximately HK\$124,901,000) and the utilised portion of these banking facilities were US\$14,997,000 (approximately HK\$117,073,000). A facility of US\$ 2,000,000 (approximately HK\$15,613,000) with US\$ 1,997,000 (approximately HK\$15,589,000) being utilised as at 31 December 2022 and recognised as current liabilities of the Group as at that date, has been successfully refinanced for another 3 years (to 2026) in January 2023. We expect, based on our discussions with one of our lending banks, that we will be able to re-finance for a term of 3 years, the three facilities with aggregate principal amount of US\$ 10,000,000 (approximately HK\$78,063,000) that were also recognised as current liabilities of the Group as at 31 December 2022 that are due within 2023. These banking facilities were secured by time deposits and two investment properties of the Group. The Group had banking facilities from a bank in Canada in amount of CAD6,900,000 (approximately HK\$39,741,000) and the utilised portion of these banking facilities were CAD1,159,000 (approximately HK\$6,677,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

As at 31 December 2022, the loan granted under emergency loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$346,000). This loan is unsecured and repayable on 31 December 2025.

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group in the entertainment media segment, which was discontinued at the end of December 2010, obtained a banking facility amounting to HK\$6,000,000 from a bank in Hong Kong in 2009 which consisted of a 5-year instalment loan ("Five Year Loan"). This facility was granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region (the "Government"), pursuant to which the Government provided an 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary. On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the aforesaid subsidiary has been discontinued since the end of December 2010. The Five Year Loan has been fully classified as a current liability.

As at 31 December 2022, the Group also had lease liabilities of HK\$100,569,000, which were determined at the present value of the lease payments that are payable at that date. The amount included in lease liabilities consist of HK\$732,000 related to leased assets (equipment amounted to RMB360,000 (approximately HK\$407,000), CAD28,000 (approximately HK\$160,000) and HK\$165,000) which secured by the lessor's charge over the leased assets. Among these leased assets, the terms of payments were 34 months, 42 months and 60 months respectively. Payments were on a fixed payment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK\$213,016,000 as at 31 December 2022. One indirect wholly-owned subsidiary has a loan in amount of US\$3,500,000 (approximately HK\$27,065,000) which is unsecured, interest-free and is not repayable within 13 months from 31 December 2022. One indirect wholly-owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,349,000), which is unsecured and with a fixed interest rate. One indirect wholly-owned subsidiary also had a term loan facility of US\$10,000,000 (approximately HK\$78,063,000) and HK\$80,000,000, with a guarantee provided by the Company. The subsidiary drew down the facility in 2015 and 2018. The outstanding balance of these loans as at 31 December 2022 were US\$8,000,000 (approximately HK\$62,449,000) and HK\$34,290,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and are not repayable within 13 months from 31 December 2022. There is an other loan in amount of US\$1,803,000 (approximately HK\$14,056,000) provided in relation to the production of a film with interest-bearing and secured by security interest in all right, title and interest in a film investment. During the year under review, this loan has been fully settled by the Company.

As at 31 December 2022, two other loans (aggregate principal amount of HK\$7,800,000) which were unsecured with a fixed interest rate and repayable in March 2023. There was an other loan with principal amount of US\$10,000,000 (equivalent to HK\$78,063,000) with HK\$32,786,000 repayable within one year and HK\$45,277,000 repayable in the next two years. This other loan was unsecured with a fixed interest rate.

The total cash and bank balance as at 31 December 2022 was approximately HK\$153,553,000. As at 31 December 2022, the Group had banking facilities of approximately HK\$164,642,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$117,073,000 are denominated in USD and loans amounting to approximately HK\$6,677,000 are denominated in CAD. During the year under review, all of the Group's bank loans (except the Five Years Loan and a loan with a repayment on demand clause are classified as current liabilities) were classified as either current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (excluded the Five Years Loan but included a loan with a repayment on demand clause) as at 31 December 2022 was spread over a period of five years, with approximately 81% repayable within one year and 19% repayable between one to two years. Taking into account the refinancing of the US\$12,000,000 (approximately HK\$93,676,000) referred to above, the adjusted maturity profile of the Group's bank borrowings would have been approximately 5% repayable within one year, 19% repayable between one to two years and 76% repayable between two and five years.

The Group's current assets were approximately HK\$266,418,000 while the current liabilities were approximately HK\$424,880,000 as at 31 December 2022. As at 31 December 2022, the Group's current ratio was 0.6 (as at 31 December 2021: 1.2). Taking into account the refinancing of the US\$12,000,000 (approximately HK\$93,676,000) referred to above, the adjusted current ratio would have been 0.8.

As at 31 December 2022, the Group's gearing ratio, representing the Group's financial liabilities (i.e. bank loans, other loans and lease liabilities) divided by the equity attributable to owners of the Company was 118% (as at 31 December 2021: 63%). The new issue of shares mentioned above ("Subscription of New Shares under General Mandate" under "Events After the Reporting Period") in early 2023 would have increased the equity of the Group by approximately HK\$69,760,000 and contribute to a corresponding lowering of gearing ratio. Taking into account of the new issue of shares, the adjusted gearing ratio would have been 99.3%.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's revenue, expenses, assets and liabilities were mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Canadian dollars ("CAD"), Renminbi ("RMB"), Indian Rupees ("INR") and Euro ("EUR"). The exchange rates for the USD against the HKD remained relatively stable during the year under review. As some of the financial statements for the business operations in North America, Mainland of China, India and Europe were reported in CAD, RMB, INR and EUR, respectively, if the CAD or RMB or INR or EUR were to depreciate relative to the HKD, the reported earnings/expenses for the Canadian portion, Mainland of China portion, Indian portion or European portion would decrease.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB, CAD, INR and/or EUR. However, the Group will constantly review the economic situation, the development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

## CONTINGENT LIABILITIES

Save as disclosed under "Possible Indemnification" of the Media Entertainment Segment above, as at 31 December 2022, the Group did not have any material contingent liabilities.

## EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2022, the total headcount of the Group was 1,138. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

## PROSPECT

While the dismantling of COVID restrictions worldwide will be positive for the global economy, many challenges remain. Looking ahead to 2023, inflation and recession will be the focal point. While there are signs that inflation may have peaked, the three leading economies in the world, the US, the European Union and China, are all slowing down. Uncertainties and geopolitical tensions (including Sino/US relationships and /or Russian/Ukraine conflict) are likely to persist in the foreseeable future. All these fuel concerns over a looming recession. We anticipate that global markets will experience fluctuations in the year to come.

Geopolitical developments and associated fiscal/monetary policy responses that have been and/or may in the future be implemented and which impact or is perceived to impact costs of operations and/or consumer demand adds to the uncertainties that the Group expects to confront in 2023. Demand for and the pricing of our products and services are ultimately driven by our clients' perception of consumer demands for their products. For example, the budget and roll out schedule of feature films can be affected by global economic conditions while perceived reduction in consumer spending powers can also affect our clients' product advertising budgets and campaign schedules. Given that the overall situation remains unstable, we are adopting a prudent approach in our business strategies (including for example, cost controls, business directions and products mix).

Our "Objective" is to drive business and prosperity through our unique diversity (markets, shareholders, directors and staff) and this guide our strategy. In support of our "Objective", we continue to focus on visual effects and virtual human businesses while we are proud to connect the world most dynamic markets (US/Canada, China and India). The Group proactively seeks new projects and business opportunities in the feature films, online games,

television/OTT episodes and commercials despite the highly competitive environment in our markets. At the same time, the Group will continue to evaluate the cost structure, function and operation performance of each studio in North America and Asia to enhance the effectiveness and efficiency of our working capacity while reducing production costs in the long run. Also, the Group will continue discussions with its European business partners for development in the European market even though it took longer time than originally expected.

The virtual human businesses we serve, and with which we connect and partner, are the engines of technology and innovation, and central to the transition to a sustainable future. The Group will continue to explore new services and products (such as AI function with multi-languages, SaaS products, etc.) with strategic business partners and/or investors. We will enhance the interactivity between virtual humans and the audience in social-networking platforms, the entertainment businesses and other environments such as financial, customer services and education.

Alongside most advanced technology companies, we will continue to deploy substantial financial and human resources in continuing research and development in new technologies, and will seek to recruit and retain appropriate global talent to support the Group's future development. To support our business and growth, we will continue to seek opportunities for financing and collaboration with strategic partners/investors on the Group level or business project/subsidiary level. We believe that continuing efforts in these directions will help us enhance our business ecosystems and other capabilities.

Last but not least, we will continue to closely monitor the external environment to ensure an appropriate balance of opportunity and risk, acting in your interests as shareholders. We are grateful to you for the trust you place in us and for your ongoing support of the Group. We are confident that we will continue to create long-term, sustainable value for all our stakeholders (clients, shareholders, staff and management). Once again, we would like to express appreciation to all our management and colleagues for their valuable contribution to the Group.



# 30<sup>th</sup> ANNIVERSARY

DIGITAL DOMAIN

RISE  
RISE  
RISE  
RISE  
RISE

時光  
影今  
虛擬人鄧麗  
音樂奇幻  
- 5/10

The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors of the Company (the “Directors” and the “Board” respectively) believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders’ value.

## CORPORATE GOVERNANCE PRACTICES

The Company’s corporate governance practices are based on the principles and code provisions (“Code Provisions”) set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

During the financial year of 2022, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

There is no separation of the roles of the chairman and the chief executive officer or chief executive during the year. Mr. Seah Ang, the executive Director and chief executive officer of the Company, was appointed as the acting chairman of the Board following the resignation of former chairman in June 2020. The Board believed that at the time of vesting of the roles of chairman and chief executive officer in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group’s operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board when appropriate;

During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were five Board meetings held for addressing ad hoc issues. The Board considered that sufficient meetings had been held during the year and business operation and development of the Group had been communicated on the Board;

The chairman of the Board is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company’s bye-laws (the “Bye-laws”). Mr. Seah Ang has entered into a service agreement for no fixed term but his appointment is terminable by either party by giving three months’ prior notice; and

During the year, the Company held the annual general meeting and the special general meeting both on 16 June 2022. Mr. Brian Thomas McConville, the non-executive Director, was unable to attend the above special general meeting while Mr. Sergei Skatershchikov, the non-executive Director, was unable to attend the above annual general meeting and special general meeting.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised in this report.

# CORPORATE GOVERNANCE REPORT

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2022.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. It has carried out an annual review of the existing implemented systems and procedures, including control measures of financial, operational and compliance and risk management functions of the Group. Since the Group's corporate and operation structure is simple for diverting resources to establish a separate internal audit department, during the year, the Company engaged external independent consultants to conduct follow-up reviews on risk points identified for Digital Domain (Shanghai) Limited ("DDSH") during the year ended 31 December 2021, and for the Company and Digital Domain Resources Limited ("DDRL") during the year ended 31 December 2020 respectively on the design, implementation and monitoring of the risk management and internal control systems. DDSH principally engaged in the provision of post-production services to commercial advertising, online games, and TV episodes and movies while DDRL mainly engaged in the provision of human resources and administrative services for the Group. Both companies are subsidiaries of the Company. Based on the assessment, no further weakness and potential risks in respect of the follow-up reviews have been identified in certain areas including financial reporting, human resources and information technology system for DDSH and fixed assets management and financial reporting for the Company and DDRL. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function as well as those relating to ESG performance and considered they are adequate. The Board were not aware of any material internal control defects, and considered such systems effective and adequate.

## THE BOARD

### Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive Directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders ("Shareholders").

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the independent auditor of the Company about its reporting responsibilities for the consolidated financial statements of the Company is set out on pages 72 to 76 in the independent auditor's report.

All Directors have full and timely access to all relevant information as well as the advice and service of the company secretary of the Company ("Company Secretary") to ensure Board procedures and all applicable rules and regulations are followed.

## THE BOARD (CONTINUED)

### Composition

The Board has in its composition a balance of skills, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs.

The Board currently comprised ten members, including two executive Directors, four non-executive Directors and four independent non-executive Directors, as follows:

### Executive Directors

Mr. SEAH Ang (Acting Chairman and Chief Executive Officer ("CEO"))  
Dr. SUN Ta-Chien (appointed as executive Director on 24 December 2022)

### Non-executive Directors

Mr. LI Weiqiang (appointed as non-executive Director on 31 March 2022)  
Mr. CUI Hao (appointed as non-executive Director on 9 November 2022)  
Ms. Alla Y ALENIKOVA  
Mr. Brian Thomas MCCONVILLE

### Independent Non-executive Directors

Mr. DUAN Xiongfei  
Ms. LAU Cheong  
Dr. Elizabeth Monk DALEY  
Mr. WOO King Hang

Biographical details of the current Directors are set out in the directors' report on pages 52 to 56. Save as disclosed in the aforesaid biographical details of the Directors, none of the Directors has any financial, business, family or other material/relevant relationships between the Board members.

During the year, the Board has established mechanisms to ensure independent views and input are available to the Board. A review of the implementation and effectiveness of the mechanisms will be conducted on annual basis.

During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented at least one-third of the board.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors (including Mr. Duan Xiongfei and Ms. Lau Cheong who have served as independent non-executive Directors for more than 9 years) to be independent in accordance with the independence guidelines set out in the Listing Rules.



# CORPORATE GOVERNANCE REPORT

## THE BOARD (CONTINUED)

### Composition (continued)

The Bye-laws require that one-third (if the number is not a multiple of three, the number nearest to but not less than one-third) of the Directors (including executive and non-executive Directors) shall retire by rotation at each annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their last re-election or appointment. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

### Board Meetings and General Meetings

During the year ended 31 December 2022, seven Board meetings, the annual general meeting ("AGM") for the year 2022 and a special general meeting ("SGM") of the Company were held with details of the Directors' attendance set out below:

Directors	Attendance/Number of Meetings		
	Board Meetings	AGM	SGM
<i>Executive Directors</i>			
Mr. SEAH Ang ( <i>Acting Chairman and CEO</i> )	7/7	1/1	1/1
Dr. SUN Ta-Chien ( <i>appointed as executive Director on 24 December 2022</i> )	N/A	N/A	N/A
Dr. CHANG San-Cheng ( <i>resigned as executive Director on 24 December 2022</i> )	5/7	1/1	1/1
<i>Non-executive Directors</i>			
Mr. LI Weiqiang ( <i>appointed as non-executive Director on 31 March 2022</i> )	2/5	1/1	1/1
Mr. CUI Hao	6/7	1/1	1/1
Ms. Alla Y ALENIKOVA ( <i>appointed as non-executive Director on 9 November 2022</i> )	1/1	N/A	N/A
Mr. Brian Thomas MCCONVILLE	7/7	1/1	0/1
Mr. JIANG Yingchun ( <i>resigned as non-executive Director on 31 March 2022</i> )	0/2	N/A	N/A
Mr. Sergei SKATERSHCHIKOV ( <i>resigned as non-executive Director on 9 November 2022</i> )	3/6	0/1	0/1
<i>Independent Non-executive Directors</i>			
Mr. DUAN Xiongfei	7/7	1/1	1/1
Ms. LAU Cheong	7/7	1/1	1/1
Dr. Elizabeth Monk DALEY	7/7	1/1	1/1
Mr. WOO King Hang	7/7	1/1	1/1

## THE BOARD (CONTINUED)

### Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guide on Directors' Duties issued by the Companies Registry in Hong Kong to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices, business ethics and anti-corruption aspects and other regulatory regime to the Directors with written materials.

During the year of 2022, all Directors were provided with reading materials on the relevant rules and regulating updates.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is no separation of the roles of the chairman and the chief executive officer or chief executive during the year. Mr. Seah Ang, the executive Director and CEO, was appointed as the acting chairman of the Board following the resignation of former chairman. The Board believed that at the time of vesting of the roles of chairman and CEO in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group's operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board when appropriate.

## DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the Shareholders for the well-being and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established four committees, namely, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

## BOARD COMMITTEES

### Executive Committee

The Executive Committee currently comprises the executive Directors and the management and it assists the Board in discharging its duties and dealing with routine business of the Company and enhances the effectiveness and efficiency of day-to-day operation of the Company. There is no minimum meeting requirement and this Committee shall meet as and when necessary for proper discharge of its duties.

### Audit Committee

The Audit Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Woo King Hang, the independent non-executive Directors.

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) the Company's financial control, risk management and internal control systems and the internal audit programme (where appropriate). It also needs to discuss problems and reservations arising from the interim and final audits and to consider the major findings of internal investigations and management's response.

The Audit Committee shall meet at least twice a year according to its terms of reference. There were four meetings held during the year under review, details of attendance are set out below:

Audit Committee Members	Attendance/Number of Meetings
Mr. DUAN Xiongfei ( <i>Chairman</i> )	4/4
Ms. LAU Cheong	4/4
Mr. WOO King Hang	4/4

During the year under review, the Audit Committee had considered, reviewed and discussed any areas of concerns during the audit process, the compliance of company policy, the internal control procedures, the corporate governance of the Group and re-appointment of independent auditor and had approved the annual audited consolidated financial statements and the interim financial statements respectively.

### Nomination Committee

The Nomination Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Woo King Hang, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

## BOARD COMMITTEES (CONTINUED)

## Nomination Committee (continued)

The Nomination Committee shall meet at least once per year according to its terms of reference. Three Nomination Committee meetings were held during the year under review, details of attendance are set out below:

Nomination Committee Members	Attendance/Number of Meetings
Mr. DUAN Xiongfei ( <i>Chairman</i> )	3/3
Ms. LAU Cheong	2/3
Mr. WOO King Hang	3/3
Mr. SEAH Ang	3/3

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, the assessment of the independence of the independent non-executive Directors, the retirement and re-appointment arrangement of the Directors, and the appointment of executive Director and non-executive Directors.

## Remuneration Committee

The Remuneration Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Woo King Hang, the independent non-executive Directors, Mr. Brian Thomas McConville, the non-executive Director and Mr. Seah Ang, the executive Director.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior executives of the Company. The Committee shall determine, with delegated responsibility, the individual remuneration package of each executive Director (including the Chairman) and senior management including benefits in kind and pension rights (including allocation of share options, annual bonus plans) and compensation payments (including any compensation payable for loss or termination of their office or appointment) subject to the contractual terms, if any. When determining remuneration packages of the executive Directors and senior management of the Company, the Remuneration Committee takes into consideration factors such as market forces and remuneration packages of executive directors of similar companies in comparable industries both in Hong Kong and overseas.

The Remuneration Committee shall meet at least once per year according to its terms of reference. One Remuneration Committee meeting was held during the year under review, details of attendance are set out below:

Remuneration Committee Members	Attendance/Number of Meetings
Mr. DUAN Xiongfei ( <i>Chairman</i> )	1/1
Ms. LAU Cheong	1/1
Mr. WOO King Hang	1/1
Mr. Brian Thomas MCCONVILLE	1/1
Mr. SEAH Ang	1/1

During the year under review, the Remuneration Committee had reviewed the existing remuneration policy of the Company, the remuneration structure for the Directors and the remuneration proposal for the appointment of the executive Director.

## NOMINATION POLICY

The Board has adopted a nomination policy which set out the selection criteria, procedure and process for the nomination of a candidate for directorship.

### Nomination Criteria

The factors listed below, which are not exhaustive and the Board has discretion if it considers appropriate, would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate for the appointment of Director or re-election of any existing Director:

- (i) gender, age, cultural and educational background, professional experience, skills and knowledge of the candidate;
- (ii) effect on the Board's composition and diversity;
- (iii) commitment of the candidate in respect of available time for carrying out his/her duties effectively;
- (iv) conflicts of interest that may arise if the candidate is selected;
- (v) compliance with the criteria of independence, in case for the appointment of an independent non-executive Director, as prescribed under Rule 3.13 of the Listing Rules; and
- (vi) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time as appropriate.

### Nomination Procedures and Process

- (i) the Nomination Committee identifies or selects candidates recommended pursuant to the above criteria.
- (ii) the Nomination Committee may use any process it deems appropriate to evaluate the candidates, which may include interviews, written submissions by the candidates, third party references and background checks.
- (iii) the Nomination Committee will consider the matter at the meeting or by circulating a resolution in writing to the members of the Nomination Committee and provide to the Board with all the information required in relation to the candidates. The Nomination Committee shall make recommendation to the Board for consideration and approval.
- (iv) in case of re-election of an existing Director, the Nomination Committee will hold a meeting to consider the re-election based on the above criteria and, if such Director is an independent non-executive Director and has served the Board for more than 9 years, to assess whether he/she has remained independent. The Nomination Committee shall make recommendations to the Board for its consideration and recommendation for the proposed candidate to stand for re-election at a general meeting.
- (v) pursuant to Rule 13.74 of the Listing Rules, where shareholders are required to vote on re-electing a director, the circular accompanying the notice of the relevant general meeting should contain all the information of the candidates required under Rule 13.51(2) of the Listing Rules and, if applicable, Code Provision B.3.4 of Part 2 of the CG Code.
- (vi) the Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

## BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board has set measurable objectives and selection of candidates for Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and review this policy, as appropriate, to ensure its effectiveness from time to time.

As at the date of the annual report, the Board consists of three female members and seven male members, biographical details of the current Directors are set out in the directors' report on pages 52 to 56. The Nomination Committee considered that the Board was sufficiently diverse in terms of gender and involved in extensive experience, skills and knowledge in financial and business management, and media entertainment, it can enable the Company to maintain a high standard of operation. As at 31 December 2022, the ratio of male and female in the workforce (including the executive Directors of the Company and its significant subsidiaries) is 76% and 24%, respectively.

The Board has performed an annual review of the implementation and effectiveness of the Board Diversity Policy and considered it to be effective.

The Board will continue to maintain a diverse Board and engage more resources in employing female management and employee of the Group.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

- (i) to develop and review the Group's policies and practices on corporate governance and make recommendations;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and
- (v) to review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2021.

## WHISTLEBLOWING POLICY

The Board has adopted the procedures for reporting the improprieties in order to strengthen corporate governance and prevent the occurrence of improprieties. It provides guidance and reporting channels on reporting any suspected improprieties in any matters related to the Group directly addressed to the designated person.

## ANTI-CORRUPTION POLICY

The Company has established policies and system that provide guidance including code of conduct, travel, meals, gifts in order to promote and support anti-corruption laws and regulations.

## INDEPENDENT AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2022 are set out as follows:

Type of services	HK\$'000
<i>Audit services:</i>	
Audit of annual financial statements	2,107
<i>Non-audit services:</i>	
Agreed upon procedures	254

## COMPANY SECRETARY

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to professional training during the year under review.

## COMMUNICATION WITH SHAREHOLDERS

The Company has adopted a Shareholders communication policy to enhance the corporate communication effectively between the Shareholders and the Board and the management of the Company through various official channels so that the Shareholders can access the Company's public information equally in a timely manner.

To promote effective communication, the Company maintains its website at [www.digitaldomain.com](http://www.digitaldomain.com) where corporate and business information and press release are updated for public access. Latest information on the Group including annual and interim reports, circulars and announcements are available on the websites of the Company and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

The general meetings of the Company provide an opportunity for communication between the Board and the Shareholders. In addition, the Company's branch share registrar serves the Shareholders relating to their shareholding enquiries, change of shareholders' particulars and related matters.

