DADI INTERNATIONAL GROUP LIMITED
大地國際集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8130)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

Reference is made to the announcement of Dadi International Group Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**") dated 22 June 2021 (the "**Announcement**") regarding its annual results for the year ended 31 March 2021 and the annual report of the Company for the year ended 31 March 2021 (the "**Annual Report**"). Capitalised terms used herein shall have the same meanings as defined in the Announcement and the Annual Report unless otherwise defined.

The Board wishes to provide further information regarding the Announcement and the Annual Report as follows:

IMPAIRMENT LOSSES ON PAYMENT AND DEPOSITS PAID IN RELATION TO FILM PRODUCTION AND PAN-ENTERTAINMENT PROJECTS

As stated in the Annual Report, owing to the overall impact of the COVID-19 pandemic (the "**Pandemic**") on the economy and business activities of a number of industries including but not limited to the film production and distribution industry, the Group recognised a net allowance for expected credit losses (the "**ECL**") of HK$77.5 million for the deposit for film production (the "**Deposit for Film Production**"), HK$9.0 million for deposit for purchase of film rights (the "**Deposit for Purchase of Film Rights**", together with the Deposit for Film Production, the "**Deposits**") and HK$52.5 million for other receivables and deposits (the "**Other Receivables**") (collectively the "**Impairment Losses**") during the year ended 31 March 2021 ("**FY2021**").

Reasons for and the circumstances leading to the Impairment Losses

During FY2021, the performance of the Group's advertising and media related services, in particular its film and pan-entertainment-related projects, was severely affected by the outbreak of the Pandemic. The outbreak of the Pandemic was out of the reasonable foreseeability of the industry participants in the PRC or the Board at the material times when the agreements were entered into, and deposits were paid, for the implementation of the movie production and pan-entertainment projects which had then posed a relatively promising outlook.

Set out below are the details of the agreements mentioned above, as well as the payment made and refund received from the counterparties during the term of the agreements:

(i) a film production agreement (the "**Film Production Agreement**") entered into in March 2016 between Shanghai Zhongteng Advertising Limited (上海中騰廣告有限公司) ("**Shanghai Zhongteng**"), a subsidiary of the Company, and Shanghai Danyao Holdings Company Limited (上海丹瑤實業有限公司) ("**Shanghai Danyao**"), a private limited liability company established in the PRC, pursuant to which Shanghai Zhongteng agreed to invest a total of approximately RMB85.3 million for the joint production of six internet films with Shanghai Danyao. Pursuant to the Film Production Agreement, Shanghai Danyao was responsible for the filming and crew management, whereas Shanghai Zhongteng shall be entitled to the directorship and screen-writing production rights of the films, as well as all tangible and intangible rights pertaining to the films, including intellectual property rights, the rights in relation to the commercialization, advertisement and promotion of the films, and the portrait rights of the actors and actresses. Shanghai Zhongteng shall also enjoy all the profits (or bear all the losses) arising from the subsequent distribution of the films and all merchandises deriving therefrom.

    Upon various communications between the parties to the Film Production Agreement over the years, there had been certain delays in the execution process of the film production of which the Company is of the view that such situations were not uncommon in the film production and distribution industry in general taking into account, among other things, the significant financial and labor resources input over a relatively extended period of time in the process. As such, on a prudent approach, Shanghai Zhongteng had requested for a refund of certain of the deposit paid, taking into account, among other things, of the stage to which the film production exercises had progressed.

    Meanwhile, as part of the Group's continued commitment in the media-related business segment operations, Shanghai Zhongteng had recognized the opportunities to acquire certain interest in the production of five movies at a total consideration of approximately RMB71.5 million. As such, upon various rounds of negotiations among Shanghai Zhongteng, the film right holders (namely, Ms. Dai, Mr. Guan, Ms. Yuan and Mr. Liu) and the Shanghai Danyao, the parties above entered into tri-partite agreements in June 2018 pursuant to which Shanghai Zhongteng shall acquire the said interest (including the right to receive its share in the box office income), and the consideration of such acquisition shall be paid by Shanghai Danyao to the film right holders with the monies representing the refund of deposits under the Film Production Agreement. The proposed film crew of such films included, among others, well-known directors and producers in Hong Kong and the PRC.

The apparent difference between the agreed investment amount (of approximately RMB85.3 million, which had been paid by Shanghai Zhongteng) for the joint production with Shanghai Danyao and the total consideration (of approximately RMB71.5 million) for the acquisition of certain interest in five movie production projects represent the amount for recognition of film rights transferred upon completion of film productions at cost of approximately HK$17.0 million as disclosed in note 23 to the consolidated financial statements of the Company for the year ended 31 March 2018. Please refer to the 2018 annual report of the Company for details. The further decrease of outstanding amount of deposits from RMB71.5 million to RMB53.4 million represents the deposits subsequently settled since the entry into of the agreements to acquire the interest in the aforementioned film production projects in June 2018 up to the time immediately prior to the recognition of ECL in respect of Shanghai Danyao for FY2021;

(ii) a film post-production agreement (the "**Film Post-production Agreement**") entered into between Shanghai Zhongteng and Shanghai Qipai Information Technology Company Limited（上海啟派信息技術有限公司）("**Shanghai Qipai**"), a private limited liability company established in the PRC, pursuant to which Shanghai Qipai shall provide 3D animation effect production services to Shanghai Zhongteng at a total consideration of RMB50.0 million.