The Board has conducted a review of the implementation and effectiveness of the shareholders communication policy during the year and considered that it was effective.



## DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") setting out the guidelines in deciding whether to propose a dividend and in determining an appropriate basis for dividend distribution.

The Board shall consider the following factors, among others, before declaring or recommending dividends:

- (i) the operation and financial performance of the Group;
- (ii) economic conditions;
- (iii) the liquidity position, capital requirements and future funding needs of the Group;
- (iv) the Shareholders' interests;
- (v) contractual restrictions on payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;
- (vi) any restrictions under the Companies Act 1981 of Bermuda, the Listing Rules, the Bye-laws and any applicable laws, rules and regulations; and
- (vii) any other factors that the Board deems appropriate.

The recommendation of the payment of dividend is subject to the absolute discretion of the Board, and any declaration of annual dividend for the year will be subject to the approval of the Shareholders. The Board will review the Dividend Policy from time to time.

## SHAREHOLDERS' RIGHTS

### Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58 of the Bye-laws, a special general meeting may be convened by the Board upon requisition by any Shareholder holding not less than one-tenth of the paid up capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within 2 months after the receipt of such written requisition. Pursuant to Bye-law 59 of the Bye-laws, the Company shall serve requisite notice of the general meeting, including the time and place of the general meeting and particulars of resolutions to be considered at the general meeting and the general nature of the business.

If within 21 days of the receipt of such written requisition, the Board fails to proceed to convene such general meeting, the Shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

## SHAREHOLDERS' RIGHTS (CONTINUED)

### Putting Forward Proposals at General Meetings

A Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal the Shareholder intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

### Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with their contact details, such as postal address, email address or facsimile number, addressing to the head office of the Company in Hong Kong at the following address or facsimile number or via email:

Suite 2005, 20/F.,  
West Tower, Shun Tak Centre,  
168-200 Connaught Road Central,  
Hong Kong

Fax: (852) 2907 9898  
Email: [ir@ddhl.com](mailto:ir@ddhl.com)

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically on the enquiries collected. The executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply all enquiries in writing.

## CONSTITUTIONAL DOCUMENTS

There was no amendment made to the constitutional documents of the Company during the year ended 31 December 2022.

In order to bring the Bye-laws in alignment with the latest Listing Rules including the Core Shareholder Protection Standards set out in Appendix 3 of the Listing Rules and the latest Bermuda laws; allow general meetings of the Company to be held as hybrid meetings or electronic meetings and set out the related powers of the Board and chairman of general meetings, the Board proposed to amend the Bye-laws and to adopt a new bye-laws of the Company in the forthcoming annual general meeting.

# DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the media entertainment business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 and the state of affairs of the Company and of the Group as at 31 December 2022 are set out in the consolidated financial statements and their accompanying notes on pages 77 to 169. No interim dividend was paid or declared in respect of the year ended 31 December 2022 (2021: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

## RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 27 to the consolidated financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2022 amounted to HK\$984,302,000 solely comprised of contributed surplus.

## PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2022 are set out in note 30 to the consolidated financial statements.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Five Years Financial Summary" on page 170 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the consolidated financial statements.

## INVESTMENT PROPERTIES

Details of the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements. Further details of the Group's investment properties are set out in the section headed "Particulars of Properties" on page 170 of this annual report.

Investment properties were valued as at 31 December 2022 by Knight Frank Asset Appraisal Limited, an independent firm of professionally qualified valuers. The valuations gave rise to fair value gain amounted to HK\$14,266,000 (2021: HK\$Nil).

## SHARE CAPITAL

Details of the movements in the Company's issued share capital and share options during the year and outstanding as at 31 December 2022 are set out in notes 26 and 28 to the consolidated financial statements respectively.

## DIRECTORS

The Directors who were in office during the year and those as at the date of this report are:

### Executive Directors

SEAH Ang  
 SUN Ta-Chien (*appointed on 24 December 2022*)  
 CHANG San-Cheng (*resigned on 24 December 2022*)

### Non-executive Directors

LI Weiqiang (*appointed on 31 March 2022*)  
 CUI Hao  
 Alla Y ALENIKOVA (*appointed on 9 November 2022*)  
 Brian Thomas MCCONVILLE  
 JIANG Yingchun (*resigned on 31 March 2022*)  
 Sergei SKATERSHCHIKOV (*resigned on 9 November 2022*)

### Independent Non-executive Directors

DUAN Xiongfei  
 LAU Cheong  
 Elizabeth Monk DALEY  
 WOO King Hang

Mr. Li Weiqiang and Ms. Alla Y Alenikova were appointed as non-executive Directors with effect from 31 March 2022 and 9 November 2022 respectively while Dr. Sun Ta-Chien was appointed as executive Director with effect from 24 December 2022. In accordance with Bye-law 86(2) of the Bye-laws, any Director appointed by the Board to fill a casual vacancy should hold office until the first general meeting of members after her/his appointment and be subject to re-election at such meeting and any Director appointed by the Board as addition to the existing Board should hold office only until the next following annual general meeting of the Company and should be subject to re-election at such meeting. In this connection, Mr. Li has retired and was re-elected at the annual general meeting of the Company held on 16 June 2022. Ms. Alenikova and Dr. Sun will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Brian Thomas McConville, Dr. Elizabeth Monk Daley and Mr. Woo King Hang will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting of the Company, has an unexpired service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The non-executive Directors and independent non-executive Directors have no specific term of office but their service contracts have a termination notice requirement of at least one month. They are subject to retirement by rotation and will be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-laws.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

### Executive Directors

**SEAH Ang**, aged 38, joined the Group in 2013 as an executive vice president and was appointed as executive director and the chief executive officer of the Company on 29 September 2014. He was also appointed as acting chairman of the board of directors and the chairman of the executive committee of the Company on 4 June 2020 respectively. Mr. Seah is presently a member of the nomination committee and the remuneration committee of the Company, and the authorised representative of the Company for the acceptance of service of any process or notice required to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited, a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on the Stock Exchange.

**SUN Ta-Chien**, aged 53, was appointed as an executive director and a member of the executive committee of the Company on 24 December 2022. Dr. Sun is a professor of the Graduate School of Financial Management of CTBC Business School as well as a consultant of General Chamber of Commerce of the Republic of China and the director of Blockchain Application and Development Institute. He was a former member of the Legislative Yuan of Taiwan for over 10 years. Dr. Sun is experienced in financial technology and blockchain application and development.

Dr. Sun holds a Bachelor's Degree of Chemical Engineering from National Taiwan University. He also has a Master's Degree of Arts in International Relations and a Ph.D. Degree in Materials Science and Engineering both from The Ohio State University.

## BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

### Non-executive Directors

**LI Weiqiang**, aged 51, was appointed as a non-executive director of the Company on 31 March 2022. Mr. Li is the executive vice general manager of Poly Culture Group Corporation Limited ("Poly Culture"), the shares of which are listed on the main board of the Stock Exchange (stock code: 3636). He was an executive director of Poly Culture from 21 June 2019 to 2 November 2021. Poly Culture is interested in 532,360,000 shares in the Company. Mr. Li presently serves as the chairman of Poly Film Investment Corporation Limited, Shenzhen Poly Art Square Operations Management Co., Ltd. and Shenzhen Poly Culture Development Co., Ltd., a director of Beijing Poly Theatre Management Corporation Limited and the chairman of Hainan International Culture and Artworks Exchange Co., Ltd. (海南國際文化藝術品交易中心股份有限公司), and a non-executive director of Straco Corporation Limited (新加坡星雅集團), the shares of which are listed on Singapore Exchange Limited (trading code: S85.SG).

Mr. Li is a senior economist and has extensive experience in corporate management and strategy research. He obtained a master's degree in economics from the Department of Postgraduates of Beijing College of Commerce (北京商學院), majoring in business administration in 1997 and a doctoral degree in management from University of International Business and Economics Business School (對外經濟貿易大學國際商學院), majoring in business administration in 2014.

**CUI Hao**, aged 34, was appointed as a non-executive director of the Company on 30 May 2019. Mr. Cui is currently the director of general office and international exchange of Poly Culture Group Corporation Limited ("Poly Culture"), the shares of which are listed on the main board of the Stock Exchange (stock code: 3636). He served in the board office and poly strategy research institute of China Poly Group Corporation. Mr. Cui is also a member of the 15th Dongcheng District, Beijing Municipal Committee of Chinese People's Political Consultative Conference (CPPCC). Mr. Cui holds a Master's Degree in School of English and International Studies – American Studies in Beijing Foreign Studies University, a Bachelor's Degree in English Language and Literature and Economics in Shanghai International Studies University and Shanghai University of International Business and Economics respectively.

**Alla Y ALENIKOVA**, aged 47, was appointed as a non-executive director of the Company on 9 November 2022. She has more than 20 years of experience in the financial sector. Ms. Alenikova worked for top institutions in various jurisdictions devising and implementing strategies and organizing the livelihoods of ultra-high-net-worth individuals (UHNWIs) and their families. Ms. Alenikova is currently the chief executive officer and a board member of GS Finances AG, a multi-family office (MFO) based in Switzerland. She was appointed as a member of the board of managers of Digital Domain Capital Partners S.à r.l., the first subsidiary of the Company established in Europe, between January 2021 to October 2021. Ms. Alenikova's earlier experiences included high-level positions at UBS Wealth Management and Citi Private Bank (New York).

Ms. Alenikova holds a Bachelor's Degree in Foreign Service from Georgetown University in 1998 and a Master's Degree from the London School of Economics and Political Science in 1999.

## BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

### Non-executive Directors (continued)

**Brian Thomas MCCONVILLE**, aged 56, was appointed as a non-executive Director and a member of the remuneration committee of the Company on 28 June 2021. Mr. McConville is a senior level executive with 30 years' experience providing effective fiscal and operations management leadership to both new and expanding enterprises. He has a record of accomplishment of improving operations, impacting business growth and maximizing profits through achievements in investment management, costs reductions, internal controls, and productivity/efficiency improvements. Mr. McConville has served in executive roles as chief executive officer, president, and vice chairman in areas including artificial intelligence, cloud-based technology, and media. He was also a managing principal in a U.S. based holding company focused on management of positions in listed European companies. Mr. McConville was an owner, president, and board member of Collectrium, LLC, which was successfully sold to Christies Auction House in 2015. He is also an avid art collector, with a focus on Asian contemporary works. Mr. McConville holds a Bachelor of Arts in Political Studies from Bard College.

### Independent Non-executive Directors

**DUAN Xiongfei**, aged 54, was appointed as an independent non-executive director of the Company on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. He was an independent non-executive director, the chairman of the nomination and corporate governance committee, and a member of the audit committee and remuneration committee of Huobi Technology Holdings Limited (now known as New Huo Technology Holdings Limited), the shares of which are listed on the main board of the Stock Exchange (stock code: 1611), from October 2018 to April 2022. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from The University of Chicago. He has over 20 years of experience in securities trading and the investment industry. Mr. Duan is currently the investment manager of MIE Holdings Corporation, a company listed on the Stock Exchange (stock code: 1555). He joined Atlantis Investment Management as Fund Manager in 2010 and registered as a Commodity Trading Advisor (CTA) in the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC) in 2004.

**LAU Cheong**, aged 39, was appointed as an independent non-executive director of the Company on 21 July 2009 and is presently a member of the audit committee, the nomination committee and the remuneration committee of the Company. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the chief executive officer of Sino Jet Management Limited and the president of Ponticello International Group Incorporated.

## BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

### Independent Non-executive Directors (continued)

**Elizabeth Monk DALEY**, aged 80, was appointed as an independent non-executive director of the Company on 20 July 2020. Dr. Daley has been the dean of the School of Cinematic Arts at the University of Southern California ("USC") since 1991. She is the inaugural holder of the Steven J. Ross/Time Warner Dean's Chair. Dr. Daley was also the founding executive director of the USC Annenberg Center for Communication from 1994 to 2005 and serves as the executive director of the USC Institute for Multimedia Literacy.

Before joining USC in 1989 as chair of the Film and Television Production Program, Dr. Daley had engaged in various positions in the entertainment industry, ranging from film and television producer to media consultant. She had also served on the board of the World Economic Forum's Global Agenda Council on Media, Entertainment and Information. Dr. Daley currently is an independent director and a member of the nominating and governance committee and the compensation committee of Avid Technology, Inc., the shares of which are traded on The Nasdaq Global Select Market under symbol "AVID". In addition, she is a member of both the Directors Guild of America and the Academy of Motion Picture Arts and Sciences.

Dr. Daley has been honored by American Women in Radio and Television and was twice nominated for a Los Angeles Area Emmy Award. She has received a CINE (Council on International Non-Theatrical Events) Golden Eagle and the Barbara Jordan Award, as well as the California Governor's Award for her work with programming about the handicapped.

Dr. Daley obtained a Ph.D. Degree from the University of Wisconsin-Madison and Bachelor's and Master's Degrees from Tulane University and Newcomb College. In 2016, she was awarded a Degree of Doctor of Letters, honoris causa, from Hong Kong Baptist University.



## BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

### Independent Non-executive Directors (continued)

**WOO King Hang**, aged 61, was appointed as an independent non-executive Director and a member of each of the audit committee, remuneration committee and nomination committee of the Company on 28 June 2021. He has extensive experience in financial and business management. Mr. Woo is currently the vice chairman of the board of directors and a non-executive director of Centenary United Holdings Limited ("Centenary United"), an independent non-executive director, the chairman of audit committee and corporate governance committee and a member of remuneration committee of MOS House Group Limited ("MOS") and an independent non-executive director, a member of audit committee and nomination committee of Crocodile Garments Limited ("Crocodile"). Mr. Woo was an independent non-executive director of Hans Energy Company Limited ("Hans Energy") from June 2019 to December 2021, and an executive director of Bamboos Health Care Holdings Limited ("Bamboos"), between May 2019 and July 2019. He was also a project controller of NWS Service Management Limited from January 2019 to April 2019, and served as a financial controller and an executive director of Hip Hing Construction Company Limited from February 2006 to June 2010 and from July 2010 to December 2018 respectively, both companies being wholly-owned subsidiaries of NWS Holdings Limited ("NWSHL"). The shares of each of Centenary United (stock code: 1959), MOS (stock code: 1653), Crocodile (stock code: 122), Hans Energy (stock code: 554), Bamboos (stock code: 2293) and NWSHL (stock code: 659) are listed on the main board of the Stock Exchange.

Mr. Woo is a fellow member of each of the Institute of the Chartered Accountants in England and Wales, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Certified Public Accountants. He holds a Master's Degree of Business Administration from Kellogg School of Management, Northwestern University and the Hong Kong University of Science and Technology, a Bachelor's Degree of Laws from Peking University and a Master's Degree of Laws from the City University of Hong Kong. In addition, he is an honorary officer of the Auxiliary Medical Service and an advisor of School of Chinese Medicine, the Chinese University of Hong Kong. Mr. Woo is a member of each of the panel of assessors and the health committee of the Medical Council of Hong Kong, the Chinese medicine practitioners board and the disciplinary committee of the Chinese Medicine Council of Hong Kong, the Advisory Committee on Admission of Quality Migrants and Professionals. He also serves as the vice chairman of the Hong Kong PHAB Association and a council member of the Hong Kong Chinese Orchestra.

Mr. Woo was a director of Bell Tea Overseas Limited ("BTO", formerly known as Hip Hing Overseas Limited) from 2 July 2010 to 18 October 2018. BTO was a wholly-owned subsidiary of NWSHL and incorporated in Hong Kong on 13 April 1993 and was principally engaged in the business of construction overseas. On 19 September 2018, a winding up order (the "Order") was granted by the High Court of Hong Kong (the "High Court") on BTO. On 5 July 2021, the High Court ordered that BTO be dissolved. Mr. Woo confirmed that the Order was in relation to the non-payment for a sum arising from an arbitration case involving contractual dispute relating to the construction works of a building in Dubai which commenced in or about 2007 and was completed in or about 2011 between the petitioner of the Order and a joint venture entity (the "BTO JV") in which BTO had 30% interests. An award (the "Award") was granted by an arbitration institution in Dubai in favor of the said petitioner, which then enforced the whole amount of the Award in the High Court against, among others, BTO. Mr. Woo further confirmed that he was not involved in any of the matters concerning the operations of the BTO JV, the construction works or the said arbitration or matters leading to the granting of the Order.

## SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 27 April 2012 and amended on 3 April 2014 (the "2012 Option Scheme"). It was effective for a period of 10 years and expired on 27 April 2022. A new share option scheme of the Company was adopted on 16 June 2022 and is valid and effective for a period of 10 years (the "2022 Option Scheme"). Pursuant to the 2022 Option Scheme, the Directors are authorised to grant options to any Directors, any employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards. Apart from the aforesaid share option schemes, the Company did not have any other share option scheme.

### (1) Purpose

The purpose of the 2022 Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

### (2) Participants

Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Company or another member of the Group and service providers (as defined below) who the Board considers, in its sole discretion, to have contributed or will contribute to the Group. The aforesaid service providers are the persons, including but not limited to consultants and advisors, who provide services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are material to the long term growth of the Group.

### (3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the 2022 Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 432,902,762 Shares, representing approximately 9.52% of the Shares in issue as at the date of this annual report.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2022 Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. No options may be granted under the 2022 Option Scheme and any other share option schemes of the Company if this will exceed the aforesaid 30% limit.

### (4) The maximum entitlement of each participant under the 2022 Option Scheme

The total number of Shares issued and to be issued upon exercise of the options granted to each participant of the 2022 Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

Any further grant of options would result in the Shares issued and to be issued upon exercise in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such grantee and his close associates (or his associates if such grantee is a connected person) abstaining from voting and the requirements prescribed under the Listing Rules from time to time.

## SHARE OPTION SCHEME (CONTINUED)

### (5) The period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the 2022 Option Scheme at any time during the 10-year period from the date of grant.

### (6) The minimum period for which an option must be held before it can be exercised

The Board is empowered to impose, at its discretion, any minimum period that an option must be held at the time of granting any option.

### (7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

Acceptance of the option must be made within 28 days from the date of grant and HK\$1.00 must be paid as a consideration for the grant of option.

### (8) The basis of determining the exercise price

The exercise price of the option shall be such price determined by the Board in its absolute discretion and notified to the participant in the offer but shall be no less than the highest of:

- (a) The closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;
- (b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and
- (c) the nominal value of the Shares.

### (9) The remaining life of the 2022 Option Scheme

The 2022 Option Scheme is valid and effective for a period of 10 years commencing on the date of its adoption.

## SHARE OPTION SCHEME (CONTINUED)

### (i) 2012 Option Scheme

The following table discloses movements in the Company's options (the "Options") granted under the 2012 Option Scheme during the year:

Name and category of participants	Number of Options				At 31 December 2022	Date of grant	Exercise period	Exercise price per Share (HK\$)
	At 1 January 2022	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year				
<b>Director</b>								
Seah Ang	10,000,000 (Notes 2 and 3)	-	-	-	10,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.98
<b>Employees of the Group</b>								
Zhou Jian	15,000,000 (Notes 2 and 3)	-	-	-	15,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.98
Fan Lei	15,000,000 (Notes 2 and 3)	-	-	-	15,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.98
Other employees, in aggregate	34,473,000 (Note 2)	-	-	-	34,473,000	28/05/2014	28/05/2017 to 27/05/2024	0.98
	2,099,000 (Note 4)	-	-	-	2,099,000	06/05/2015	06/05/2015 to 05/05/2025	13.20
	2,000,000 (Note 4)	-	-	-	2,000,000	06/05/2015	06/05/2016 to 05/05/2025	13.20
	1,900,000 (Note 4)	-	-	-	1,900,000	06/05/2015	06/05/2017 to 05/05/2025	13.20
	9,150,006 (Note 5)	-	-	-	9,150,006	29/01/2016	29/01/2016 to 28/01/2026	4.13
	8,149,998 (Note 5)	-	-	-	8,149,998	29/01/2016	29/01/2017 to 28/01/2026	4.13
	7,583,327 (Note 5)	-	-	-	7,583,327	29/01/2016	29/01/2018 to 28/01/2026	4.13

## SHARE OPTION SCHEME (CONTINUED)

### (i) 2012 Option Scheme (continued)

Name and category of participants	Number of Options				At 31 December 2022	Date of grant	Exercise period	Exercise price per Share (HK\$)
	At 1 January 2022	Granted during the year	Exercised during the year	Cancelled/lapsed during the year				
<b>Employees of the Group (continued)</b>								
Other employees, in aggregate (continued)	5,000,000 (Note 7)	-	-	-	5,000,000	22/06/2016	22/06/2017 to 21/06/2026	4.95
	5,000,000 (Note 7)	-	-	-	5,000,000	22/06/2016	22/06/2018 to 21/06/2026	4.95
	1,666,671 (Note 8)	-	-	-	1,666,671	29/07/2016	29/07/2016 to 28/07/2026	5.66
	1,169,998 (Note 8)	-	-	-	1,169,998	29/07/2016	29/07/2017 to 28/07/2026	5.66
	843,324 (Note 8)	-	-	-	843,324	29/07/2016	29/07/2018 to 28/07/2026	5.66
	10,999,999 (Note 10)	-	-	-	10,999,999	24/04/2019	24/04/2019 to 23/04/2029	1.30
	666,667 (Note 10)	-	-	-	666,667	24/04/2019	29/02/2020 to 23/04/2029	1.30
	333,333 (Note 10)	-	-	-	333,333	24/04/2019	24/04/2020 to 23/04/2029	1.30
	666,667 (Note 10)	-	-	-	666,667	24/04/2019	28/02/2021 to 23/04/2029	1.30
	333,334 (Note 10)	-	-	-	333,334	24/04/2019	24/04/2021 to 23/04/2029	1.30
	29,050,000 (Note 11)	-	-	-	29,050,000	21/05/2020	21/05/2020 to 20/05/2030	0.46
	9,220,000 (Note 11)	-	-	-	9,220,000	21/05/2020	21/05/2021 to 20/05/2030	0.46
	7,360,000 (Note 11)	-	-	-	7,360,000	21/05/2020	21/05/2022 to 20/05/2030	0.46

## SHARE OPTION SCHEME (CONTINUED)

### (i) 2012 Option Scheme (continued)

Name and category of participants	Number of Options				At 31 December 2022	Date of grant	Exercise period	Exercise price per Share (HK\$)
	At 1 January 2022	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year				
<b>Others</b>								
Amit Chopra	4,800,000 (Note 2)	-	-	-	4,800,000	28/05/2014	28/05/2017 to 27/05/2024	0.98
	500,000 (Note 4)	-	-	-	500,000	06/05/2015	06/05/2015 to 05/05/2025	13.20
	500,000 (Note 4)	-	-	-	500,000	06/05/2015	06/05/2016 to 05/05/2025	13.20
	500,000 (Note 4)	-	-	-	500,000	06/05/2015	06/05/2017 to 05/05/2025	13.20
	3,333,334 (Notes 5 and 6)	-	-	-	3,333,334	29/01/2016	29/01/2016 to 28/01/2026	4.13
	3,333,333 (Notes 5 and 6)	-	-	-	3,333,333	29/01/2016	29/01/2017 to 28/01/2026	4.13
	3,333,333 (Notes 5 and 6)	-	-	-	3,333,333	29/01/2016	29/01/2018 to 28/01/2026	4.13
Wang Wei-Chung	166,667 (Note 5)	-	-	-	166,667	29/01/2016	29/01/2016 to 28/01/2026	4.13
	166,667 (Note 5)	-	-	-	166,667	29/01/2016	29/01/2017 to 28/01/2026	4.13
	166,666 (Note 5)	-	-	-	166,666	29/01/2016	29/01/2018 to 28/01/2026	4.13
Wei Ming	30,000,000 (Note 9)	-	-	-	30,000,000	13/02/2017	13/02/2017 to 12/02/2027	4.69
<b>Total</b>	<b>224,465,324</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>224,465,324</b>			

Notes:

- Options are valid for 10 years from the date of grant.
- Options granted on 28 May 2014 are exercisable with effect from the 3rd anniversary of the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.99 per share.
- The Options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on 28 May 2014 (i.e. the date of grant) were approved by the Shareholders at the special general meeting of the Company held on 23 July 2014.
- Each of one third of the Options granted to the grantees on 6 May 2015 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$13.90 per share.

## SHARE OPTION SCHEME (CONTINUED)

### (i) 2012 Option Scheme (continued)

Notes: (continued)

5. Each of one third of the Options granted to the grantees on 29 January 2016 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$4.00 per share.
6. The Options conditionally granted to Mr. Amit Chopra on 29 January 2016 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 7 June 2016.
7. 5,000,000 Options granted on 22 June 2016 are exercisable from each of the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$4.95 per share.
8. Each of one third of the Options granted to the grantees on 29 July 2016 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$5.50 per share.
9. The Options conditionally granted to Mr. Wei Ming on 13 February 2017 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 1 June 2017 and are exercisable from the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK\$4.65 per share.
10. 13,000,000 Options granted to the grantees on 24 April 2019, 10,999,999 Options, 333,333 Options and 333,334 Options of which are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively; 666,667 Options and 666,667 Options of which are exercisable from 29 February 2020 and 28 February 2021 respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$1.28 per share.
11. 47,800,000 Options granted to the grantees on 21 May 2020, 29,220,000 Options, 9,220,000 Options and 9,360,000 Options of which are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.47 per share.
12. Shareholders approved at the special general meeting held on 6 October 2021 that ten (10) issued existing shares be consolidated into one (1) consolidated share which became effective on 11 October 2021 and therefore, the exercise price and the number of the Options have been adjusted pursuant to the terms of the 2012 Option Scheme. Please refer to the Company's announcements dated 21 July 2021, 6 September 2021, 9 September 2021, 6 October 2021, 11 October 2021 and 12 October 2021 and circular dated 13 September 2021 for details.

### (ii) 2022 Option Scheme

No share option under the 2022 Option Scheme was granted, exercised, cancelled or has lapsed from the date of adoption to 31 December 2022.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

### Interests and short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 1 and 2)	200,853,132	10,000,000	210,853,132 (Long position)	4.87%
	Interest of controlled corporation (Note 1)	50,213,479	-	50,213,479 (Short position)	1.16%

#### Notes:

- Global Domain Investments Limited was deemed to be interested in 200,853,132 Shares by holding 50,213,479 Shares and taking a deemed interest in 150,639,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
- Mr. Seah Ang holds 10,000,000 Options granted under the 2012 Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.



# DIRECTORS' REPORT

## RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2022, which may also constitute connected transactions under the Listing Rules, are disclosed in note 36 to the consolidated financial statements.

During the year, the above-mentioned connected transactions, if applicable, have been complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2022, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Interests and short positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 1)	200,853,132	-	200,853,132 (Long position)	4.64%
	Beneficial owner (Note 1)	50,213,479	-	50,213,479 (Short position)	1.16%
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 1 and 2)	200,853,132	10,000,000	210,853,132 (Long position)	4.87%
	Interest of controlled corporation (Note 1)	50,213,479	-	50,213,479 (Short position)	1.16%
Wise Sun Holdings Limited	Person having a security interest in shares, beneficial owner and interest of controlled corporation (Note 3)	231,720,476	-	231,720,476 (Long position)	5.35%
Bright Ace Holdings Limited	Interest of controlled corporation (Note 3)	231,720,476	-	231,720,476 (Long position)	5.35%
Zhou Jian	Interest of controlled corporation and beneficial owner (Notes 3, 4 and 5)	238,242,849	15,000,000	253,242,849 (Long position)	5.85%
C Digital Libraries Inc.	Interest of controlled corporation (Note 10)	747,896,910	-	747,896,910 (Long position)	17.28%
Ng Clive Cheang Neng	Interest of controlled corporation (Note 10)	747,896,910	-	747,896,910 (Long position)	17.28%
Poly Culture Group Corporation Limited	Beneficiary of a trust (other than a discretionary interest)	532,360,000	-	532,360,000 (Long position)	12.30%

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

Interests and short positions in the Shares and underlying Shares (continued)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Jade Link Holdings Limited	Beneficial owner (Note 6)	503,720,000	-	503,720,000 (Long position)	11.64%
Tang Elaine Yilin	Interest of controlled corporation (Note 6)	503,720,000	-	503,720,000 (Long position)	11.64%
CITIC Limited	Interest of controlled corporation (Note 7)	218,117,818	-	218,117,818 (Long position)	5.04%
CITIC Group Corporation	Interest of controlled corporation (Note 7)	218,117,818	-	218,117,818 (Long position)	5.04%
Peter Chou	Interest of controlled corporation (Notes 8 and 9)	217,604,132	-	217,604,132 (Long position)	5.03%
	Interest of controlled corporation (Note 8)	60,256,174	-	60,256,174 (Short position)	1.39%

Notes:

- Global Domain Investments Limited was deemed to be interested in 200,853,132 Shares by holding 50,213,479 Shares and taking a deemed interest in 150,639,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
- Mr. Seah Ang holds 10,000,000 Options granted under the 2012 Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
- Wise Sun Holdings Limited beneficially holds 53,463,346 Shares and was deemed to be interested in 50,213,478 Shares held by Redmount Ventures Limited, and by having a security interest in 128,043,652 Shares under section 317 of the SFO. Redmount Ventures Limited is wholly-owned by Wise Sun Holdings Limited which in turn is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the above Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.
- Mr. Zhou Jian was deemed to be interested in 6,522,373 Shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.
- Mr. Zhou Jian holds 15,000,000 Options granted under the 2012 Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
- Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in 503,720,000 Shares held by Jade Link Holdings Limited.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

### Interests and short positions in the Shares and underlying Shares (continued)

Notes: (continued)

7. CITIC Group Corporation was deemed to be interested in 218,117,818 Shares held by Master Time Global Limited. Such Shares were owned by Master Time Global Limited which in turn is wholly owned by Dynasty One Investments Limited while Dynasty One Investments Limited is wholly owned by CITIC Limited. CITIC Limited is 32.53% and 25.60% controlled by CITIC Polaris Limited and CITIC Glory Limited respectively which are 100% controlled by CITIC Group Corporation.
8. Kabo Limited was deemed to be interested in 200,853,132 Shares by holding 60,256,174 Shares and taking a deemed interest in 140,596,958 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.
9. Mr. Peter Chou was deemed to be interested in 16,751,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.
10. C Digital Libraries Inc. was deemed to be interested in 747,896,910 Shares held by Digital Knight Finance S.à r.l. Digital Knight Finance S.à r.l. is 100% controlled by HLEE Finance S.à r.l. which in turn is 100% controlled by C Digital Libraries Inc. Mr. Ng Clive Cheang Neng was deemed to be interested in the above Shares by virtue of his 100% shareholding interest in C Digital Libraries Inc.
11. The percentage of the issued share capital of the Company has been complied based on the total number of issued Shares as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

the largest supplier	2%
five largest suppliers combined	6%

### Sales

the largest customer	25%
five largest customers combined	56%

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's number of issued share) had an interest in the major suppliers or customers noted above.

## DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

There was a banking facility (the "Facility") with the principal amount of HK\$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 31 December 2022, the outstanding loan principal of this Facility amounted to approximately HK\$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the Subsidiary was discontinued by the end of December 2010. The aforesaid bank took legal action against the Subsidiary and the Intermediate Holding Company in respect of the Facility. A provisional liquidator and two joint and several liquidators were appointed for the Subsidiary on 11 July 2012 and 23 July 2013, respectively. However, there was no corporate guarantee for the Facility issued by the Company and other subsidiaries of the Company in favour of the Subsidiary and the Intermediate Holding Company.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

## PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

## CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 37 to 49 of this annual report.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Group plays an important role in protecting our environment and is committed to minimize our impact on the environment and natural resources.

The Company adopted effective environmental protection by introducing e-communication with our Shareholders and non-registered holders. The Company encourages investors to read the Company's corporate communication published on the websites of the Company and the Stock Exchange so as to reduce paper consumption.

The Group installed video conference and telephone conference facilities for convening board meetings, committee meetings and management meetings. It encourages attendees to attend the meetings without frequent travelling so as to reduce the energy consumption.

The Group encourages and educates staff to save energy and reduce of paper use. It also encourages environmental practices such as utilizing emails for internal and external communication, adopting e-filing in server, double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances when not in use.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements. The Group is committed to safeguarding Shareholders' rights and enhancing corporate governance standard by establishing the audit committee, nomination committee and remuneration committee of the Company.

The Group has registered or is registering its intellectual property, including but not limited to trademarks, patents and copyright in the Greater China region, USA, Canada, India and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2022 is set out in the sections headed "Chairman's Statement" on page 4 and "Chief Executive Officer's Review" on pages 6 to 35 of this annual report. An analysis of each of the Group's capital risk management and financial risk management is provided in notes 39 and 40 to the consolidated financial statements.

The Company believes that employees are the valuable assets. The Group provides competitive remuneration package, benefit and opportunities for promotion to attract and motivate the employees.

The Group also understands that it is important to maintain good relationship with business partners, suppliers and customers. The management has kept good communication and exchanged ideas with them so as to achieve its long-term goals.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, the following director of the Company is considered to have interests in businesses apart from the Group's businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. Li Weiqiang ("Mr. Li") held directorship in Poly Film Investment Corporation Limited (保利影業投資有限公司) ("Poly Film") and Poly Joy Spreader Digi-Entertainment (Beijing) Co., Ltd. (保利樂享文娛科技(北京)有限公司) ("Poly Joy"). Poly Film is a subsidiary of Poly Culture Group Corporation Limited ("Poly Culture"), a substantial shareholder of the Company, and involved in businesses of production, promotion and distribution of entertainment content while Poly Joy is majority controlled by Poly Culture through Poly Film and involved in production and distribution of film and television drama projects and exploration of virtual humans and digital assets businesses ("Such Companies").

However, the board of directors of the Company (the "Board") is independent from the boards of directors of Such Companies and none of the directors of the Company can personally control the Board. Such Companies are managed by its independent management and administration. Further, Mr. Li is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and its shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Such Companies.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors in writing an annual confirmation of his/her independence for the year pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors (including Mr. Duan Xiongfei and Ms. Lau Cheong who have served as an independent non-executive Director for more than 9 years) to be independent.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Group has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

# DIRECTORS' REPORT

## EMOLUMENT POLICY

The employees of the Group are remunerated on a performance-related basis.

The emoluments of the executive Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted a share option scheme as incentive and rewards to encourage participants (including directors and employees). Details of the Option Scheme are set out under "Share Option Scheme" of this report and in note 28 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save as disclosed under the sub-sections headed "Shares" and "Share Options" under "Chief Executive Officer's Review", the section headed "Share Option Scheme" above and note 28 to the consolidated financial statements, no equity-linked agreement was entered into by the Company during the financial year or subsisted at the end of the financial year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rules 13.51B(1) of the Listing Rules, changes in the Director's information since the disclosure made in the interim report of the Company for the six months ended 30 June 2022 are set out as follows:

- (1) Ms. Alla Y Alenikova has been appointed as non-executive Director with effect from 9 November 2022.
- (2) Mr. Sergei Skatershchikov has resigned as non-executive Director with effect from 9 November 2022.
- (3) Dr. Sun Ta-Chien has been appointed as executive Director and became a member of executive committee of the Company with effect from 24 December 2022.
- (4) Dr. Chang San-Cheng has resigned as executive Director and ceased to be a member of executive committee of the Company with effect from 24 December 2022.
- (5) As agreed by Dr. Elizabeth Monk Daley, the independent non-executive Director, and the Company, her annual director's fee had been reduced to US\$46,154 for the period from 1 February 2021 to 31 December 2021 and remains unchanged starting from 1 January 2022.

## REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited consolidated financial statements for the year.

## INDEPENDENT AUDITOR

The consolidated financial statements for the year have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the independent auditor of the Company.

On behalf of the Board

**Seah Ang**

*Executive Director and Chief Executive Officer*

Hong Kong, 30 March 2023



# INDEPENDENT AUDITOR'S REPORT



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## TO THE SHAREHOLDERS OF DIGITAL DOMAIN HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

### OPINION

We have audited the consolidated financial statements of Digital Domain Holdings Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 77 to 169, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Impairment assessment of non-financial assets (excluding film rights)*

As at 31 December 2022, the carrying amount of the Group's property, plant and equipment, investment properties, right-of-use assets and goodwill and intangible assets amounted to HK\$50,919,000, HK\$24,668,000, HK\$82,292,000 and HK\$522,211,000 (collectively "non-financial assets"). The Group sustained a loss for the year ended 31 December 2022 and accordingly, management considered that there was indicator of impairment of the Group's non-financial assets.

Goodwill and indefinite life intangible assets are required to be tested for impairment annually.

For the purpose of assessing impairment, these assets were allocated to respective cash generating units ("CGUs"). Impairment loss is recognised by which the carrying amount of a CGU exceeds its recoverable amount. Recoverable amount of each CGU is the higher of its fair value less costs of disposal and value-in-use. In measuring the CGU's recoverable amounts, management, to their best estimate, had prepared cash flow projections with assumptions. Significant management judgement on assumptions with respect to the discount rate, revenue growth rate, forecasting periods was used. Management has concluded that there is no impairment in respect of the Group's non-financial assets.

We focused on this area and identified it as the key audit matter because of the significance of non-financial assets to the Group and the level of the subjectivity associated with the judgement and assumptions used in estimating the value-in-use of the CGUs.

Refer to "Impairment of non-financial assets" in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosures of goodwill and intangible assets in note 16 to the consolidated financial statements.

### *Our response:*

Our audit procedures in relation to management's impairment assessment included:

- With the assistance of our internal valuation specialists, assessed the methodology used by the Group in performing impairment assessment;
- Challenged the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Reconciled input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts.

### *Impairment assessment of intangible asset – film rights*

As at 31 December 2022, the carrying amount of the Group's film rights included in goodwill and intangible assets amounted to HK\$128,499,000, which is significant to the total assets of the Group.

Intangible asset related to film rights which is not yet available to release at the end of the reporting period required to be tested for impairment annually. For the purpose of assessing impairment, this asset was allocated to one CGU. Impairment loss is recognised by which the carrying amount of the CGU exceeds its recoverable amount. Recoverable amount of CGU is the higher of its fair value less costs of disposal and value-in-use. In measuring the CGU's recoverable amount, management, to their best estimate, had prepared cash flow projection with assumptions. Significant management judgement on assumptions with respect to the discount rate, estimated future cash flows, forecasting periods was used. Management has concluded that there is no impairment in respect of the film rights.

We focused on this area and identified it as the key audit matter because of the significance of the film rights included in goodwill and intangible assets to the Group and the level of the subjectivity associated with the judgement and assumptions used in estimating the value-in-use of the CGU.

Refer to "Impairment of non-financial assets" in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosures of goodwill and intangible assets in note 16 to the consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## *Our response:*

Our audit procedures in relation to management's impairment assessment included:

- With the assistance of our internal valuation specialists, assessed the methodology used by the Group in performing impairment assessment;
- Challenged the reasonableness of key assumptions based on our knowledge of the business; and
- Reconciled input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of the forecast.

## *Expected credit losses on amounts due from associates and other receivables*

As at 31 December 2022, the Group had amounts due from associates of HK\$29,468,000 and other receivables of HK\$34,476,000. Provision of impairment of HK\$16,143,000 in aggregate has been recognised on these balances for the year ended 31 December 2022.

Assessing impairment of these balances is a subjective area as it requires application of judgement and uses of estimates. Judgement is applied in assessing the risk of default of the underlying borrowers, which include assessment on creditworthiness, repayment history and days past due information of the underlying borrowers.

We have identified impairment assessment of these balances as a key audit matter due to considerable amount of judgement being required and high level of estimation uncertainty involved in conducting impairment assessment as mentioned in the foregoing paragraph.

Refer to "Impairment loss on financial assets and contract assets" in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosures of interests in associates and trade receivables, other receivables and prepayments in note 17 and note 21 to the consolidated financial statements.

## *Our response:*

Our audit procedures in relation to management's impairment assessment included:

- Evaluated management's impairment assessment on the default risk of these balances by challenging management's views of probability of default events of amounts outstanding;
- Challenged management's view of risk of default and loss given default of these balances by:
  - evaluated evidences including financial information, day past due information and credit rating of the underlying debtors available; and
  - inquired and understood management's knowledge of future conditions that may impact expected receipts from the underlying debtors.
- Assessed the disclosures of the quantitative and qualitative considerations in relation to credit risks on these balances, by comparing these disclosures to our understanding of the matter.

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the Directors in discharging their responsibility in this regard.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

# INDEPENDENT AUDITOR'S REPORT

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **BDO Limited**

*Certified Public Accountants*

Chan Tsz Hung

Practising Certificate number: P06693

Hong Kong, 30 March 2023

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	6	958,651	864,214
Cost of sales and services rendered		(741,789)	(740,249)
Gross profit		216,862	123,965
Other income and gains	7	28,024	86,525
Selling and distribution expenses		(8,861)	(8,069)
Administrative expenses and other net operating expenses		(401,294)	(348,413)
Finance costs	9	(28,372)	(24,779)
Fair value loss on financial assets measured at fair value through profit or loss	20	(24,430)	(27,694)
Fair value gain on investment properties	14	14,266	-
Impairment loss on goodwill	16	-	(16,170)
Impairment loss on intangible assets	16	-	(216,302)
Reversal/(recognition) of impairment loss on trade receivables and contract assets	40(a)	936	(6,357)
Impairment loss on other receivables	40(a)	(3,963)	(81,674)
Impairment loss on investment in a joint venture		(71)	-
Impairment loss on investment in an associate	17	-	(163,626)
Impairment loss on amounts due from associates	17	(12,180)	(71,335)
Share of losses of associates	17	(2)	(24,383)
Loss before taxation	8	(219,085)	(778,312)
Taxation	11(a)	3,820	(2,234)
Loss for the year		(215,265)	(780,546)
<b>Loss attributable to:</b>			
- Owners of the Company		(206,320)	(722,004)
- Non-controlling interests	31	(8,945)	(58,542)
		(215,265)	(780,546)
<b>Loss per share from attributable to the owners of the Company:</b>			
Basic and diluted	12	HK cents (4.77)	HK cents (17.31)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
<b>Loss for the year</b>		(215,265)	(780,546)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		(2,552)	(17,576)
Share of other comprehensive income of associates	17	1	(1,384)
Share of other comprehensive income of a joint venture		-	25
<b>Other comprehensive income for the year</b>		(2,551)	(18,935)
<b>Total comprehensive income for the year</b>		(217,816)	(799,481)
<b>Total comprehensive income attributable to:</b>			
- Owners of the Company		(210,164)	(739,015)
- Non-controlling interests	31	(7,652)	(60,466)
		(217,816)	(799,481)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	50,919	83,791
Investment properties	14	24,668	-
Right-of-use assets	15	82,292	56,314
Goodwill and intangible assets	16	522,211	533,994
Interests in associates	17	30,048	34,730
Interests in joint ventures	18	8	71
Financial asset measured at fair value through other comprehensive income	19	-	-
Financial assets measured at fair value through profit or loss	20	41,349	70,151
Deposits	21	10,239	7,344
Deferred tax assets	11(b)	1,551	681
		763,285	787,076
<b>Current assets</b>			
Trade receivables, other receivables and prepayments	21	107,670	140,710
Contract assets	22(a)	2,536	24,558
Tax recoverable		2,659	-
Cash and cash equivalents and pledged bank deposits	23	153,553	247,755
		266,418	413,023
<b>Current liabilities</b>			
Trade payables, other payables and accruals	24	193,558	170,845
Lease liabilities	15	25,061	26,567
Contract liabilities	22(b)	53,624	86,707
Borrowings	25	149,016	49,646
Tax payable		3,621	7,604
		424,880	341,369
<b>Net current (liabilities)/assets</b>		(158,462)	71,654
<b>Total assets less current liabilities</b>		604,823	858,730



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
<b>Non-current liabilities</b>			
Other payables	24	-	10,304
Borrowings	25	192,846	238,758
Lease liabilities	15	75,508	52,352
Deferred tax liabilities	11(b)	43,450	46,530
		311,804	347,944
<b>NET ASSETS</b>			
		293,019	510,786
<b>Capital and reserves</b>			
Share capital	26	43,290	43,290
Reserves		332,467	542,582
<b>Equity attributable to owners of the Company</b>			
<b>Non-controlling interests</b>	31	(82,738)	(75,086)
<b>TOTAL EQUITY</b>			
		293,019	510,786

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2023 and are signed on its behalf by:

**Seah Ang**  
DIRECTOR

**Duan Xiongfei**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company										Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	FVOCI reserve HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000		
	Notes (Note 26)	(Note 27(i))	(Note 27(ii))	(Note 27(iii))	(Note 27(iv))	(Note 27(v))	(Note 27(vi))					
As at 1 January 2021	340,754	1,984,773	(196,213)	594,690	181,949	4,482	3,868	(2,072,872)	841,431	(28,560)	812,871	
Recognition of equity-settled share-based payment expenses	28	-	-	-	1,856	-	-	-	1,856	-	1,856	
Issue of shares on subscription, net of expenses												
- on 18 January 2021	26(a)	68,148	272,287	-	-	-	-	-	340,435	-	340,435	
- on 30 July 2021	26(a)	24,000	131,996	-	-	-	-	-	155,996	-	155,996	
Capital contribution from non-controlling interest										122,757	122,757	
Acquisition of non-controlling interest without a change in control								(14,831)	(14,831)	(108,817)	(123,648)	
Transfer of share premium to contributed surplus			(2,257,060)	2,257,060								
Set-off of contributed surplus against accumulated losses				(2,257,060)				2,257,060				
Capital reorganisation	26(b)	(389,612)		389,612								
Total comprehensive income:												
Loss for the year								(722,004)	(722,004)	(58,542)	(780,546)	
Currency translation differences						(15,652)			(15,652)	(1,924)	(17,576)	
Share of other comprehensive income of associates	17					(1,384)			(1,384)		(1,384)	
Share of other comprehensive income of a joint venture						25			25		25	
Total comprehensive income for the year						(17,011)		(722,004)	(739,015)	(60,466)	(799,481)	
As at 31 December 2021		43,290	131,996	(196,213)	984,302	183,805	(12,529)	3,868	(552,647)	585,872	(75,086)	510,786

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company										
	Share capital	Share premium	FVOCI reserve	Contributed surplus	Share options reserve	Exchange fluctuation reserve	Other reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000 (Note 26)	HK\$'000 (Note 27(i))	HK\$'000 (Note 27(ii))	HK\$'000 (Note 27(iii))	HK\$'000 (Note 27(iv))	HK\$'000 (Note 27(v))	HK\$'000 (Note 27(vi))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2022	43,290	131,996	(196,213)	984,302	183,805	(12,529)	3,868	(552,647)	585,872	(75,086)	510,786
Recognition of equity-settled share-based payment expenses	28	-	-	-	49	-	-	-	49	-	49
Total comprehensive income:											
Loss for the year		-	-	-	-	-	-	(206,320)	(206,320)	(8,945)	(215,265)
Currency translation differences		-	-	-	-	(3,845)	-	-	(3,845)	1,293	(2,552)
Share of other comprehensive income of associates	17	-	-	-	-	1	-	-	1	-	1
Total comprehensive income for the year		-	-	-	-	(3,844)	-	(206,320)	(210,164)	(7,652)	(217,816)
As at 31 December 2022	43,290	131,996	(196,213)	984,302	183,854	(16,373)	3,868	(758,967)	375,757	(82,738)	293,019

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
<b>Cash flows from operating activities</b>			
Loss before taxation		(219,085)	(778,312)
Adjustments for:			
Depreciation of property, plant and equipment	8	37,760	32,228
Depreciation of right-of-use assets	8	30,303	34,378
Amortisation of intangible assets	8	35,061	33,852
Loss/(gain) on disposal of property, plant and equipment	8	5,820	(1)
COVID-19-Related rent concessions	7	(1,703)	(1,343)
Paycheck protection program loans forgiven	7	-	(8,259)
Effect of lease modification	7	(49)	-
Equity-settled share-based payment expenses	8	49	1,856
Net exchange losses/(gains)		5,827	(13,578)
Share of losses of associates	17	2	24,383
Impairment loss on goodwill	16	-	16,170
Impairment loss on intangible assets	16	-	216,302
Impairment loss on investment in an associate	17	-	163,626
Impairment loss on investment in a joint venture		71	-
(Reversal)/recognition of impairment loss on trade receivables and contract assets	40(a)	(936)	6,357
Impairment loss on other receivables	40(a)	3,963	81,674
Impairment loss on amounts due from associates	17	12,180	71,335
Fair value loss on financial assets measured at fair value through profit or loss	20	24,430	27,694
Fair value gain on investment properties	14	(14,266)	-
Interest income	7	(2,131)	(5,946)
Finance costs	9	28,372	24,779
Operating loss before working capital changes		(54,332)	(72,805)
Decrease/(increase) in trade receivables, other receivables and prepayments		18,467	(34,598)
Decrease/(increase) in contract assets		22,123	(6,798)
Increase in trade payables, other payables and accruals		8,674	791
(Decrease)/increase in contract liabilities		(33,083)	41,805
Cash used in operations		(38,151)	(71,605)
Income tax paid		(3,439)	(578)
Interest paid		(13,576)	(10,852)
<b>Net cash used in operating activities</b>		<b>(55,166)</b>	<b>(83,035)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
<b>Cash flows from investing activities</b>			
Interest received		732	3,455
Purchases of property, plant and equipment		(14,173)	(38,501)
Proceeds from disposal of property, plant and equipment		1,605	1
Additions to intangible assets		(25,206)	(57,557)
Advance to associates		(7,569)	(14,336)
Placement of bank deposits		(433,249)	(374,232)
Proceeds from redemption of bank deposits		433,249	342,214
Purchases of financial assets measured at fair value through profit or loss		-	(102,394)
Investment in an associate		-	(585)
Additional investment in an associate		-	(15,433)
<b>Net cash used in investing activities</b>		<b>(44,611)</b>	<b>(257,368)</b>
<b>Cash flows from financing activities</b>			
	32		
Proceeds from issue of ordinary shares, net of issuing expenses		-	496,431
Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder		-	122,757
Acquisition of non-controlling interest without a change in control		-	(123,648)
New bank borrowings		22,561	40,738
Repayment of bank borrowings		(39,801)	(22,738)
Repayment of principal portion of lease liabilities		(32,688)	(36,796)
Repayment of interest portion of lease liabilities		(9,890)	(10,141)
New inception of other loans		86,302	-
Repayment of other loans		(14,147)	(22,096)
<b>Net cash generated from financing activities</b>		<b>12,337</b>	<b>444,507</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(87,440)</b>	<b>104,104</b>
Effect of foreign exchange rate changes		(6,535)	(2,266)
<b>Cash and cash equivalents at beginning of the year</b>		<b>130,455</b>	<b>28,617</b>
<b>Cash and cash equivalents at end of the year</b>	23	<b>36,480</b>	<b>130,455</b>
<b>Analysis of the balances of cash and cash equivalents:</b>			
Bank balances and cash		36,480	130,455

## 1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the “Company”) was 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”) and has its principal place of business at Suite 2005, 20/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Company’s principal subsidiaries are set out in note 30.

As at 31 December 2022, in the opinions of the directors of the Company (“the Directors”), the Company has no immediate and ultimate holding company or ultimate controlling party.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### (a) Adoption of amended HKFRSs – effective on 1 January 2022

The HKICPA has issued a number of amended HKFRSs that are first effective for the current accounting period of the Company and its subsidiaries (collectively the “Group”):

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

None of these amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any amended HKFRSs that is not yet effective for the current accounting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

### (b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted

The following new or amended HKFRSs, potentially relevant to the Group’s consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, Non-current liabilities with covenants <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024

<sup>3</sup> No mandatory effective date determined but available for adoption

#### *Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current and HK Interpretation 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, Non-current Liabilities with Covenants*

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Directors do not anticipate that the application of these amendments in the future will have an impact on the consolidated financial statements.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

- (b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted (continued)

### *Amendments to HKAS 1 and HKFRS 2 Practice Statement 2 – Disclosure of Accounting Policies*

The amendments to Disclosure of Accounting Policies require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that their primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures.

The Directors do not anticipate that the application of these amendments may have an impact on the consolidated financial statements.

### *Amendments to HKAS 8 – Definition of Accounting Estimates*

These amendments clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The Directors do not anticipate that the application of these amendments may have an impact on the consolidated financial statements.

### *Amendments to HKAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

These amendments narrow the scope of the initial recognition exception so that it does not apply to transactions that give rise to equal and offsetting temporary differences. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liabilities for temporary differences arising from these transactions.

The Directors do not anticipate that the application of these amendments may have an impact on the consolidated financial statements.

### *Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments may have an impact on the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

- (b) New or amended HKFRSs that have been issued but are not yet effective and not early adopted (continued)

### *Amendments to HKFRS 16 – Lease Liability in a Sale and Leaseback*

The amendments specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The Directors do not anticipate that the application of these amendments may have an impact on the consolidated financial statements.

## 3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

These consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments and investment properties, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the same as the functional currency of the Company.

The management has given careful consideration to the going concern status of the Group in light of the fact that the Group (i) incurred a loss of approximately HK\$216 million for the year ended 31 December 2022, (ii) has net current liabilities of approximately HK\$158 million as at 31 December 2022, (iii) had net cash outflow from operating activities of approximately HK\$55 million for the year ended 31 December 2022 and (iv) had cash and cash equivalents and pledged bank deposits of approximately HK\$154 million against the Group’s borrowings amounted to approximately HK\$149 million, which will be due within twelve months after 31 December 2022. These events or conditions may cast significant doubt about the Group’s ability to continue as a going concern. For the purpose of assessing the appropriateness of the use of the going concern basis, management has prepared a cash flow projection covering a period from the end of the reporting period to 31 December 2023 (“Cash Flow Projection”) after taking the following measures into account:

- i. subsequent to 31 December 2022, 219,375,000 shares of the Company have been issued and allotted by two subscribers. The net proceeds from the issue of these shares, after deduction of relevant expenses, are approximately HK\$70 million (note 38);
- ii. subsequent to 31 December 2022, the Group has obtained confirmation from financial institutions on the renewal of existing bank borrowings amounted to HK\$93 million, which will originally be due within twelve months after 31 December 2022, for a period of three years;
- iii. the Group has unutilised facility in an aggregate amount of HK\$9 million available from various financial institutions; and
- iv. the expected net cash inflows from the release of the Group’s film (note 16(g)) within 2023 is HK\$123 million.

Based on the Cash Flow Projection, the Group would have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due. Accordingly, management considered it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All inter-company transactions and balances within the Group together with unrealised profits are eliminated in full on consolidation.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive processes and whether the acquired set has the ability to produce outputs.

The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Subsequent to acquisition, the carrying amount of non-controlling interest that represents present ownership interest in the subsidiary is the amount of that interest at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in the Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity (included in "accumulated losses") and attributed to owners of the Company.

When the Company loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for on the same basis as would be required if the relevant assets or liabilities were disposed of.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Subsidiaries

A subsidiary is an investee (including structured entity) over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- substantive potential voting rights held by the Company and other parties who hold voting rights;
- other contractual arrangements; and
- historic patterns in voting attendance.

### Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investors' share in the associates' profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- the structure of the joint arrangement;
- the legal form of joint arrangements structured through a separate vehicle;
- the contractual terms of the joint arrangement agreement; and
- any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures in the same manner as investments in associates (i.e. using the equity method).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenue and expenses in accordance with its contractually conferred rights and obligations.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it is probable that future economic benefits of the expenditure will flow to the entity, and the cost of which can be measured reliably, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, except construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The useful lives are as follows:

Furniture, fixtures and equipment	1 to 10 years
Machineries	3 to 5 years

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment (continued)

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation but not held for sale. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

### Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- goodwill and intangible assets; and
- interests in associates and joint ventures.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. Recoverable amount is the higher of fair value less costs of disposal and value-in-use.

In assessing value-in-use, the estimated future cash flows expected to be derived from the CGU are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU), except for goodwill, is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets

#### (i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired in accordance with accounting policy on "Impairment of non-financial assets".

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which allocated goodwill is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit on a pro-rata basis on the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value-in-use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent period.

#### (ii) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

#### (iii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed intangible assets (including films) is capitalised if it can be demonstrated that:

- it is technically feasible to develop the asset for it to be sold;
- there is an intention to complete and use or sell the asset;
- the Group is able to sell the asset;
- how the use or sale of the asset will generate probably future economic benefits to the Group is demonstrable;
- adequate resources are available to complete the development;
- sale of the asset will generate future economic benefits; and
- expenditure on the asset can be measured reliably.

Capitalised development costs are amortised over the periods as appropriate. The Group expects to benefit from selling the asset developed. The amortisation expense is recognised in profit or loss and included in cost of services rendered.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (continued)

#### (iv) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### (v) *Amortisation*

The amortisation is charged on a straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets with finite useful lives are ready for use. The amortisation expense is recognised in profit or loss. The estimated useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates of intangible assets with finite useful lives are as follows:

Proprietary software	3 years
Participation rights	3 to 5 years
Patents	10 to 15 years
Licences for intellectual property rights	Over the terms of the relevant licensing agreements
Film rights	refer to note 16(g)

#### (vi) *Derecognition of intangible assets*

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### Financial Instruments

#### (i) *Financial assets*

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL (as defined below), transaction costs that are directly attributable to its acquisition or issue. Trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial Instruments (continued)

#### (i) Financial assets (continued)

##### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

**Fair value through other comprehensive income ("FVOCI"):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

**Fair value through profit or loss ("FVTPL"):** Financial assets measured at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

##### *Equity instruments*

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.



## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial Instruments (continued)

#### (ii) *Impairment loss on financial assets and contract assets*

The Group recognises loss allowances for expected credit loss (“ECL”) on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group measures loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on lifetime ECLs except when there has not been a significant increase in credit risk since initial recognition, in which case the allowance will be based on the 12-month ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

The Group considers a financial asset to be credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred, including the following observable events: (1) significant financial difficulty of the debtor; (2) a breach of contract, such as a default or being more than 90 days past due; (3) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; (4) it is probable that the debtor will enter bankruptcy or other financial reorganisation; or (5) the disappearance of an active market for a security because of financial difficulties.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial Instruments (continued)

#### (ii) *Impairment loss on financial assets and contract assets (continued)*

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are long aged, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

#### (iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

#### *Financial liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

### (iii) *Financial liabilities (continued)*

#### *Financial liabilities at amortised cost*

Financial liabilities at amortised cost, including trade payables, other payables and accruals and borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

### (iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

### (v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. For the purpose of the consolidated statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

### Leases

#### *The Group as a lessee*

All leases are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

#### *Right-of-use assets*

The right-of-use asset should be recognised at cost and would comprise:

- (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability);
- (ii) any lease payments made at or before the commencement date, less any lease incentives received;
- (iii) any initial direct costs incurred by the lessee; and
- (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use assets are depreciated on a straight-line basis over the lease terms. The lease terms are as follows:

Buildings	2 to 10 years
Equipment	2 to 5 years

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (continued)

#### *Lease liability*

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use on the underlying assets during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

- (i) fixed payments less any lease incentives receivable;
- (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;
- (iii) amounts expected to be payable by the lessee under residual value guarantees;
- (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group shall measure the lease liability by:

- (i) increasing the carrying amount to reflect interest on the lease liability;
- (ii) reducing the carrying amount to reflect the lease payments made; and
- (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (continued)

#### *Lease liability (continued)*

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for COVID-19-Related rent concessions applies, if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

### Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income tax.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill not deductible for tax purposes and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, provided that the deductible temporary differences are not arises from initial recognition of assets and liabilities in a transaction other than in a business combination that affects neither taxable profit nor the accounting profit. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period, and reflects any uncertainty related to income taxes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

### Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in HK\$ which is the functional currency of the Company.

In preparing the financial statements of the individual entities, foreign currency transactions are translated into individual entity's functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in HK\$ using exchange rates prevailing at the end of reporting period. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange fluctuation reserve. Such translation differences, to the extent attributable to the owners of the Company, are recognised in profit or loss in the period when the foreign operations are disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employees' benefits

#### *Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees rendered the related service.

#### *Retirement benefit scheme*

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, if any.

#### *Termination benefits*

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

### Share-based payments

For equity-settled share-based payment transactions, the Group shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share options reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share options reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to accumulated losses).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of the goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- 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.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

### (i) *Services of visual effects production and post production*

Revenue from the provision of services of visual effects production and post production is recognised over time, using the input method to measure progress towards complete satisfaction of the service, because (1) the Group's production works enhance assets that the customers control as the assets is enhanced; and (2) 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 input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (continued)

#### (ii) Licence fee income

The Group grants certain licences for using its virtual reality contents to customers for licence fee income.

The Group did not have unconditional right, and is not expected to undertake activities that significantly affect the licensed virtual reality contents to which the customers have rights to. Accordingly, the Group considers the granting of a licence as providing the customers the right to use the Group's virtual reality contents and the performance obligation is satisfied at a point in time at which the licence is granted of.

(iii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate under the effective interest method.

(iv) Income arising from broadcasting movies and TV dramas are recognised in accordance with the terms and substances of the relevant agreements, and at point in time when (1) the Group's right to the payment is reasonably certain with no further obligation; and (2) the amount the Group is entitled to receive can be measured reliably.

### Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only passage of time is required before payment of that consideration is due.

### Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. A contract liability is recognised when the payment is made or the payment is due (whichever is earlier) before the Group transfers goods or services to the customer. Contract liabilities are recognised as revenue when the Group performs under the contract.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Government grants (continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable and are recognised as other revenue, rather than reducing the related expense.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### Estimates and judgements

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Given COVID-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In addition to information disclosed elsewhere in the Group's consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

### *Impairment of non-financial assets (excluding film rights)*

In determining whether an item of non-financial assets is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing:

- (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence;
- (ii) whether the carrying value of an asset or a CGU can be supported by the recoverable amount of the CGU, which is the higher of fair value less costs of disposal and value-in-use of the CGU. The value-in-use calculation is based on the net present value of future cash flows which are estimated based upon the continued use of the asset or CGU, or derecognition; and
- (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates, revenue growth rate and forecasting periods assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### Estimates and judgements (continued)

#### *Impairment of intangible asset – film rights*

A film rights included in intangible asset is not yet available to release at the end of the reporting period. In determining whether the film rights included in goodwill and intangible assets is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of this impairment, particularly in assessing:

- (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence;
- (ii) whether the carrying value of a CGU can be supported by the recoverable amount of the CGU, which is the higher of fair value less costs of disposal and value-in-use of the CGU. The value-in-use calculation is based on the net present value of future cash flows which are estimated based upon the continued use of CGU, or derecognition; and
- (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates, estimated future cash flows and forecasting periods assumptions in the cash flow projection, could materially affect the net present value used in the impairment test.

#### *Deferred tax*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 11(b).

#### *Provision for ECLs on trade receivables and contract assets*

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the sectors in which the Group operates the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### Estimates and judgements (continued)

#### *Provision for ECLs on trade receivables and contract assets (continued)*

The assessment of the correlation among historical observed default rates and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances. The Group's historical credit loss experience may also not be representative of customer's actual default in the future.

The economic downturn and uncertainties that have arisen as a result of COVID-19 pandemic have made these estimates more judgemental, which the Group has taken into account in its determination of applicable expected credit losses. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 21, 22(a) and 40(a) to the consolidated financial statements.

#### *Impairment of other financial assets*

The loss allowances for other financial assets are based on assumptions about risk of default of the underlying borrowers, which include assessment of creditworthiness, repayment history and days past due information of the underlying borrowers, and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 40(a).

#### *Incremental borrowing rate on lease agreements*

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses incremental borrowing rates ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

#### *Useful lives of property, plant and equipment and intangible assets*

The Group estimates the useful lives of property, plant and equipment and intangible assets in order to determine the amount of depreciation and amortisation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service outputs of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

#### *Valuation of investment properties*

Investment properties are carried in the consolidated statement of financial position at their fair value, details of which are disclosed in note 14. The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent qualified valuer using property valuation techniques which involve certain assumptions and inputs as set out in note 14. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties included in the consolidated statement of financial position and corresponding adjustments to the changes in fair value recognised in profit or loss. As at 31 December 2022, the carrying amount of investment properties was approximately HK\$24,668,000 (2021: HK\$Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

### *Fair value measurements*

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period as they occur.

The Group measures fair value of financial asset measured at FVOCI and financial assets measured at FVTPL as detailed in notes 19 and 20.

## 6. REVENUE AND SEGMENT REPORTING

An analysis of the Group's revenue from its principal activities for the year is as follows:

	2022 HK\$'000	2021 HK\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15:</b>		
Provision of		
- visual effects production and post production services	933,714	800,750
- virtual human and virtual reality services and 360 degree digital capture technology application	23,935	56,142
- granting of licence for virtual reality contents	1,002	7,322
	<b>958,651</b>	<b>864,214</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 6. REVENUE AND SEGMENT REPORTING (CONTINUED)

Disaggregation of revenue from contracts with customers

Segment	Media entertainment	
	2022 HK\$'000	2021 HK\$'000
<b>Types of goods or service</b>		
Provision of		
- visual effects production and post production services	933,714	800,750
- virtual human and virtual reality services and 360 degree digital capture technology application	23,935	56,142
- granting of licence for virtual reality contents	1,002	7,322
<b>Total revenue from contracts with customers</b>	<b>958,651</b>	<b>864,214</b>
<b>Geographical markets</b>		
Hong Kong	975	4,030
The People's Republic of China (the "PRC")	76,947	74,676
The United States of America ("USA")	316,265	309,668
Canada	546,929	404,128
United Kingdom ("UK")	13,685	57,340
Europe other than UK	-	3,503
Other countries/regions	3,850	10,869
<b>Total revenue from contracts with customers</b>	<b>958,651</b>	<b>864,214</b>
<b>Timing of revenue recognition</b>		
A point in time	24,937	63,464
Over time	933,714	800,750
<b>Total revenue from contracts with customers</b>	<b>958,651</b>	<b>864,214</b>

### (a) Reportable segment

The Group determines its operating segment based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions. The Group has only one operating and reportable segment.

The following summary describes the operations in the Group's only reportable segment, media entertainment:

- provision of visual effects production and post production services, virtual human and virtual reality services and 360 degree digital capture technology application, and granting of licence for virtual reality contents



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 6. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (a) Reportable segment (continued)

Management monitors the results of its operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before taxation. The adjusted loss before taxation is measured consistently with the Group's loss before taxation, except that, impairment loss on other receivables, impairment loss on investment in an associate, impairment loss on investment in a joint venture, impairment loss on amounts due from associates, fair value loss on financial assets measured at FVTPL, fair value gain on investment properties, loss on disposal of unallocated property, plant and equipment, share of losses of associates, auditor's remuneration, depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets, professional fees, finance costs, equity-settled share-based payment expenses, unallocated short-term lease expenses, unallocated other income and gains (including royalty income, interest income and sundry income), as well as head office and corporate expenses, are excluded from such measurement.

Segment assets exclude investment properties, interests in associates, interests in joint ventures, financial assets measured at FVTPL, unallocated cash and cash equivalents and pledged bank deposits, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, unallocated borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Media entertainment	
	2022 HK\$'000	2021 HK\$'000
Revenue from external customers and reportable segment revenue	958,651	864,214
Reportable segment loss	(91,356)	(398,994)
Additions to non-current assets	95,360	97,177
Depreciation and amortisation	(97,504)	(94,257)
Impairment loss on goodwill	-	(16,170)
Impairment loss on intangible assets	-	(216,302)
(Loss)/gain on disposal of property, plant and equipment	(4,188)	1
Taxation credited/(charged)	3,895	(2,229)
Reportable segment assets	782,143	839,141
Reportable segment liabilities	541,430	581,029

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 6. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Reconciliation of reportable segment profit or loss, assets and liabilities

	2022 HK\$'000	2021 HK\$'000
<b>Loss before taxation</b>		
Segment loss	(91,356)	(398,994)
Impairment loss on other receivables	(3,963)	(81,252)
Impairment loss on investment in an associate	-	(163,626)
Impairment loss on investment in a joint venture	(71)	-
Impairment loss on amounts due from associates	(12,180)	(71,335)
Fair value loss on financial assets measured at FVTPL	(24,430)	(27,694)
Fair value gain on investment properties	14,266	-
Loss on disposal of unallocated property, plant and equipment	(1,632)	-
Share of losses of associates	(2)	(24,383)
Auditor's remuneration	(2,361)	(2,082)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(5,620)	(6,201)
Professional fees	(34,778)	(34,947)
Finance costs	(28,372)	(24,779)
Equity-settled share-based payment expenses	(49)	(1,856)
Unallocated short-term lease expenses	(741)	(150)
Unallocated other income and gains	23,971	83,485
Other unallocated corporate expenses*	(51,767)	(24,498)
<b>Consolidated loss before taxation</b>	<b>(219,085)</b>	<b>(778,312)</b>

\* The balance mainly represented unallocated corporate operating expenses that are not allocated to operating segments, including directors' remuneration, staff cost and other head office expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 6. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Reconciliation of reportable segment profit or loss, assets and liabilities (continued)

	2022 HK\$'000	2021 HK\$'000
<b>Assets</b>		
Reportable segment assets	782,143	839,141
Investment properties	24,668	-
Interests in associates	30,048	34,730
Interests in joint ventures	8	71
Financial assets measured at FVTPL	41,349	70,151
Unallocated cash and cash equivalents and pledged bank deposits	120,841	213,758
Unallocated corporate assets	30,646	42,248
<b>Consolidated total assets</b>	<b>1,029,703</b>	<b>1,200,099</b>
<b>Liabilities</b>		
Reportable segment liabilities	541,430	581,029
Tax payable	3,621	7,604
Deferred tax liabilities	43,450	46,530
Unallocated borrowings	90,772	4,909
Unallocated corporate liabilities	57,411	49,241
<b>Consolidated total liabilities</b>	<b>736,684</b>	<b>689,313</b>

### (c) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("Specified Non-current Assets").

#### (i) Revenue from external customers

	2022 HK\$'000	2021 HK\$'000
Hong Kong	975	4,030
The PRC	76,947	74,676
USA	316,265	309,668
Canada	546,929	404,128
UK	13,685	57,340
Europe other than UK	-	3,503
Other countries/regions	3,850	10,869
	<b>958,651</b>	<b>864,214</b>

The information of revenue from the above is based on the location of customers.

## 6. REVENUE AND SEGMENT REPORTING (CONTINUED)

### (c) Geographic information (continued)

#### (ii) Specified Non-current Assets

	2022 HK\$'000	2021 HK\$'000
Hong Kong	37,113	40,537
The PRC	113,495	112,168
Other regions of Asia	13,653	4,709
USA and Canada	545,885	551,486
	710,146	708,900

The information of Specified Non-current Assets from the above is based on the location of assets.

### (d) Major customers

The Group's customer base is diversified and there was two customers (2021: Nil) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenue as follows:

	2022 HK\$'000	2021 HK\$'000
Customer A	242,315	N/A
Customer B	190,655	N/A

### (e) Revenue

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

	2022 HK\$'000	2021 HK\$'000
Trade receivables	45,140	65,000
Contract assets	2,536	24,558
Contract liabilities	53,624	86,707

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provision of visual effects production and post production services. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities mainly relate to the advance consideration received from customers.

The Group has applied the practical expedient to its sales contracts for visual effects production and post production services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for visual effects production and post production services that had an original expected duration of one year or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 7. OTHER INCOME AND GAINS

	2022 HK\$'000	2021 HK\$'000
Income arising from broadcasting movies and TV dramas	4,053	3,039
Interest income	1,531	4,509
Imputed interest on consideration receivable	600	1,437
COVID-19-Related rent concessions	1,703	1,343
Paycheck protection program loans forgiven	-	8,259
Government subsidies ( <i>Note</i> )	17,664	64,019
Effect of lease modification	49	-
Others	2,424	3,919
	28,024	86,525

*Note:*

There are no unfulfilled conditions or other contingencies attaching to these grants, all government subsidies have been received during the year. The Group did not benefit directly from any other forms of government assistance.

## 8. LOSS BEFORE TAXATION

	2022 HK\$'000	2021 HK\$'000
This is arrived at after charging/(crediting):		
Cost of sales and services rendered ( <i>Note</i> )	741,789	740,249
Loss/(gain) on disposal of property, plant and equipment	5,820	(1)
Exchange differences, net	840	(13,387)
Auditor's remuneration:		
- audit services	2,107	1,850
- non-audit services	254	232
Depreciation of property, plant and equipment ( <i>Note</i> )	37,760	32,228
Depreciation of right-of-use assets ( <i>Note</i> )	30,303	34,378
Amortisation of intangible assets ( <i>Note</i> )	35,061	33,852
Short-term lease expenses	2,203	370
Staff costs ( <i>Note</i> ):		
- Directors' remuneration	4,030	4,168
- Other staff costs:		
Salaries, wages and other benefits	768,166	751,711
Retirement benefit scheme contributions	15,012	11,504
Equity-settled share-based payment expenses	49	1,856
Total staff costs	787,257	769,239

*Note:*

Cost of sales and services rendered include HK\$615,066,000 (2021: HK\$638,813,000) relating to staff costs, depreciation of property, plant and equipment, depreciation of right-of-use assets and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 9. FINANCE COSTS

	2022 HK\$'000	2021 HK\$'000
Imputed interest on lease liabilities	9,890	10,141
Interest on bank and other loans	18,482	14,638
	28,372	24,779

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration is analysed as follows:

	2022 HK\$'000	2021 HK\$'000
Fees:		
Executive director	20	-
Independent non-executive directors	829	928
Non-executive director	470	237
	1,319	1,165
Other emoluments paid to executive director:		
Salaries and other benefits	2,697	2,985
Retirement benefit scheme contribution	14	18
	2,711	3,003
	4,030	4,168

No directors waived any remuneration in respect of the years ended 31 December 2022 and 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

	2022 HK\$'000	2021 HK\$'000
Seah Ang		
- Salaries and other benefits	2,697	2,985
- Retirement benefit scheme contribution	14	18
	2,711	3,003
Sun Ta-Chien (Appointed on 24 December 2022)		
- Fee	20	-
Chang San-Cheng (Appointed on 28 June 2021 and resigned on 24 December 2022)		
- Salaries and other benefits	-	-
Brian Thomas McConville (Appointed on 28 June 2021)		
- Fee	470	237
Lau Cheong		
- Fee	156	156
Duan Xiongfei		
- Fee	156	156
Woo King Hang (Appointed on 28 June 2021)		
- Fee	156	79
Wong Ka Kong, Adam (Deceased in May 2021)		
- Fee	-	78
Elizabeth Monk Daley		
- Fee	361	459
Jiang Yingchun (Resigned on 31 March 2022)		
- Fee	-	-
Cui Hao		
- Fee	-	-
Sergei Skatershchikov (Appointed on 22 January 2021 and resigned on 9 November 2022)		
- Fee	-	-
Wang Wei-Chung (Resigned on 25 June 2021)		
- Fee	-	-
Li Weiqiang (Appointed on 31 March 2022)		
- Fee	-	-
Alla Y Alenikova (Appointed on 9 November 2022)		
- Fee	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

### Five highest paid employees

The five highest paid individuals of the Group did not include any Directors (2021: Nil). The remuneration of the five (2021: five) highest paid employees, other than the Directors, is as follows:

	2022 HK\$'000	2021 HK\$'000
Salaries and other benefits	19,330	19,866
Recognition of equity-settled share-based payment expenses	-	170
Retirement benefit scheme contributions	29	36
	19,359	20,072

The number of non-director, highest paid employees whose remuneration fell within the following bands, is as follows:

	2022	2021
HK\$3,000,001 to HK\$3,500,000	1	-
HK\$3,500,001 to HK\$4,000,000	2	2
HK\$4,000,001 to HK\$4,500,000	2	3

## 11. TAXATION

(a) Taxation (credited)/charged to the consolidated income statement represents:

	Note	2022 HK\$'000	2021 HK\$'000
Current taxation - Hong Kong profits tax		-	-
Current taxation - Overseas tax			
- provision for the year		(731)	3,062
- over-provision in respect of prior years		(2,098)	-
Deferred taxation	11(b)	(991)	(828)
		(3,820)	2,234

No provision for Hong Kong profits tax was made for the year ended 31 December 2022 as there is no assessable profits arising in Hong Kong (2021: No provision for Hong Kong profits tax was made for the year ended 31 December 2021 as the Group had estimated tax losses brought forward to offset against the estimated assessable profits).

Taxation on overseas profits has been calculated on the estimated assessable profits for the years at the rates of taxation prevailing in the countries in which the Group operates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 11. TAXATION (CONTINUED)

(a) Taxation (credited)/charged to the consolidated income statement represents: (continued)

Taxation for the year can be reconciled to accounting loss as follows:

	2022 HK\$'000	2021 HK\$'000
Loss before taxation	(219,085)	(778,312)
Taxation calculated at applicable rates of Hong Kong profits tax	(36,149)	(128,421)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(11,137)	(25,135)
Tax effect of expenses not deductible for tax purposes	57,975	104,087
Tax effect of income not assessable for tax purposes	(18,510)	(14,550)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(993)	(698)
Tax effect of unrecognised tax losses and temporary differences	7,092	66,951
Over-provision in respect of prior years	(2,098)	-
Taxation for the year	(3,820)	2,234

(b) Deferred taxation

The movements in the components of deferred tax (liabilities)/assets recognised by the Group during the current and prior years are as follows:

	Notes	Accelerated tax depreciation HK\$'000	Fair value arising from business combination HK\$'000	Total HK\$'000
As at 1 January 2021		445	(46,498)	(46,053)
Credited to profit or loss for the year	11(a)	244	584	828
Exchange realignment		(8)	(616)	(624)
As at 31 December 2021		681	(46,530)	(45,849)
Credited to profit or loss for the year	11(a)	991	-	991
Exchange realignment		(121)	3,080	2,959
As at 31 December 2022		1,551	(43,450)	(41,899)

## 11. TAXATION (CONTINUED)

### (b) Deferred taxation (continued)

For the purpose of presentation in consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances for financial reporting purposes:

	2022 HK\$'000	2021 HK\$'000
Deferred tax liabilities	(43,450)	(46,530)
Deferred tax assets	1,551	681
	(41,899)	(45,849)

At the end of reporting period, the Group had unused tax losses of HK\$1,667,334,000 (2021: HK\$1,625,914,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2021: No deferred tax asset has been recognised in respect of such losses) due to the unpredictability of future profit streams. As at 31 December 2022, included in unrecognised tax losses are losses of HK\$213,709,000 (2021: HK\$222,724,000), HK\$4,128,000 (2021: HK\$3,816,000) and HK\$1,311,538,000 (2021: HK\$1,262,095,000) that will expire in 5 years, 17 years and 20 years, respectively, from the respective dates of incurrence; and the remaining balance of HK\$137,959,000 (2021: HK\$137,278,000) will be available to offset future profit indefinitely.

## 12. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2022 HK\$'000	2021 HK\$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(206,320)	(722,004)

	2022	2021
<b>Number of share</b>		
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted (Note)	4,329,027,625	4,171,108,547

Note: The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for: (i) bonus elements in the issue of shares through share subscription on 18 January 2021; and (ii) consolidation of every ten existing shares into one consolidate share during the year as if effective since 1 January 2021 with details set out in note 26(b).

For the years ended 31 December 2022 and 2021, since the share options outstanding had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options were not assumed in the computation of diluted loss per share.

Except for the above, there is no other dilutive potential ordinary share during the current and prior years. Therefore, the basic and diluted loss per share in the current and prior years are the same.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$'000	Machineries HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>				
As at 1 January 2021	254,233	6,428	926	261,587
Additions	38,452	49	-	38,501
Disposals	(29)	-	-	(29)
Exchange realignment	5,257	118	5	5,380
As at 31 December 2021 and 1 January 2022	297,913	6,595	931	305,439
Additions	14,058	115	-	14,173
Disposals	(43,603)	-	-	(43,603)
Exchange realignment	(14,137)	(293)	1	(14,429)
As at 31 December 2022	254,231	6,417	932	261,580
<b>ACCUMULATED DEPRECIATION</b>				
As at 1 January 2021	180,671	5,439	-	186,110
Depreciation charge for the year	31,812	416	-	32,228
Disposals	(29)	-	-	(29)
Exchange realignment	3,241	98	-	3,339
As at 31 December 2021 and 1 January 2022	215,695	5,953	-	221,648
Depreciation charge for the year	37,420	340	-	37,760
Disposals	(36,178)	-	-	(36,178)
Exchange realignment	(12,308)	(261)	-	(12,569)
As at 31 December 2022	204,629	6,032	-	210,661
<b>NET CARRYING AMOUNT</b>				
As at 31 December 2022	49,602	385	932	50,919
As at 31 December 2021	82,218	642	931	83,791

## 14. INVESTMENT PROPERTIES

	2022 HK\$'000	2021 HK\$'000
As at 1 January	-	-
Addition	10,402	-
Change in fair value	14,266	-
As at 31 December	24,668	-

During the year, two residential properties located in the USA have been obtained by the Group from the debtor to settle other receivable with carrying amount of HK\$10,402,000.

The Group's investment properties were valued at 31 December 2022 by Knight Frank Asset Appraisal Limited ("KF"), an independent firm of professionally qualified valuers, with recent experience valuing investment properties in the location held by the Group.

These valuations gave rise to fair value gain of HK\$14,266,000 during the year.

The fair value of the investment properties is a Level 3 recurring fair value measurement.

The fair values have been determined using direct comparison approach by making reference to comparable sales evidence available as in the relevant market. Under the direct comparison approach, significant inputs of the Group's residential properties in the USA include price per square foot ranging from US\$760.4 to US\$1,166.7 (equivalent to approximate from HK\$5,935.9 to HK\$9,107.6) (2021: Nil) with an average ranging from US\$825 to US\$1,025 (equivalent to approximate from HK\$6,440.2 to HK\$8,001.5) including premium of approximately arranging from 1.6% and 6.4% (2021: Nil) specific to the location of the Group's residential properties located in the USA compared to recent sales on the comparable transactions.

The fair value measurement of investment properties is positively correlated to the price per square foot where appropriate and a favourable adjustment on the comparable transactions under the direct comparison approach.

The fair value measurement is based on the above properties highest and best use, which does not differ from their current use.

Fair value adjustments of investment properties are recognised in the profit or loss. All the gains recognised in consolidated income statement for the year arise from the investment properties held at the end of the reporting period.

As at 31 December 2022, the Group's investment properties were pledged to secure the borrowings of the Group. Details are set out in note 34.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 15. LEASES

### Nature of leasing activities (as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The Group also leases certain items of equipment. In some contracts for services with distributors, those contracts contain a lease of equipment comprise only fixed payments over the lease terms. Leases of buildings generally have lease terms between 2 and 10 years, while equipment generally have lease terms between 2 and 5 years.

None of the lease contracts entered by the Group contains a variable lease payments scheme.

In prior year, extension options are included in certain property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

The Group reassessed and concluded that it was not reasonably certain to exercise these extension option. As a result, lease liabilities from the extension period were not included in the lease liabilities of the Group at reporting date. An additional cash outflow of HK\$20,482,000 during the year ended 31 December 2021 was estimated if all the extension options were exercised.

### RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
As at 1 January 2021	85,469	2,946	88,415
Additions	375	1,192	1,567
Depreciation charge	(32,276)	(2,102)	(34,378)
Exchange realignment	626	84	710
As at 31 December 2021 and 1 January 2022	54,194	2,120	56,314
Additions	59,692	182	59,874
Depreciation charge	(28,817)	(1,486)	(30,303)
Effect of lease modification	(151)	-	(151)
Exchange realignment	(3,347)	(95)	(3,442)
As at 31 December 2022	81,571	721	82,292

## 15. LEASES (CONTINUED)

### LEASE LIABILITIES

	HK\$'000
As at 1 January 2021	114,588
Additions	1,567
Interest expense	10,141
COVID-19-Related rent concessions	(1,343)
Lease payments	(46,937)
Exchange realignment	903
As at 31 December 2021 and 1 January 2022	78,919
Additions	59,869
Interest expense	9,890
COVID-19-Related rent concessions	(1,703)
Lease payments	(42,578)
Effect of lease modification	(200)
Exchange realignment	(3,628)
As at 31 December 2022	100,569

The Group has elected to apply the practical expedient introduced by the amendment to HKFRS 16 to all rent concessions that satisfy the criteria. All of the rent concessions granted to the Group during the year ended 31 December 2022 satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of HK\$1,703,000 (2021: HK\$1,343,000). The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 15. LEASES (CONTINUED)

### LEASE LIABILITIES (continued)

Future lease payments are due as follows:

As at 31 December 2022	Minimum lease payments HK\$'000	Interest HK\$'000	Present value HK\$'000
Not later than one year	33,860	8,799	25,061
Later than one year and not later than two years	33,192	6,256	26,936
Later than two years and not later than five years	51,699	5,215	46,484
Later than five years	2,271	183	2,088
	121,022	20,453	100,569

As at 31 December 2021	Minimum lease payments HK\$'000	Interest HK\$'000	Present value HK\$'000
Not later than one year	33,816	7,249	26,567
Later than one year and not later than two years	16,305	5,533	10,772
Later than two years and not later than five years	46,089	7,806	38,283
Later than five years	3,758	461	3,297
	99,968	21,049	78,919

The present value of future lease payments are analysed as follows:

	2022 HK\$'000	2021 HK\$'000
Current liabilities	25,061	26,567
Non-current liabilities	75,508	52,352
	100,569	78,919

The total cash outflow for leases for the year ended 31 December 2022 was HK\$44,781,000 (2021: HK\$47,307,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 16. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Licences for intellectual property rights	Film rights	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note (a))	(Note (b))	(Note (c))	(Note (d))	(Note (e))	(Note (f))	(Note (g))	
<b>COST</b>								
As at 1 January 2021	689,585	155,270	205,843	380,480	107,082	8,470	94,355	1,641,085
Additions	-	-	21,471	-	-	2,447	33,639	57,557
Exchange realignment	-	1,899	1,437	1,460	836	-	634	6,266
As at 31 December 2021 and 1 January 2022	689,585	157,169	228,751	381,940	107,918	10,917	128,628	1,704,908
Additions	-	-	25,185	-	-	21	-	25,206
Write off	-	(137,678)	-	-	-	-	-	(137,678)
Exchange realignment	464	25	(4,105)	327	4	-	(129)	(3,414)
As at 31 December 2022	690,049	19,516	249,831	382,267	107,922	10,938	128,499	1,589,022
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS</b>								
As at 1 January 2021	379,538	-	110,768	380,480	25,460	7,809	-	904,055
Amortisation for the year	-	-	27,091	-	5,474	1,287	-	33,852
Impairment for the year	16,170	138,633	-	-	77,669	-	-	232,472
Exchange realignment	-	(955)	715	1,460	(685)	-	-	535
As at 31 December 2021 and 1 January 2022	395,708	137,678	138,574	381,940	107,918	9,096	-	1,170,914
Amortisation for the year	-	-	33,389	-	-	1,672	-	35,061
Write off	-	(137,678)	-	-	-	-	-	(137,678)
Exchange realignment	-	-	(1,817)	327	4	-	-	(1,486)
As at 31 December 2022	395,708	-	170,146	382,267	107,922	10,768	-	1,066,811
<b>CARRYING AMOUNT</b>								
As at 31 December 2022	294,341	19,516	79,685	-	-	170	128,499	522,211
As at 31 December 2021	293,877	19,491	90,177	-	-	1,821	128,628	533,994



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes:

- (a) For the purpose of impairment testing, goodwill is allocated to CGUs in the media entertainment segment identified as follows:

	2022 HK\$'000	2021 HK\$'000
Visual effects production services	209,155	208,691
Post production services	85,186	85,186
	294,341	293,877

In addition to goodwill above, certain intangibles assets (as stated in notes 16(b), 16(c) and 16(e)), property, plant and equipment, right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective CGUs for the purpose of impairment assessment.

The recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to professional valuation reports issued by KF, an independent firm of professionally qualified valuers.

The value-in-use calculations for CGUs used cash flows projections based on latest financial budgets approved by the Group's management covering a period of 5 years, which is consistent with the cash flows projections period in 2021.

The cash flow projections beyond the budget period are extrapolated using a growth rate of 2.0% to 2.5% (2021: 2.0% to 2.5%), which do not exceed the long-term growth rates for the industry in the corresponding countries.

The key assumptions used for the value-in-use calculations are as follows:

2022	Visual effects production services CGU	Post production services CGU
Average revenue growth rate within budget period	12.0%	5.3%
Pre-tax discount rate	19.1%	16.4%
Average gross margin	21.7%	44.6%
Recoverable amount (HK\$'000)	806,262	226,785

2021	Visual effects production services CGU	Post production services CGU	360 degree digital capture technology application CGU
Average revenue growth rate within budget period	12.1%	16.4%	4.0%
Pre-tax discount rate	18.6%	17.4%	17.0%
Average gross margin	17.9%	56.2%	16.0%
Recoverable amount (HK\$'000)	558,554	214,229	-

The pre-tax discount rate and other key assumptions for the value-in-use calculation, as disclosed in the above table, relate to the estimation of cash inflows/outflows which include budgeted service revenue and gross margin. Such estimations are based on the CGUs' past performance and the management's expectations for the market development.

## 16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(a) (continued)

In the prior year, the global health emergency resulting from the COVID-19 pandemic has led to social distancing requirements and travel restriction measure been introduced in most territories, which has significantly impacted the travel, sports, concerts and other mass events which the 360 degree digital capture and live streaming services from the 360 degree digital capture technology application CGU is dependent on.

Accordingly, impairment losses on goodwill of HK\$16,170,000 and intangible assets of HK\$216,302,000 for 360 degree digital capture technology application CGU were recognised in profit or loss for the year ended 31 December 2021.

As at 31 December 2022, the recoverable amounts for the visual effects production services CGU and post production services CGU are HK\$806,262,000 (2021: HK\$558,554,000) and HK\$226,785,000 (2021: HK\$214,229,000) respectively. The recoverable amounts are significantly above the carrying amounts of the respective CGUs. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

Except as described above, the recoverable amounts in relation to other CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill and other non-financial assets as at 31 December 2022 and 2021. The management was of the opinion that a reasonably possible change in key assumptions for other CGUs on which the management had based its determination of the CGUs' recoverable amount would not cause an impairment loss.

(b) Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. Trademarks for 360 degree digital capture technology application CGU has not been renewed and therefore expired during the year. The Directors are of the opinion that the Group anticipated there is no future economic benefits generated from the trademarks.

Except as described above, the other trademark will expire in 2023. The Directors are of the opinion that the Group would renew the other trademark continuously and has the ability to do so. In the opinion of the Directors, the other trademark can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the other trademark by the Group with reference to the history of operations and considering that such trademark could be managed efficiently by another management team; and (ii) the long product life cycles for the other trademark.

As at 31 December 2022, the other trademark is allocated to the Group's visual effects production services CGU for the purpose of impairment testing.

In the prior year, an impairment loss on intangible assets – trademark of HK\$138,633,000 for 360 degree digital capture technology application CGU was recognised in profit or loss.

(c) Proprietary software mainly represented internally developed and purchased software to produce various visual effects.

The proprietary software is allocated to the Group's visual effects production services CGU for the purpose of impairment testing.

(d) Participation rights represented the contractual rights to income arising from broadcasting movies and TV dramas.

The participation rights are tested on asset level for a stand-alone basis in connection with respective movies and TV dramas involved.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

- (e) Patents mainly represent certain intellectual properties which are licensed including patents, trademarks and software.

Patents are allocated to the Group's 360 degree digital capture technology application CGU for the purpose of impairment testing. An impairment loss on intangible assets – patents of HK\$77,669,000 for 360 degree digital capture technology application CGU was recognised in profit or loss in the prior year.

- (f) Licences for intellectual property rights granted to the Group is a right of development, sale/distribution and promotion of digital articles of merchandise (such as 360 degree video, interactive virtual reality, augmented reality environment experience, and similar immersive media content) incorporating the licensed material, which were tested for impairment on asset level for a stand-alone basis.
- (g) Film rights represent films produced or films production in progress by the Group. As at 31 December 2022 and 2021, there is only a film that was in the progress of production and no other produced film. Accordingly, no amortisation was recognised during both years. The film is internally produced by the Group, and the Group is subject to all retained profit generated from the film right, after shared by producers and other independent parties by certain percentage mentioned in the agreements between the Group and the other parties. At the date of issue of the consolidated financial statements, the film has been released in the USA. Accordingly, amortisation of the capitalised production costs will commence over its useful life during the year ending 31 December 2023.

## 17. INTERESTS IN ASSOCIATES

	2022 HK\$'000	2021 HK\$'000
Share of net assets	580	582
Amounts due from associates (Note)	227,116	219,616
	227,696	220,198
Less: Accumulated impairment loss on amounts due from associates	(197,648)	(185,468)
	30,048	34,730

Note:

The amounts due from associates are unsecured, interest-free and repayable on demand. In the opinion of the Directors, these amounts due from associates are unlikely to be repaid in the foreseeable future and are considered as long-term interests in associates, which are part of the Group's net investments in the associates. Management reassessed the ECL of amounts due from associates at the reporting date.

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

The Group's interests in associates are accounted for using the equity method in the consolidated financial statements.

During the year ended 31 December 2021, an associate entity faced uncertainty on the commercial roll out of its new products and turnaround of its business in view of the pandemic related social distancing measures and travel restrictions. For the purposes of impairment testing, the recoverable amount of the investment in the associate as at 31 December 2021 has been determined by the Directors on the basis of value-in-use calculation with reference to professional valuation report issued by KF, an independent firm of professionally qualified valuers.

The value-in-use calculation for the investment used cash flows projection based on latest financial budgets covering period of 5 years.

The cash flow projection beyond the budget period is extrapolated using growth rate of 2.5%, which does not exceed the long-term growth rate for the industry in the corresponding country.

The key assumptions used for the value-in-use calculation is as follows:

Average revenue growth rate within budget period	42.3%
Pre-tax discount rate	19.5%
Average gross margin	69.7%

The pre-tax discount rate and other key assumptions for the value-in-use calculation, as disclosed in the above table, relate to the estimation of cash inflows/outflows which include budgeted service and product revenue and gross margin. Such estimations are based on the associate's past performance and the management's expectations for the market development.

As at 31 December 2021, the recoverable amount for the investment in the associate was HK\$Nil. Accordingly, impairment loss on investment in an associate of HK\$163,626,000 was recognised during the year ended 31 December 2021.

As at 31 December 2022, impairment assessment has been performed by the Group. Based on the assessment, the recoverable amount is not higher than the carrying amount of the interests in associates.

As at 31 December 2022, impairment loss on amounts due from associates of HK\$12,180,000 (2021: HK\$71,335,000) including share of losses of HK\$12,180,000 (2021: HK\$7,637,000) recognised in excess of investments in associates, were recognised for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

Details of the Group's unlisted material associates are as follows.

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Effective equity interest attributable to the Group as at 31 December 2022 and 2021	Principal activity
Lead Turbo Limited	Incorporated	The British Virgin Islands	US\$10,356	46.50% (2021: 46.50%)	Investment holdings
VR Technology (HK) Limited	Incorporated	Hong Kong	HK\$10,000	46.50% (2021: 46.50%)	Investment holdings
深圳市虛擬現實技術有限公司 <sup>1</sup>	Incorporated	The PRC	RMB158,814	41.86% (2021: 41.86%)	VR hardware and solution services
深圳市虛擬現實科技有限公司 <sup>1</sup>	Incorporated	The PRC	RMB10,000,000	41.86% (2021: 41.86%)	VR hardware and solution services
深圳市維爾信息科技有限公司 <sup>1</sup>	Incorporated	The PRC	RMB20,000,000	41.86% (2021: 41.86%)	Online platform for VR solutions and services
Digital Domain Virtual Human Group Limited	Incorporated	The British Virgin Islands	US\$1	30% (2021: 30%)	Investment holdings
Digital Domain (Taiwan) Company Limited <sup>2</sup>	Incorporated	The British Virgin Islands/ Hong Kong	US\$1	30% (2021: 30%)	Investment holdings
Digital Domain Media (AM) Company Limited <sup>2</sup>	Incorporated	Hong Kong	HK\$1	30% (2021: 30%)	Virtual human business
虛谷未來科技(北京)有限公司 <sup>2</sup>	Incorporated	The PRC	RMB4,074,000	30% (2021: 30%)	Virtual human business
DD & TT Company Limited <sup>3</sup>	Incorporated	Hong Kong	HK\$55,000,000	18% (2021: 18%)	Holding licence for intellectual property right of a well-known deceased singer
數字王國空間(北京)傳媒科技有限公司	Incorporated	The PRC	RMB5,084,746	34.42% (2021: 34.42%)	VR Theatre

- 90.03% equity interest in these associates are indirectly owned by Lead Turbo Limited and hence the Group's effective equity interest in the associates is 41.86%. Lead Turbo Limited, VR Technology (HK) Limited and these associates are collectively referred to as the Lead Turbo Group.
- These associates are wholly-owned subsidiaries of Digital Domain Virtual Human Group Limited (collectively the "Digital Domain Virtual Human Group").
- 60% equity interest in this associate is held by Digital Domain Virtual Human Group Limited and hence the Group's effective equity interest in the associate is 18%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

- (a) The summarised financial information in respect of the Group's material associates below represents amounts shown in the associates' financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes.

	Lead Turbo Group		Digital Domain Virtual Human Group		數字王國空間(北京)傳媒科技有限公司	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
<b>As at 31 December</b>						
Non-current assets	34,804	53,612	14,213	20,084	-	5,240
Current assets	5,598	23,921	4,433	2,398	27,783	30,118
Non-current liabilities	-	(2,825)	-	-	-	-
Current liabilities	(64,273)	(69,695)	(135,622)	(137,614)	(95,653)	(101,150)
Net (liabilities)/assets	(23,871)	5,013	(116,976)	(115,132)	(67,870)	(65,792)
Non-controlling interest	2,140	(712)	(558)	2,993	-	-
Net (liabilities)/assets attributed to owners of the associates	(21,731)	4,301	(117,534)	(112,319)	(67,870)	(65,792)
Group's share of net assets, net of impairment	-	-	-	-	-	-
Amounts due from associates, net of impairment	-	3,527	30,040	31,196	-	-
	-	3,527	30,040	31,196	-	-
Included in the above amounts are:						
<b>Year ended 31 December</b>						
Revenue	1,071	6,806	8,711	2,565	318	7,061
Loss for the year attributable to the owners of the associates	(22,268)	(54,088)	(4,795)	(10,687)	(7,393)	(12,874)
Other comprehensive income attributable to the owners of the associates	-	(1,592)	-	43	-	(1,946)
Total comprehensive income attributable to the owners of the associates	(22,268)	(55,680)	(4,795)	(10,644)	(7,393)	(14,820)
Group's share of loss	-	(24,380)	-	-	-	-
Group's share of loss recognised as impairment on the Group's long-term interest in associates	(6,776)*	-	(1,438)*	(3,206)*	(3,966)*	(4,431)*
Group's share of other comprehensive income	-	(727)	-	13	-	(670)

- \* The Group recognised share of losses for the year of HK\$6,776,000 (2021: HK\$Nil), HK\$1,438,000 (2021: HK\$3,206,000) and HK\$3,966,000 (2021: HK\$4,431,000) on the Group's long-term interests in Lead Turbo Group, Digital Domain Virtual Human Group and 數字王國空間(北京)傳媒科技有限公司 respectively, in excess of its investments in these associates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

- (b) The summarised financial information in respect of the Group' associate which is considered as immaterial below represents amounts shown in the associate's financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes.

	2022 HK\$'000	2021 HK\$'000
<b>As at 31 December</b>		
Aggregated carrying amount of individually immaterial associate in the consolidated financial statements	8	7
<b>Year ended 31 December</b>		
Loss for the year attributable to the owners of the associate	(7)	(9)
Other comprehensive income attributable to the owners of the associate	2	-
Total comprehensive income attributable to the owners of the associate	(5)	(9)

## 18. INTERESTS IN JOINT VENTURES

	2022 HK\$'000	2021 HK\$'000
Share of net assets	8	71

Particulars of the unlisted joint ventures as at 31 December 2022 are as follows:

Company	Place of incorporation/ registration and business	Form of business structure	Percentage of ownership interest attributable to the Group	Principal activity
Digital Domain IPing (Beijing) Media Technology Company Limited	The PRC	Corporation	50% (2021: 50%)	Visual effects production
Digital Eve Technology Limited	The British Virgin Islands	Corporation	10% (2021: Nil)	Investment holdings
Digital Eve Technology Limited	Hong Kong	Corporation	10% (2021: Nil)	Production of audio-virtual content for blockchain or Web3 platforms

The Group has joint control over the arrangements as unanimous consent is required from all parties to the arrangements for the relevant activities of the aforesaid companies. The contractual arrangement in relation to the aforesaid companies provide the Group with only the rights to the net assets of the joint arrangements, with the rights to the assets and obligation for the liabilities of the joint arrangements resting primarily with these companies.

## 19. FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In 2018, the Group acquired the unlisted equity instrument at the consideration of US\$25,000,000 (equivalent to approximately HK\$196,213,000). Accumulated fair value adjustment (downside) of HK\$196,213,000 had been recognised in other comprehensive income since 2019.

## 20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

- (a) On 3 February 2021, the Group acquired 248,431 common shares of asknet Solutions AG ("asknet"), a publicly traded German ecommerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) at the consideration of approximately EUR3,709,000 (equivalent to approximately HK\$34,586,000). The sales shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021.

In November 2021, asknet proposed to increase its capital from 1,307,530 shares to 3,268,825 shares. Therefore the sales shares held by the Group was diluted which represented approximately 7.6% of the total issued common shares of asknet as at 31 December 2021.

On 30 May 2022, asknet announced that its Executive Board with the approval of the Supervisory Board decided to delist its shares on the Frankfurt Stock Exchange with effective from 31 August 2022, because the economic benefit of the inclusion of its shares in the Regulated Unofficial Market of the Frankfurt Stock Exchange no longer justifies the associated expenses.

On 31 August 2022, the common shares of asknet were delisted from the Frankfurt Stock Exchange. Immediately before the delist, the fair value of the Group's interests in asknet, based on quoted market price, amounted to HK\$881,000. In the opinion of the Directors, upon the delist of asknet the fair value of the Group's interests in asknet becomes minimal and accordingly a further fair value loss of HK\$881,000 was recognised in profit or loss during the year.

- (b) On 26 February 2021 and 6 May 2021, the Group acquired 260,000 and 5,000, respectively, bearer shares of Highlight Event and Entertainment AG ("HLEE"), a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) at the consideration of approximately EUR7,064,000 (equivalent to approximately HK\$66,405,000) and EUR150,000 (equivalent to approximately HK\$1,403,000), respectively. The sales shares represented approximately 2.91% and 0.06% of the total issued bearer shares of HLEE on 26 February 2021 and 6 May 2021, respectively. Upon the completion of these two acquisitions, the total sales shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021.

As at 31 December 2022 and 2021, the sales shares held by the Group represented approximately 2.8% of the total issued bearer shares of HLEE.

The above investments are classified as non-current because the management expects to realise these financial assets after twelve months after the reporting period.

The fair value of the listed equity securities is determined based on the quoted market closing prices available on the relevant stock exchanges at the end of the reporting period.

	2022 HK\$'000	2021 HK\$'000
Listed equity securities outside Hong Kong, at fair value	41,349	70,151



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The movements of the Group's financial assets measured at FVTPL were as follows:

	2022 HK\$'000	2021 HK\$'000
As at 1 January	70,151	-
Additions during the year	-	102,394
Fair value loss recognised in profit or loss	(24,430)	(27,694)
Exchange realignment	(4,372)	(4,549)
As at 31 December	41,349	70,151

## 21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2022 HK\$'000	2021 HK\$'000
<b>Non-current portion:</b>		
Deposits (Note (i))	10,239	7,344
<b>Current portion:</b>		
Trade receivables (Notes (i) and (ii))	45,140	65,000
Consideration receivable (Notes (i) and (iv))	-	3,288
Other receivables (Notes (i) and (iii))	34,476	46,020
Deposits (Note (i))	678	5,355
Prepayments	27,376	21,047
	107,670	140,710
<b>Total trade receivables, other receivables and prepayments</b>	<b>117,909</b>	<b>148,054</b>

## 21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Notes:

- (i) The Directors consider that the carrying amounts of trade receivables, consideration receivable, other receivables, and deposits approximate their fair values as at 31 December 2022 and 2021.
- (ii) The Group normally allows an average credit period of 30 days (2021: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance of impairment losses, based on the invoice date as of the end of reporting period, is as follows:

	2022 HK\$'000	2021 HK\$'000
0 to 30 days	34,758	20,259
31 to 60 days	813	8,023
61 to 90 days	2,110	15,669
91 to 365 days	2,408	17,543
Over 365 days	5,051	3,506
	45,140	65,000

No interest is charged on trade receivables.

- (iii) (a) As at 31 December 2022, included in other receivables is a receivable from an independent third party with gross carrying amount of approximately HK\$29,127,000 (2021: HK\$31,575,000) related to income arising from broadcasting movies and TV dramas. In prior year, pursuant to the debt assignment agreement signed on 20 January 2020, two trade receivables of the independent third party are assigned to the Group to settle the remaining outstanding balances. The transferred receivables are unsecured, interest-free and repayable on demand.

The Directors are of the opinion that, after taking into account the historical credit loss experience and quantitative and qualitative forward-looking information that is reasonable and supportive of the principal and related interest receivables, accumulated impairment of the other receivable of HK\$8,050,000 (2021: HK\$8,050,000) is made at the end of the reporting period.

- (b) As at 31 December 2021, included in other receivables was a secured loan to an independent third party with gross carrying amount of approximately HK\$9,746,000. The loan was secured by two residential properties located in the USA of that party which bear 1% interest rate per month and was initially repayable in April 2020.

During the current year, the Group obtained the control of the pledged properties to settle the outstanding principal and accrued interest amounts of this receivable in the aggregate amount of HK\$10,402,000. Details of which are set out in note 14.

- (iv) The consideration receivable represents the carrying amount at the reporting date of 2nd and 3rd instalments of the deferred consideration from disposal of subsidiaries amounted to HK\$68,000,000 in 2020. The amounts are secured by the 22.29% equity interests of the Lead Turbo Group, interest-free and repayable on 1st and 2nd anniversary dates of the completion date of the disposal.

The Directors are of the opinion that, after taking into account the overdue status on the debt from the purchaser and the recoverable amount of the pledged equity interests of the Lead Turbo Group, accumulated impairment loss of HK\$68,000,000 (2021: HK\$64,112,000) has been made at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 22. CONTRACT ASSETS AND CONTRACT LIABILITIES

### (a) Contract assets

	2022 HK\$'000	2021 HK\$'000
<b>Contract assets arising from:</b>		
Visual effects production and post production services	2,536	24,558

Typical payment terms which impact on the amount of contract assets are as follows:

#### *Services of visual effects production and post production*

The Group's visual effects production and post production includes payment schedules which require stage payments over the production period. These payment schedules prevent the build-up of significant contract assets.

The timing of recovery or settlement for contract assets as at 31 December 2022 is expected to be within one year.

The significant decrease in contract assets was mainly due to the services of visual effects production and post production meeting the timing to issue invoices mentioned in payment schedules.

The movements in the loss allowance for impairment of contract assets are as follows:

	2022 HK\$'000	2021 HK\$'000
At beginning of year	112	70
(Reversal)/recognition of impairment losses	(101)	42
At end of year	11	112

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern. 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 forecast of future economic conditions.

## 22. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

### (a) Contract assets (continued)

#### *Services of visual effects production and post production (continued)*

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	2022 HK\$'000	2021 HK\$'000
As at 31 December	2,536	24,558
ECL rate	0.42%	0.45%

	HK\$'000	HK\$'000
Gross carrying amount	2,547	24,670
ECLs	(11)	(112)
	2,536	24,558

### (b) Contract liabilities

	2022 HK\$'000	2021 HK\$'000
<b>Contract liabilities arising from:</b>		
Visual effects production and post production services	53,624	85,590
Granting of licence for virtual reality contents	-	1,117
	53,624	86,707

Typical payment terms which impact on the amount of contract liabilities are as follows:

#### *Services of visual effects production and post production and granting of licence for virtual reality contents*

The Group received non-cancellable payment in advance from customers for services to be provided. Where discrepancies arise between the payments and the Group's assessment on services performed under the contract, contract liabilities can arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 22. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

### (b) Contract liabilities (continued)

#### *Movements in contract liabilities*

	2022 HK\$'000	2021 HK\$'000
Balance as at 1 January	86,707	44,902
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(86,707)	(44,902)
Increase in contract liabilities as a result of billing in advance of visual effects production and post production services and granting of licence for virtual reality contents	53,624	86,707
Balance at 31 December	53,624	86,707

## 23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2022 HK\$'000	2021 HK\$'000
Cash and cash equivalents	36,480	130,455
Pledged bank deposits	117,073	117,300
	153,553	247,755

As at 31 December 2022, included in the cash and cash equivalents of the Group was an amount of HK\$6,126,000 (2021: HK\$8,501,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2022 HK\$'000	2021 HK\$'000
<b>Non-current portion:</b>		
Other payables	-	10,304
<b>Current portion:</b>		
Trade payables	39,985	46,871
Other payables	64,866	48,789
Interest payables	32,182	22,628
Accruals	56,525	52,557
	193,558	170,845
<b>Total trade payables, other payables and accruals</b>	<b>193,558</b>	<b>181,149</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (CONTINUED)

Trade payables are non-interest bearing and are normally settled within 30-180 days (2021: 30-180 days).

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2022 and 2021.

The ageing analysis of the Group's trade payables based on invoice date as of the end of reporting period is as follows:

	2022 HK\$'000	2021 HK\$'000
0 to 30 days	16,312	14,543
31 to 60 days	7,226	18,482
61 to 90 days	2,258	3,126
91 to 365 days	8,643	5,635
Over 365 days	5,546	5,085
	39,985	46,871

## 25. BORROWINGS

	2022 HK\$'000	2021 HK\$'000
<b>Current</b>		
Bank loans due for repayment within one year ( <i>Notes (i)&amp;(ii)</i> )	105,081	32,245
Other loans ( <i>Notes (iii)&amp;(v)</i> )	43,935	17,401
	149,016	49,646
<b>Non-current</b>		
Bank loans ( <i>Note (i)</i> )	23,765	115,031
Other loans ( <i>Notes (iv)&amp;(v)</i> )	169,081	123,727
	192,846	238,758
<b>Total borrowings</b>	<b>341,862</b>	<b>288,404</b>
Representing:		
- Bank loans and bank overdrafts	128,846	147,276
- Other loans	213,016	141,128
	341,862	288,404

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 25. BORROWINGS (CONTINUED)

The Group's borrowings consisted of the following:

- (i) As at 31 December 2022, bank loans with principal amount of US\$14,997,000 (equivalent to HK\$117,073,000) (2021: US\$14,858,000 (equivalent to HK\$115,841,000)) were secured by bank deposits of the same amount placed in the banks. The balance of US\$11,997,000 (equivalent to HK\$93,654,000) (2021: US\$667,000 (equivalent to HK\$5,199,000)) is repayable within one year or on demand, while the maturity date for remaining balance of US\$3,000,000 (equivalent to HK\$23,419,000) in the next two years respectively (2021: US\$11,191,000 (equivalent to HK\$87,253,000) in the next two years and US\$3,000,000 (equivalent to HK\$23,389,000) within 2 to 5 years).

As at 31 December 2022, there were utilised facility loans with the principal amount of CAD1,131,000 (equivalent to HK\$6,518,000) (2021: CAD4,241,000 (equivalent to HK\$26,156,000)) guaranteed by the subsidiaries of the Company. The balance of CAD1,131,000 (equivalent to HK\$6,518,000) is repayable within one year or on demand (2021: CAD3,589,000 (equivalent to HK\$22,137,000) is repayable within one year or demand and CAD652,000 (equivalent to HK\$4,019,000) in the next two years).

As at 31 December 2022, there was a loan amount of CAD60,000 (equivalent to HK\$346,000) (2021: CAD60,000 (equivalent to HK\$370,000)) granted under emergencies loan schemes from COVID-19. The loan is unsecured and repayable on 31 December 2025.

In prior year, certain loans granted under emergencies loan schemes from COVID-19 including a sum of US\$1,064,000 (equivalent to HK\$8,259,000) which waived upon fulfilment of certain conditions.

- (ii) As at 31 December 2011, a bank loan has been granted to a then subsidiary of the Company (the "Subsidiary") under the Special Loan Guarantee Scheme (the "SME loan") of the Hong Kong Special Administrative Region Government (the "Government") to the extent of HK\$6,000,000. It represented a 5-year instalment loan which was 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary's immediate holding company which is also an indirect wholly-owned subsidiary of the Company since 2013.

According to the Company's announcement dated 20 December 2010, the Group decided not to continue to finance its entertainment media business, and the Subsidiary, as one of the Group companies engaged in the entertainment media business, ceased its operation before 31 December 2010, and ceased the instalment repayment of the SME loan which was due in December 2010. The aforesaid bank had issued a demand letter to the Subsidiary and stated that it might take any legal action against the Subsidiary in respect of the repayment of the SME loan.

During the year ended 31 December 2011, the Subsidiary and its immediate holding company further received a writ of summon from the Court of First Instance and the statement of claim from the legal representative of the plaintiff claiming for (i) outstanding principal amount and related overdue interest and (ii) cost of legal action in respect of the claim on a full indemnity basis to be taxed if not agreed and further or other relief (collectively the "Claim"). The entire outstanding SME loan as at 31 December 2011 was classified under the current liabilities of the Group in the consolidated financial statements.

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Company lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year ended 31 December 2013, two joint and several liquidators were appointed in July 2013. Nevertheless, the obligation under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly, the SME loan and the related accrued interest payable were recognised as current liabilities by the Group as at the end of the reporting periods.

## 25. BORROWINGS (CONTINUED)

(ii) *(continued)*

As at 31 December 2022, the carrying amount of the SME loan and the related accrued interest payable was HK\$4,854,000 (2021: HK\$4,854,000) and HK\$21,534,000 (2021: HK\$16,629,000), respectively. The related accrued interest payable has been recognised and was included in the Group's trade payables, other payables and accruals as measured in accordance with the loan agreement and the Claim. In the opinion of the Directors, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 31 December 2022 and 2021. No further action has been taken against the Group during the current year.

Up to the date of approval of these consolidated financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the Directors are of the opinion that adequate provisions and disclosures have been made in the preparation of these consolidated financial statements, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

(iii) As at 31 December 2022, one other loan with the principal amount of US\$429,000 (equivalent to HK\$3,349,000) (2021: US\$429,000 (equivalent to HK\$3,345,000)) are unsecured, interest-bearing at 5% per annum and repayable on demand.

As at 31 December 2022, two other loans with principal amounts of HK\$2,500,000 and HK\$5,300,000, respectively, are interest-bearing at 2% per month and repayable in March 2023.

As at 31 December 2021, a secured loan facility was fully utilised with principal amount of US\$1,803,000 (equivalent to HK\$14,056,000). The loan was secured by the security interest in all right, title and interest in a film investment of the Group, interest-bearing and repayable on demand. During the current year, this loan has been fully settled by the Group and the related loan facility was released.

(iv) As at 31 December 2022, two other loans with principal amounts of US\$8,000,000 (equivalent to HK\$62,449,000) (2021: US\$8,000,000 (equivalent to HK\$62,372,000)) and HK\$34,290,000 (2021: HK\$34,290,000), respectively, are interest-bearing at interest rate from prime rate quoted by a bank in Hong Kong and not repayable ranging within 13 months from 31 December 2022.

As at 31 December 2022, one of other loans with a principal amount US\$3,500,000 (equivalent to HK\$27,065,000) (2021: US\$3,500,000 (equivalent to HK\$27,065,000)) is unsecured, interest-free and not repayable ranging within 13 months from 31 December 2022.

(v) As at 31 December 2022, an other loan with principal amount of US\$10,000,000 (equivalent to HK\$78,063,000) (2021: HK\$Nil) is interest-bearing at 10% per annum and with HK\$32,786,000 repayable within one year and HK\$45,277,000 repayable in the next two years respectively.

As at 31 December 2022 and 2021, all the loans of the Group are denominated in either HK\$, Canadian dollar ("CAD") or United States dollar ("US\$").

The bank loans bear floating interest rates at effective rates ranging from 1.15% to 7.45% (2021: 1.05% to 6.25%) per annum.

The Directors consider that the carrying amounts of the Group's bank loans and other loans approximate their fair values as at 31 December 2022 and 2021.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 25. BORROWINGS (CONTINUED)

At the end of the reporting period, total current and non-current bank loans and bank overdrafts were scheduled to repay as follows:

	2022 HK\$'000	2021 HK\$'000
On demand or within one year	105,081	32,245
More than one year, but not exceeding two years	23,419	91,272
More than two years, but not exceeding five years	346	23,759
	128,846	147,276

At the end of the reporting period, total current and non-current other loans were scheduled to repay as follows:

	2022 HK\$'000	2021 HK\$'000
On demand or within one year	43,935	17,401
More than one year, but not exceeding two years	169,081	123,727
	213,016	141,128

*Note:*

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

The Group regularly monitors the compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 40(b). As at 31 December 2022, none of the covenants relating to drawn down facilities had been breached.

## 26. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2022	2021	2022 HK\$'000	2021 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
As at 1 January 2021, 31 December 2021 and 31 December 2022	75,000,000,000	75,000,000,000	750,000	750,000
Issued and fully paid ordinary shares:				
As at 1 January	4,329,027,625	34,075,516,258	43,290	340,754
Issue of shares on subscriptions (Note (a))				
- on 18 January 2021	-	6,814,760,000	-	68,148
- on 30 July 2021	-	2,400,000,000	-	24,000
Capital reorganisation (Note (b))	-	(38,961,248,633)	-	(389,612)
As at 31 December	4,329,027,625	4,329,027,625	43,290	43,290

Notes:

- (a) On 18 January 2021, 6,814,760,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.05 each to an independent third party of the Group at an aggregate consideration of approximately HK\$340,435,000 net of issuing expenses, of which approximately HK\$68,148,000 was credited to the share capital and the remaining balance of approximately HK\$272,287,000 was credited to the share premium account.

On 30 July 2021, 2,400,000,000 new ordinary shares of par value HK\$0.01 each were issued at placing price of HK\$0.065 each to an independent third party of the Group at an aggregate consideration of approximately HK\$155,996,000 net of issuing expenses, of which approximately HK\$24,000,000 was credited to the share capital and the remaining balance of approximately HK\$131,996,000 was credited to the share premium account.

The proceeds are raised as its general working capital.

The new shares rank pari-passu with the existing shares in all respects.

- (b) On 11 October 2021, the Company implemented the capital reorganisation and change in board lot size as follows:
- Capital Reorganisation – share consolidation of every ten issued existing shares into one consolidated share whereby increasing the par value of all the then issued consolidated shares from HK\$0.01 to HK\$0.10 each (“Share Consolidation”); and following the Share Consolidation, reduction of the issued share capital whereby (i) the fractional consolidated share in the issued share capital of the Company resulting from the Share Consolidation would be cancelled in order to round down the total number of consolidated shares to a whole number; (ii) the par value of each issued consolidated share would be reduced from HK\$0.10 to HK\$0.01 each by cancelling HK\$0.09 of the paid-up capital on each issued consolidated share; and (iii) the transfer of the credit arising from the capital reduction to the contributed surplus account of the Company. Accordingly, approximately HK\$389,612,000 was debited to the share capital and credited to the contributed surplus account; and
  - Change in board lot size – the change in board lot size of the Company for trading on the Stock Exchange from the then current 10,000 issued existing shares to 5,000 adjusted shares.
- (c) No dividend was paid or proposed for ordinary shareholders of the Company for the year ended 31 December 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 27. RESERVES

Company

	Share premium HK\$'000 (Note (i))	Contributed surplus HK\$'000 (Note (iii))	Share options reserve HK\$'000 (Note (iv))	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2021	1,984,773	594,690	181,949	(2,757,366)	4,046
Recognition of equity-settled share-based payment expenses	-	-	1,856	-	1,856
Issue of shares on subscription, net of expenses					
- on 18 January 2021	272,287	-	-	-	272,287
- on 30 July 2021	131,996	-	-	-	131,996
Transfer of share premium to contributed surplus	(2,257,060)	2,257,060	-	-	-
Set-off of contributed surplus against accumulated losses	-	(2,257,060)	-	2,257,060	-
Capital reorganisation (note 26 (b))	-	389,612	-	-	389,612
Loss and total comprehensive income for the year	-	-	-	(651,353)	(651,353)
As at 31 December 2021 and 1 January 2022	131,996	984,302	183,805	(1,151,659)	148,444
Recognition of equity-settled share-based payment expenses	-	-	49	-	49
Loss and total comprehensive income for the year	-	-	-	(59,980)	(59,980)
As at 31 December 2022	131,996	984,302	183,854	(1,211,639)	88,513

Notes:

### (i) Share premium

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act.

### (ii) FVOCI reserve

The FVOCI reserve represents fair value reserve comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period.

## 27. RESERVES (CONTINUED)

Notes: (continued)

### (iii) Contributed surplus

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the years ended 31 December 2009, 2017 and 2021 which was transferred to the contributed surplus account and; (ii) all amounts standing to the credit of the share premium account of the Company immediately after the capital reorganisation in 2009 and 2017 were cancelled and the credit arising therefrom was transferred to the contributed surplus.

In addition to the retained profits, under the Companies Act of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

### (iv) Share options reserve

This reserve represents cumulative expenses recognised on the granting of unexercised share options to the participants over the vesting period.

### (v) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 4 "Translation of foreign currencies".

### (vi) Other reserve

This reserve represents (i) the contributed surplus reserve of an associate established in the PRC, where the change in net assets attributable to the Group in relation to the change in ownership interests in the associate through cash injection by the Group and other investors of the associate; and (ii) the capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder, which was transferred to accumulated losses of the Group upon disposal of the non-wholly owned subsidiary.

## 28. SHARE-BASED PAYMENT TRANSACTIONS

### (i) Share option scheme

On 27 April 2012, a 10-year share option scheme was adopted and amended on 3 April 2014 (the "2012 Option Scheme"). Pursuant to the 2012 Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards. The 2012 Option Scheme has been expired on 27 April 2022.

On 21 May 2020, 478,000,000 share options ("Options") were conditionally granted to employees of the Group under the 2012 Option Scheme. Out of which, 292,200,000 and 92,200,000 Options were vested on 21 May 2020 and 21 May 2021 respectively, the remaining 93,600,000 Options were vested on 21 May 2022. All Options are exercisable from their respective vesting dates until 20 May 2030. The exercise price of the Options is HK\$0.046 per share, being the closing price of the Company's ordinary shares on 21 May 2020.

On 16 June 2022, a new share option scheme was adopted and was valid and effective for a period of 10 years (the "2022 Option Scheme"). Pursuant to the 2022 Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards.

During the year, no Options (2021: 20,000,000) were forfeited and no Options (2021: Nil) were exercised, the average remaining contractual life is 3.69 years (2021: 4.69 years).

There were no market vesting conditions associated with the share options granted.

The Group recognised a share option expense in connection to all share options granted of approximately HK\$49,000 (2021: HK\$1,856,000) during the year ended 31 December 2022.

Following the Company's capital reorganisation on 11 October 2021, the exercise price and the number of adjusted shares to be issued upon exercise in full of the outstanding share options has been adjusted in accordance with the terms of the 2012 Option Scheme with effect from 11 October 2021 ("Option Adjustments"). Under the terms of the 2012 Option Scheme, the exercise prices per existing share of respective options granted were increased by 10 times while the number of existing shares to be issued upon exercise in full of the share options granted were reduced to one-tenth of the original number of existing shares. The impact has been shown in the following table for the year 2021. Further details are disclosed in the Company's announcement dated on 12 October 2021.

The following tables disclose movements in the Company's share options during the years ended 31 December 2022 and 2021:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 28. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

### (i) Share option scheme (continued)

2022

Name and category of participants	As at 1 January 2022	Grant/exercised during the year	Forfeited/lapsed during the year	As at 31 December 2022	Date of grant	Exercise period	Exercise price per share (HK\$)
<b>Director</b>							
Seah Ang	10,000,000	-	-	10,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.98
<b>Employees, in aggregate</b>							
- 2014	64,473,000	-	-	64,473,000	28 May 2014	28 May 2017 to 27 May 2024	0.98
- 2015	2,099,000	-	-	2,099,000	6 May 2015	6 May 2015 to 5 May 2025	13.20
	2,000,000	-	-	2,000,000	6 May 2015	6 May 2016 to 5 May 2025	13.20
	1,900,000	-	-	1,900,000	6 May 2015	6 May 2017 to 5 May 2025	13.20
- 2016	9,150,006	-	-	9,150,006	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	4.13
	8,149,998	-	-	8,149,998	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	4.13
	7,583,327	-	-	7,583,327	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	4.13
	5,000,000	-	-	5,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	4.95
	5,000,000	-	-	5,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	4.95
	1,666,671	-	-	1,666,671	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	5.66
	1,169,998	-	-	1,169,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	5.66
	843,324	-	-	843,324	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	5.66
- 2019	10,999,999	-	-	10,999,999	24 Apr 2019	24 Apr 2019 to 23 Apr 2029	1.30
	666,667	-	-	666,667	24 Apr 2019	29 Feb 2020 to 23 Apr 2029	1.30
	333,333	-	-	333,333	24 Apr 2019	24 Apr 2020 to 23 Apr 2029	1.30
	666,667	-	-	666,667	24 Apr 2019	28 Feb 2021 to 23 Apr 2029	1.30
	333,334	-	-	333,334	24 Apr 2019	24 Apr 2021 to 23 Apr 2029	1.30
- 2020	29,050,000	-	-	29,050,000	21 May 2020	21 May 2020 to 20 May 2030	0.46
	9,220,000	-	-	9,220,000	21 May 2020	21 May 2021 to 20 May 2030	0.46
	7,360,000	-	-	7,360,000	21 May 2020	21 May 2022 to 20 May 2030	0.46
<b>Others</b>							
Wang Wei-Chung (resigned on 25 June 2021)	166,667	-	-	166,667	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	4.13
	166,667	-	-	166,667	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	4.13
	166,666	-	-	166,666	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	4.13
Amit Chopra	4,800,000	-	-	4,800,000	28 May 2014	28 May 2017 to 27 May 2024	0.98
	500,000	-	-	500,000	6 May 2015	6 May 2015 to 5 May 2025	13.20
	500,000	-	-	500,000	6 May 2015	6 May 2016 to 5 May 2025	13.20
	500,000	-	-	500,000	6 May 2015	6 May 2017 to 5 May 2025	13.20
	3,333,334	-	-	3,333,334	7 Jun 2016	29 Jan 2016 to 28 Jan 2026	4.13
	3,333,333	-	-	3,333,333	7 Jun 2016	29 Jan 2017 to 28 Jan 2026	4.13
	3,333,333	-	-	3,333,333	7 Jun 2016	29 Jan 2018 to 28 Jan 2026	4.13
Wei Ming	30,000,000	-	-	30,000,000	1 Jun 2017	13 Feb 2017 to 12 Feb 2027	4.69
	224,465,324	-	-	224,465,324			
Weighted average exercise price	HK\$2.547	N/A	N/A	HK\$2.547			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 28. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

### (i) Share option scheme (continued)

2021

Name and category of participants	As at 1 January 2021	Grant/exercised during the year	Forfeited/lapsed during the year	Adjustments pursuant to Option Scheme	As at 31 December 2021, adjusted	Date of grant	Exercise period	Exercise price per share, adjusted (HK\$)
<b>Director</b>								
Seah Ang	100,000,000	-	-	(90,000,000)	10,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.98
<b>Employees, in aggregate</b>								
- 2014	644,730,000	-	-	(580,257,000)	64,473,000	28 May 2014	28 May 2017 to 27 May 2024	0.98
- 2015	20,990,000	-	-	(18,891,000)	2,099,000	6 May 2015	6 May 2015 to 5 May 2025	13.20
	20,000,000	-	-	(18,000,000)	2,000,000	6 May 2015	6 May 2016 to 5 May 2025	13.20
	19,000,000	-	-	(17,100,000)	1,900,000	6 May 2015	6 May 2017 to 5 May 2025	13.20
- 2016	91,500,010	-	-	(82,350,004)	9,150,006	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	4.13
	81,499,998	-	-	(73,350,000)	8,149,998	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	4.13
	75,833,327	-	-	(68,250,000)	7,583,327	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	4.13
	50,000,000	-	-	(45,000,000)	5,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	4.95
	50,000,000	-	-	(45,000,000)	5,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	4.95
	16,666,692	-	-	(15,000,021)	1,666,671	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	5.66
	11,699,998	-	-	(10,530,000)	1,169,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	5.66
	8,433,324	-	-	(7,590,000)	843,324	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	5.66
- 2019	109,999,999	-	-	(99,000,000)	10,999,999	24 Apr 2019	24 Apr 2019 to 23 Apr 2029	1.30
	6,666,667	-	-	(6,000,000)	666,667	24 Apr 2019	29 Feb 2020 to 23 Apr 2029	1.30
	3,333,333	-	-	(3,000,000)	333,333	24 Apr 2019	24 Apr 2020 to 23 Apr 2029	1.30
	6,666,667	-	-	(6,000,000)	666,667	24 Apr 2019	28 Feb 2021 to 23 Apr 2029	1.30
	3,333,334	-	-	(3,000,000)	333,334	24 Apr 2019	24 Apr 2021 to 23 Apr 2029	1.30
- 2020	290,500,000	-	-	(261,450,000)	29,050,000	21 May 2020	21 May 2020 to 20 May 2030	0.46
	92,200,000	-	-	(82,980,000)	9,220,000	21 May 2020	21 May 2021 to 20 May 2030	0.46
	93,600,000	-	(20,000,000)	(66,240,000)	7,360,000	21 May 2020	21 May 2022 to 20 May 2030	0.46
<b>Others</b>								
Wang Wei-Chung (resigned on 25 June 2021)	1,666,667	-	-	(1,500,000)	166,667	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	4.13
	1,666,667	-	-	(1,500,000)	166,667	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	4.13
	1,666,666	-	-	(1,500,000)	166,666	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	4.13
Amit Chopra	48,000,000	-	-	(43,200,000)	4,800,000	28 May 2014	28 May 2017 to 27 May 2024	0.98
	5,000,000	-	-	(4,500,000)	500,000	6 May 2015	6 May 2015 to 5 May 2025	13.20
	5,000,000	-	-	(4,500,000)	500,000	6 May 2015	6 May 2016 to 5 May 2025	13.20
	5,000,000	-	-	(4,500,000)	500,000	6 May 2015	6 May 2017 to 5 May 2025	13.20
	33,333,334	-	-	(30,000,000)	3,333,334	7 Jun 2016	29 Jan 2016 to 28 Jan 2026	4.13
	33,333,333	-	-	(30,000,000)	3,333,333	7 Jun 2016	29 Jan 2017 to 28 Jan 2026	4.13
	33,333,333	-	-	(30,000,000)	3,333,333	7 Jun 2016	29 Jan 2018 to 28 Jan 2026	4.13
Wei Ming	300,000,000	-	-	(270,000,000)	30,000,000	1 Jun 2017	13 Feb 2017 to 12 Feb 2027	4.69
	2,264,653,349	-	(20,000,000)	(2,020,188,025)	224,465,324			
Weighted average exercise price	HK\$0.253	N/A	HK\$0.46	N/A	HK\$2.547			

### (ii) Option granted under general mandate

No option was granted under general mandate during the year (2021: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2022

<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	-	7
Interests in subsidiaries	212,534	175,100
	212,534	175,107
<b>Current assets</b>		
Other receivables and prepayments	1,192	1,114
Bank balances and cash	12,685	22,411
	13,877	23,525
<b>Current liabilities</b>		
Other payables and accruals	8,745	6,898
Borrowings	40,586	-
	49,331	6,898
<b>Net current (liabilities)/assets</b>	(35,454)	16,627
<b>Total assets less current liabilities</b>	177,080	191,734
<b>Non-current liability</b>		
Borrowings	45,277	-
<b>NET ASSETS</b>	131,803	191,734
<b>Capital and reserves</b>		
Share capital	26	43,290
Reserves	27	148,444
<b>TOTAL EQUITY</b>	131,803	191,734

On behalf of the Board

On behalf of the Board

**Seah Ang**  
Director

**Duan Xiongfei**  
Director



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 30. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2022 and 2021 are as follows:

Company	Country or place of incorporation and establishment/operation	Issued share capital/paid up capital	Effective equity interest attributable to the Company as at 31 December 2022 and 2021		Nature of business
			Direct	Indirect	
Choice Excel Holdings Limited	The British Virgin Islands	US\$100	-	85%	Investment holdings
Chosen Elite Holdings Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
City Trend International Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Cosmos Glory Limited	Hong Kong	HK\$27,392,698	-	85%	Investment holdings
COTC Productions, Inc.	USA	US\$10	-	51%	Film investment and production
Creation Smart Investments Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
DD Asset Management (BVI) Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
DD Fengshu Media Limited	Hong Kong	HK\$1	-	100%	Dormant
DD Holdings US, LLC	USA	US\$35,000,000	-	100%	Investment holdings
DD Licensing (HK) Limited	Hong Kong	HK\$1	-	100%	Investment holdings
DD Licensing Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
DD Micoy, Inc.	USA	US\$1	-	100%	Holding assets
DDH Assets Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
DDHU Management Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
DDI Visuals Private Limited	India	INR1,000	-	100%	Visual effects production
DDPO (BVI) Company Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
DDVR, Inc.	USA	US\$1	-	100%	Investment holdings and virtual reality businesses
Digital Domain (International) Limited	Hong Kong	HK\$1	-	100%	Investment holdings
Digital Domain 3.0, Inc.	USA	US\$50	-	100%	Visual effects production
Digital Domain Assets Limited	Hong Kong	HK\$1	-	100%	Investment holdings
Digital Domain Broadcasting (Hong Kong) Limited	Hong Kong	HK\$1	-	100%	Investment holdings
Digital Domain Broadcasting Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 30. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/operation	Issued share capital/paid up capital	Effective equity interest attributable to the Company as at 31 December 2022 and 2021		Nature of business
			Direct	Indirect	
Digital Domain Capital Partners S.à r.l.*	Luxembourg	EUR12,000	-	100%	Development of and investment in media entertainment business in Europe
Digital Domain Consultancy Limited	Hong Kong	HK\$1	-	100%	Provision of management services
Digital Domain Content (Hong Kong) Limited	Hong Kong	HK\$1	-	100%	Virtual reality content business
Digital Domain Content Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Content Studio, Inc.	USA	US\$1	-	100%	Investment holdings
Digital Domain Development Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Digital Domain Development Limited	Hong Kong	HK\$1	-	100%	Investment holdings
Digital Domain Distribution (Hong Kong) Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Distribution Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Education (HK) Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Education Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Enterprise Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Digital Domain Enterprises Group (BVI) Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Digital Domain Enterprises Group Limited	Hong Kong	HK\$1	-	100%	Virtual human business
Digital Domain Entertainment (HK) Limited	Hong Kong	HK\$1	-	100%	Investment holdings
Digital Domain Entertainment Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain International Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Digital Domain Investments (BVI) Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Digital Domain Investments Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Management Limited	Hong Kong	HK\$100	-	100%	Dormant
Digital Domain Music (HK) Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Music Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 30. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/operation	Issued share capital/paid up capital	Effective equity interest attributable to the Company as at 31 December 2022 and 2021		Nature of business
			Direct	Indirect	
Digital Domain Network Technology Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Pictures (HK) Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Pictures Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Production (HK) Limited	Hong Kong	HK\$1	-	100%	TV drama investment
Digital Domain Production Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Productions 3.0 (BC), Ltd.	Canada	CAD1	-	100%	Visual effects production
Digital Domain Productions Québec, Ltd.	Canada	CAD100	-	100%	Visual effects production
Digital Domain Resources Limited	Hong Kong	HK\$2	-	100%	Provision of management services
Digital Domain Studio (HK) Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Studio Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Digital Domain Technology (US), Inc.	USA	US\$1	-	100%	Virtual reality business
Digital Domain Technology Limited	Hong Kong	HK\$1	-	100%	Investment holdings
Digital Domain Trading Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain Virtual Human (HK) Limited	Hong Kong	HK\$1	-	80%	Investment holdings
Digital Domain Virtual Human (US), Inc.	USA	US\$1	-	80%	Software development and research
Digital Domain Virtual Human Holdings Limited	The British Virgin Islands	US\$2,000,160	-	80%	Investment holdings
Digital Domain Virtual Human Productions (BC), Ltd.	Canada	CAD1	-	80%	Software development and research
Digital Domain Virtual Reality Holdings Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Digital Domain YK (HK) Company Limited	Hong Kong	HK\$1	-	100%	Dormant
Digital Domain YK Company Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Driven Global Holdings Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Ever Champ Management Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 30. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/operation	Issued share capital/paid up capital	Effective equity interest attributable to the Company as at 31 December 2022 and 2021		Nature of business
			Direct	Indirect	
Ever Ultra Limited	The British Virgin Islands	US\$100	-	100%	Investment holdings
Ever Union Medical Services Group Limited	Hong Kong	HK\$100	-	100%	Investment holdings
Ever Union Services Development Limited	Hong Kong	HK\$100	-	100%	Investment holdings and provision of consultancy services
Four Pillars Entertainment, Inc.	USA	US\$1	-	51%	Film investment and production
Four Pillars Media Development, Inc.	USA	US\$1	-	51%	Film investment and production
Golden Stream Global Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
IM360 Entertainment Inc.	Canada	CAD7,307,647	-	91.71%	Interactive media technology through 360 degree video
Immersive Licensing, Inc.	USA	US\$1,000	-	83.10%	Manage intellectual property licences and trademarks
Immersive Media Company	USA	US\$15	-	83.10%	Interactive media technology through 360 degree video
Immersive Ventures Inc.	Canada	CAD11,108,656	-	83.10%	Interactive media technology through 360 degree video
Impala 2020 Pty Ltd	Australia	AUD12	-	51%	Film investment and production
Impala Productions 2.0 (BC), Ltd.	Canada	CAD1	-	51%	Film investment and production
Lucrative Skill Holdings Limited	The British Virgin Islands	US\$100	-	85%	Investment holdings
Mothership Media, Inc.	USA	US\$0.01	-	100%	Visual effects production
Post Production Office Limited	Hong Kong	HK\$16,993,446	-	85%	Investment holdings
Praya Star Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Rise Honour Development Limited	Hong Kong	HK\$1	-	100%	Investment holdings
S. I. Travel Group Limited	The British Virgin Islands/Hong Kong	US\$1	100%	-	Trading
Sun Innovation International Group Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Sun Innovation Management Services Limited	Hong Kong	HK\$2	100%	-	Provision of management services

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 30. SUBSIDIARIES (CONTINUED)

Company	Country or place of incorporation and establishment/operation	Issued share capital/paid up capital	Effective equity interest attributable to the Company as at 31 December 2022 and 2021		Nature of business
			Direct	Indirect	
Tower Talent Holdings Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Treasure Well Development Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Upfield Sky Limited	The British Virgin Islands	US\$10,000	-	100%	Investment holdings
Vibrant Global Group Limited	The British Virgin Islands	US\$1	100%	-	Investment holdings
Virtue Global Holdings Limited	The British Virgin Islands	US\$1	-	100%	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK\$1	-	100%	Securities investment and investment holding
長和技術發展(深圳)有限公司	The PRC	RMB5,493,649	-	100%	Provision of consultancy services
數字王國文羣(北京)文化傳媒有限公司	The PRC	RMB69,700,942	-	85%	Visual effects production and post production
數字王國朝羣(上海)文化傳媒有限公司	The PRC	RMB38,665,164	-	85%	Visual effects production and post production
數字王國(深圳)科技發展有限公司*	The PRC	HK\$10,960,000	-	100%	Visual effects production

Notes:

- ° The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HK\$16,100,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.
- \* On 16 August 2021, the Group acquired 40% of the total equity interest in Digital Domain Capital Partners S.à r.l. for an aggregate cash consideration of EUR13,333,333 (equivalent to approximately HK\$123,648,000). Subsequent to the acquisition, the company became a wholly-owned subsidiary of the Group.

All the above are limited liability companies.

Unless otherwise stated, the above subsidiaries' places of operations are the same as their respective places of incorporation/establishment.

None of the subsidiaries had issued any debt securities during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 31. NON-CONTROLLING INTERESTS

The following table lists out the information relating to Immersive Ventures Inc., IM360 Entertainment Inc., Four Pillars Entertainment, Inc., Digital Domain Virtual Human Holdings Limited, COTC Productions, Inc., Lucrative Skill Holdings Limited and Digital Domain Capital Partners S.à r.l., subsidiaries of the Company which have material NCI. The summarised financial information presented below represents the amounts before any inter-company elimination.

	Immersive Ventures Inc.		IM360 Entertainment Inc.		Four Pillars Entertainment, Inc.		Digital Domain Virtual Human Holdings Limited		COTC Productions, Inc.		Lucrative Skill Holdings Limited		Digital Domain Capital Partners S.à r.l.*	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
<b>As at 31 December:</b>														
NCI percentage	16.9%	16.9%	8.281%	8.281%	49%	49%	20%	20%	51.55%	51.55%	15%	15%	N/A	40%
Non-current assets	20,009	20,009	-	5,033	325	424	58,131	62,416	-	-	27,896	22,697	-	-
Current assets	261	280	29,938	31,933	125,912	124,293	692	712	127,544	128,331	82,728	97,858	-	-
Non-current liabilities	(43,450)	(46,530)	-	-	-	-	-	-	-	-	(9,613)	(442)	-	-
Current liabilities	(94,623)	(96,119)	(40,714)	(43,560)	(149,660)	(147,437)	(138,249)	(110,716)	(120,466)	(134,607)	(355,831)	(319,951)	-	-
Net (liabilities)/assets	(117,803)	(122,360)	(10,776)	(6,594)	(23,423)	(22,720)	(79,426)	(47,588)	7,078	(6,276)	(254,820)	(199,838)	-	-
Accumulated NCI (Note)	(19,909)	(20,679)	(892)	(546)	(11,477)	(11,133)	(15,885)	(9,517)	3,648	(3,235)	(38,223)	(29,976)	-	-
<b>Year ended 31 December:</b>														
Revenue	-	-	-	-	-	-	-	-	-	-	74,247	72,412	-	-
Loss for the year	(1,022)	(180,215)	(4,827)	(388)	(675)	(6,653)	(33,225)	(28,383)	13,433	(4,943)	(55,475)	(32,357)	-	(29,287)
Total comprehensive income	4,557	(177,914)	(4,182)	(467)	(703)	(6,763)	(31,838)	(28,581)	13,354	(4,966)	(54,982)	(32,211)	-	34,845
Loss allocated to NCI (Note)	(173)	(30,456)	(400)	(32)	(331)	(3,260)	(6,645)	(5,677)	6,925	(2,548)	(8,321)	(4,854)	-	(11,715)
Total comprehensive income allocated to NCI (Note)	770	(30,068)	(346)	(39)	(344)	(3,314)	(6,368)	(5,716)	6,883	(2,560)	(8,247)	(4,832)	-	13,937
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash (outflows)/inflows from operating activities	(6)	(2)	(1)	-	(26)	85	20,251	17,689	13,332	(7,308)	11,156	3,571	-	-
Net cash outflows from investing activities	-	-	-	-	(40)	-	(20,272)	(17,775)	-	-	(7,134)	(5,754)	-	-
Net cash outflows from financing activities	-	-	-	-	-	-	-	-	(14,147)	-	-	-	-	-

\* 40% of total equity interest in Digital Domain Capital Partners S.à r.l. was acquired on 16 August 2021 and became the subsidiary of the Company since then. Details were set out in note 30.

Note: The aggregate NCI as at 31 December 2022 amounted to debit balance of approximately HK\$82,738,000 (2021: debit balance of approximately HK\$75,086,000) and the aggregate net losses and total comprehensive income allocated to NCI for the year then ended amounted to approximately HK\$8,945,000 (2021: HK\$58,542,000) and HK\$7,652,000 (2021: HK\$60,466,000), respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 32. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Bank borrowings (Note 25) HK\$'000	Other loans (Note 25) HK\$'000	Lease liabilities (Note 15) HK\$'000	Total HK\$'000
As at 1 January 2021	133,865	162,729	114,588	411,182
Changes from financing cash flows:				
- New bank borrowings	40,738	-	-	40,738
- Repayment of bank borrowings	(22,738)	-	-	(22,738)
- Repayment of principal portion of lease liabilities	-	-	(36,796)	(36,796)
- Repayment of interest portion of lease liabilities	-	-	(10,141)	(10,141)
- Repayment of other loans	-	(22,096)	-	(22,096)
Other changes:				
- Paycheck Protection Program loans forgiven	(8,259)	-	-	(8,259)
- Additions	-	-	1,567	1,567
- Interest on lease liabilities	-	-	10,141	10,141
- COVID-19-Related rent concessions	-	-	(1,343)	(1,343)
Exchange realignment	3,670	495	903	5,068
<b>As at 31 December 2021 and 1 January 2022</b>	<b>147,276</b>	<b>141,128</b>	<b>78,919</b>	<b>367,323</b>
Changes from financing cash flows:				
- New bank borrowings	22,561	-	-	22,561
- Repayment of bank borrowings	(39,801)	-	-	(39,801)
- Repayment of principal portion of lease liabilities	-	-	(32,688)	(32,688)
- Repayment of interest portion of lease liabilities	-	-	(9,890)	(9,890)
- New inception of other loans	-	86,302	-	86,302
- Repayment of other loans	-	(14,147)	-	(14,147)
Other changes:				
- Additions	-	-	59,869	59,869
- Interest expenses on lease liabilities	-	-	9,890	9,890
- COVID-19-Related rent concessions	-	-	(1,703)	(1,703)
- Effect of lease modification	-	-	(200)	(200)
Exchange realignment	(1,190)	(267)	(3,628)	(5,085)
<b>As at 31 December 2022</b>	<b>128,846</b>	<b>213,016</b>	<b>100,569</b>	<b>442,431</b>

## 33. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme"), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK\$1,500 (2021: HK\$1,500) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the MPF Scheme was HK\$517,000 (2021: HK\$503,000).

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK\$13,972,000 (2021: HK\$10,606,000).

## 34. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

- (a) As at 31 December 2022, the Group had aggregate banking facilities of HK\$164,642,000 (2021: HK\$159,505,000) from banks for guarantees and loans. The banking facilities are mainly secured by:
- (i) As at 31 December 2022, the Group's bank loan with a carrying amount of approximately HK\$117,073,000 (2021: HK\$115,841,000) is secured by pledged deposits of same amount in subsidiaries' accounts.
  - (ii) As at 31 December 2022, two investment properties of a wholly-owned subsidiary of the Company are pledged to secure the borrowings of the Group. This banking facility has not been utilised as at 31 December 2022 (2021: Nil).
- (b) As at 31 December 2022, there are term loan facilities of US\$10,000,000 (2021: US\$10,000,000) and HK\$80,000,000 (2021: HK\$80,000,000) from a substantial shareholder of the Company, Wise Sun Holdings Limited. The facilities were granted to a subsidiary of the Company. As at 31 December 2022, the balance of utilised facilities are US\$8,000,000 (approximately HK\$62,449,000) (2021: US\$8,000,000 (approximately HK\$62,372,000)) and HK\$34,290,000 (2021: HK\$34,290,000), respectively. The Company acts as a guarantor of these term loans.

## 35. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment as at 31 December 2022 and 2021.

## 36. RELATED PARTY TRANSACTIONS

Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in note 10.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 37. CONTINGENT LIABILITIES

- (a) A wholly-owned subsidiary of the Company based in the United States (the "US Subsidiary") has been acknowledged by several clients in the USA in connection with the possible indemnification of losses suffered by these clients as a result of their involvements in other lawsuits (the "Other Lawsuits") filed by a claimant (the "Claimant") against these clients. This Claimant had dispute over ownership of certain physical equipment and intellectual property (the "Disputed IP") with the original owner (the "Original Owner") and a court in the USA concluded that the Claimant owns the Disputed IP on 11 August 2017. The Group had used these Disputed IP under a licence from the Original Owner and completed certain visual effect projects for these clients.

The US Subsidiary submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company believed that coverage was no longer existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

No specific monetary amount has been identified in the indemnity requests by these clients. The insurance company and the US Subsidiary are continuing their discussion with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits.

No provision for the indemnity has been recognised for the year ended 31 December 2022 (2021: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

On 20 January 2022, Claimant, US Subsidiary's clients, US Subsidiary and its insurance company commenced a settlement process through a neutral third-party mediator. The insurance company initially acknowledged its obligation to provide a defence for the US Subsidiary's clients, but subsequently communicated to the US Subsidiary that it no longer believed that coverage existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

As at 31 December 2022, the litigation of Other Lawsuits is continuing. The court has scheduled the trial of the Other Lawsuits to commence on 4 December 2023.

- (b) On 21 April 2022, the Claimant filed a new lawsuit against one of the US Subsidiary's clients and its affiliates' copyright infringement against those entities with respect to two films that are not part of the Other Lawsuits (the "New Lawsuit").

No provision for the indemnity has been recognised for the year ended 31 December 2022 (2021: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

On 21 February 2023, the court dismissed the New Lawsuit on the grounds that the facts, as plead, in the lawsuit did not give rise to legally-actionable claims. The court gave the Claimant until 4 April 2023 (subject to a possible further extension) to file a new amended complaint that rectifies the pleading defects that the court identified.

## 38. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in the consolidated financial statements, the following events took place subsequently to 31 December 2022:

- (a) On 17 January 2023, the Company entered into two subscription agreements with independent third parties in relation to the subscriptions of 219,375,000 shares at the subscription price of HK\$0.32 per subscription share. The share subscription was completed on 2 February 2023. After the completion date, a total number of 4,548,402,625 shares are in issue.
- (b) On 13 February 2023, Digital Domain Pictures (HK) Limited ("DD Pictures"), an indirect wholly-owned subsidiary of the Company, entered into the loan agreement with Digital Eve Technology Limited ("Digital Eve") to provide the principal amount of US\$3,000,000 with a tenor of three years at a fixed interest rate ranging from 8% to 12% per annum.

Digital Eve is indirectly owned by Mr. Zhu, a director of a number of subsidiaries of the Company. Under the circumstance, Mr. Zhu is a connected person of the Company. Accordingly, the provision of the loan by DD Pictures to Digital Eve pursuant to the loan agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

## 39. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of net debt (including the borrowings disclosed in note 25, lease liabilities disclosed in note 15, less cash and cash equivalents and pledged bank deposits disclosed in note 23) and total equity.

The Group's risk management reviews the capital structure on a semi-annual basis. The Group will consider both debt financing and equity financing for its capital requirements. As part of this review, management consider the cost of capital and the risks associated with each class of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. The gearing ratio at the end of reporting period was as follows:

	2022 HK\$'000	2021 HK\$'000
Debts	442,431	367,323
Cash and cash equivalents and pledged bank deposits	(153,553)	(247,755)
<b>Net debt</b>	<b>288,878</b>	<b>119,568</b>
<b>Total equity</b>	<b>293,019</b>	<b>510,786</b>
<b>Net debt to equity ratio</b>	<b>99%</b>	<b>23%</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 40. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

### (a) Credit risk

The credit risk of the Group's financial assets (which comprise gross trade receivables, other receivables and cash and cash equivalents and pledged bank deposits) and contract assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's credit risk is primarily attributable to its trade and other receivables. The credit risk for bank balances is limited because the counter-parties are banks, with high credit rating.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

#### *Trade receivables and contract assets*

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. In response to the COVID-19 pandemic, management has also been performing more frequent reviews of credit limits for customers in regions and industries that are severely impacted.

Trade receivables are due within 30 days (2021: 30 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

At 31 December 2022, the Group has a concentration of credit risk as 23% and 61% (2021: 17% and 55%) respectively of the total gross trade receivables were due from the Group's largest customer and the five (2021: five) largest customers respectively.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases which is based on days past due for groupings of various customer segments that have similar loss patterns.

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2022 and 2021:

As at 31 December 2022	Expected loss rate %	Gross Carrying Amount HK\$'000	Loss allowance HK\$'000
Current (not past due)	0.42	28,523	119
1 to 3 months past due	1.93	11,877	229
3 to 6 months past due	6.04	1,852	112
6 to 12 months past due	13.52	554	75
More than 1 year past due	55.25	12,079	6,674
		54,885	7,209

As at 31 December 2021	Expected loss rate %	Gross Carrying Amount HK\$'000	Loss allowance HK\$'000
Current (not past due)	0.45	41,944	190
1 to 3 months past due	1.79	27,733	496
3 to 6 months past due	7.22	8,600	621
6 to 12 months past due	15.27	9,065	1,384
More than 1 year past due	56.99	11,411	6,504
		98,753	9,195

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The adjustment factors are based on the GDP forecast in each geographical region, including the expected impact of the government support measures in each region, such adjustment factors were increased in 2022, reflecting the actual and expected impact of the COVID-19 pandemic in each geographical region.

The following table reconciles the loss allowance account in respect of trade receivables and contract assets for the years ended 31 December 2022 and 2021:

	2022 HK\$'000	2021 HK\$'000
As at 1 January	9,195	5,475
Amounts written off during the year	-	(2,637)
Impairment loss (reversed)/recognised during the year	(936)	6,357
Exchange realignment	(1,050)	-
As at 31 December	7,209	9,195

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the decrease in the loss allowance during the year:

- A write-off of trade receivables with a gross carrying amount of HK\$Nil (2021: HK\$2,637,000) resulted in a decrease in loss allowance of HK\$Nil (2021: HK\$2,637,000).
- Decrease (2021: increase) in balances with days past due over 30 days resulted in a decrease in loss allowance of HK\$1,591,000 (2021: increase in loss allowance of HK\$5,521,000).
- Increase in the adjustment factors to expected loss rates as a consequence of the COVID-19 pandemic resulted in increase in loss allowance of HK\$655,000 (2021: HK\$836,000).

### Other receivables

As for other receivables, impairment loss is recognised as 12-month ECL since initial recognition. Subsequently the Group assesses whether there was a significant increase in credit risk. In determining the ECL, the Directors have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these other receivables occurring within their respective loss assessment time horizon, as well as the loss given default.

The movements in the impairment allowance of other receivables were as follows:

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit-impaired (Stage 2) HK\$'000	Lifetime ECL credit-impaired (Stage 3) HK\$'000	Total HK\$'000
As at 1 January 2021	-	6,121	-	6,121
Increase in receivables moved to stage 3	-	(6,121)	6,121	-
Impairment loss recognised during the year	-	-	81,674	81,674
As at 31 December 2021	-	-	87,795	87,795

	12-month ECL (Stage 1) HK\$'000	Lifetime ECL not credit-impaired (Stage 2) HK\$'000	Lifetime ECL credit-impaired (Stage 3) HK\$'000	Total HK\$'000
As at 1 January 2022	-	-	87,795	87,795
Impairment loss recognised during the year	-	-	3,963	3,963
As at 31 December 2022	-	-	91,758	91,758

Note: Included in the above allowances for ECL in respect of other receivables is provisions for individually impaired other receivables of HK\$8,050,000, and HK\$68,000,000 (2021: HK\$8,050,000 and HK\$68,000,000) respectively with details as set out in notes 21 (iii) (a) and (iv).

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for borrowings is prepared based on the scheduled repayment dates:

Group	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000
<b>2022</b>						
SME loan	4,854	4,854	4,854	-	-	-
Other bank loans	123,992	127,179	102,604	24,212	363	-
Other loans	213,016	228,376	57,053	171,323	-	-
Trade payables, other payables and accruals	190,115	190,115	190,115	-	-	-
Lease liabilities	100,569	121,022	33,860	33,192	51,699	2,271
	632,546	671,546	388,486	228,727	52,062	2,271
<b>2021</b>						
SME loan	4,854	4,854	4,854	-	-	-
Other bank loans	142,422	145,308	39,325	81,956	24,027	-
Other loans	141,128	160,375	35,249	125,126	-	-
Trade payables, other payables and accruals	177,580	177,580	177,580	-	-	-
Lease liabilities	78,919	99,968	33,816	16,305	46,089	3,758
	544,903	588,085	290,824	223,387	70,116	3,758

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

The table below summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were different from that disclosed in the “on demand” time band in the maturity analysis contained in above table. Taking into account the Group’s financial position, the Directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The Directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount HK\$'000	Total contractual undiscounted cash flows HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000
31 December 2022	2,765	2,765	2,765	-	-	-
31 December 2021	13,299	15,270	526	526	14,218	-

### (c) Interest rate risk

The Group’s interest rate risk arises primarily from bank loans and other loans. Seven (2021: seven) of bank borrowings and one (2021: one) of the other loans were issued at variable rates which exposed the Group to cash flow interest rate risk. The Group’s interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group’s net borrowings at the end of reporting period:

	2022		2021	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
<b>Variable-rate borrowings</b>				
Bank loans	1.15-7.45	124,747	1.05-6.25	136,331
Other loans	Prime rate	96,739	Prime rate	96,662
		221,486		232,993
<b>Fixed-rate borrowings</b>				
Bank loans	3.00-5.00	4,099	3.00-5.00	10,945
Other loans	5.00-24.00	89,212	5.00-15.00	17,401
		93,311		28,346

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Interest rate risk (continued)

The interest rates and terms of repayment of the Group's borrowings are disclosed in note 25.

#### *Sensitivity analysis*

As at 31 December 2022, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease (2021: decrease/increase) the loss after taxation and increase/decrease (2021: decrease/increase) accumulated losses of the Group by HK\$679,000/HK\$679,000 (2021: HK\$148,000/HK\$148,000) respectively. Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2021.

### (d) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in HK\$ which is different from the functional currency of the Group entities, i.e. RMB, US\$, CAD, Indian Rupees ("INR") and Euro ("EUR") which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manage its foreign currency risk by monitoring the movements of the foreign currency rates and will consider hedging significant foreign currency exposures should the need arise.

## 41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2022 and 2021 may be categorised as follows:

### (a) Categories of financial assets and financial liabilities

	2022 HK\$'000	2021 HK\$'000
<b>Financial assets</b>		
Financial assets at amortised cost (including cash and cash equivalents)	274,028	409,083
Financial assets at FVOCI	-	-
Financial assets at FVTPL	41,349	70,151
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	632,546	544,903



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

### (b) Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets which are traded on active markets are determined with reference to quoted market bid prices; and
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their fair values.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2022			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at FVOCI				
- Unlisted equity investments	-	-	-	-
Financial assets at FVTPL				
- Listed equity investments	41,349	-	-	41,349

	2021			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at FVOCI				
- Unlisted equity investments	-	-	-	-
Financial assets at FVTPL				
- Listed equity investments	70,151	-	-	70,151

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

## 41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

### (b) Fair values (continued)

During the year, there was no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3 for both financial assets and financial liabilities.

#### *Information about level 3 fair value measurement*

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (level 3) is as follows:

	FVOCI	
	2022 HK\$'000	2021 HK\$'000
<b>Unlisted equity investments</b> As at 1 January and 31 December	-	-

The valuation technique as at 31 December 2022 is as follows:

Type of financial assets or financial liabilities	Valuation technique	Significant unobservable inputs (level 3)	Sensitivity analysis
Unlisted equity investment	Cost approach	N/A	N/A

## FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group are summarised below:

	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000
<b>Results</b>					
Revenue	958,651	864,214	604,323	625,446	600,679
Loss attributable to owners of the Company	(206,320)	(722,004)	(598,527)	(400,813)	(518,030)
<b>Assets and Liabilities</b>					
Total assets	1,029,703	1,200,099	1,497,250	2,175,050	2,224,839
Total liabilities	(736,684)	(689,313)	(684,379)	(697,855)	(914,883)
	293,019	510,786	812,871	1,477,195	1,309,956
Non-controlling interests	82,738	75,086	28,560	(50,643)	(78,482)
Equity attributable to owners of the Company	375,757	585,872	841,431	1,426,552	1,231,474

## PARTICULARS OF PROPERTIES

	Type	Lease term
<b>Properties held for investment</b>		
(1) 900 West Olympic Boulevard - Unit 34B, Los Angeles, Los Angeles County, CA 90015, U.S.A.	Residential	Medium
(2) 523 Caruso Avenue, Glendale, Los Angeles County, CA 91210, U.S.A.	Residential	Medium