In line with the payment terms of the Film Post-production Agreement and the project progress, only approximately RMB41.0 million had been paid as deposits. However, owing to certain internal operational issues of Shanghai Qipai rendering its inability to provide its services completely under the Film Post-production Agreement, Shanghai Zhongteng had requested for a refund of certain of the deposit paid taking into account of, among other things, the level of services rendered under the agreement. Shanghai Zhongteng had been able to obtain a refund in the total sum of approximately RMB11.0 million from Shanghai Qipai.

In respect to the remaining sum to be refunded by Shanghai Qipai, at the material time, Shanghai Zhongteng was contemplating the acquisition of certain interest in the production of another four movies at a total consideration of approximately RMB19.0 million. Therefore, upon further discussions among Shanghai Zhongteng, the film right holder (namely Mr. Meng) and Shanghai Qipai, the parties above entered into tri-partite agreements in June 2018 pursuant to which Shanghai Zhongteng shall acquire the said interest (including the right to receive its share in the box office income), and the consideration of such acquisition shall be paid by Shanghai Qipai to the film right holder with the refund monies. The proposed film crew of such films included, among others, well-known directors and producers in Hong Kong and the PRC. However, up to the date of this announcement, no film right has been recognised under the above tri-partite agreements. As such, the outstanding amount from Shanghai Qipai arising from the above transactions remains to be RMB41.0 million (being the deposits paid under the Film Post-production Agreement) less RMB11.0 million (representing the refund received from Shanghai Qipai), that is, RMB30.0 million;

(iii) an assignment agreement entered into between Shanghai Zhongteng and Ms. Bai in February 2017 pursuant to which Ms. Bai agreed to assign the film rights (including all intellectual property ("**IP**") rights, broadcasting rights and distribution rights etc., pertaining thereto) of 62 movies produced within the period from 1971 to 2016 at a total consideration of approximately RMB27.0 million. While the consideration had been paid in full by Shanghai Zhongteng pursuant to the agreement, owing to the non-performance of the obligations by the counterparty for an extended period of time, Shanghai Zhongteng had successfully obtained a refund in the amount of approximately RMB17.0 million;

(iv) a letter of intent (the "**Zhang's LOI**") entered into between Shanghai Zhongteng and Ms. Zhang in June 2017 pursuant to which earnest monies in the amount of RMB30.0 million shall be paid by Shanghai Zhongteng to Ms. Zhang for the purpose of further negotiation of the terms of investment and production plan (including preparation of formal transaction documents) of the pan-entertainment projects led by the latter. While the consideration had been paid in full by Shanghai Zhongteng pursuant to the agreement, owing to the technical difficulties involved in the underlying pan-entertainment projects, Shanghai Zhongteng had successfully demanded a refund in the amount of approximately RMB17.5 million; and

(v) two letter of intent (together with the Zhang's LOI, the "**Pan-entertainment LOIs**") entered into between Ziyi Management Consulting (Shanghai) Company Limited（梓懿管理諮詢（上海）有限公司）("**Ziyi Management**"), a subsidiary of the Company, and Shanghai Jiaying Holdings Company Limited（上海珈盈實業有限公司）("**Shanghai Jiaying**"), a private limited liability company established in the PRC, in March 2018 and April 2018 pursuant to which earnest monies in the amount of RMB20.8 million and RMB44.2 million shall be paid by Ziyi Management to Shanghai Jiaying for the purpose of further negotiation of the terms of investment and production plan (including preparation of formal transaction documents) of the pan-entertainment projects led by the latter. While the consideration had been paid in full by Shanghai Zhongteng pursuant to the agreement, owing to the technical difficulties involved in the underlying pan-entertainment projects, Shanghai Zhongteng had successfully received a refund in the amount of approximately RMB9.0 million.

The above agreements and transactions contemplated thereunder are collectively referred to as the "**Film and Pan-entertainment Projects**". Further details of the pan-entertainment projects underlying the Pan-entertainment LOIs were disclosed in the paragraphs below.

To the best knowledge of the Directors, each of Shanghai Danyao, Shanghai Qipai, Shanghai Jiaying and their respective ultimate beneficial owners, as well as Ms. Bai, Ms. Zhang and the individual film right holders as set out above, was a third party independent of the Company and its connected persons as defined under the Listing Rules.

The following table sets out the outstanding amount of the deposits/receivables pertaining to the Film and Pan-entertainment Projects as at 31 March 2021 and the date of this announcement, and the breakdown of the ECL recognised for each counterparty:

No.	Counterparty	Actual amount of deposits/ earnest monies paid	Outstanding amount of deposits/ receivables to be recovered		ECL recognised for FY2021
		RMB (million)	*RMB (million)*	*HKD (million)*	*HKD (million)*
1.	Shanghai Danyao	85.3	53.4	63.2	45.9
2.	Shanghai Qipai	41.0	30.0	35.6	25.9
3.	Ms. Bai	27.0	10.0	11.8	8.6
4.	Ms. Zhang	30.0	12.5	14.8	10.8
5.	Shanghai Jiaying	65.0	56.0	66.3	48.2
	Total	**248.3**	**161.9**	**191.7**	**139.4**

Further details in respect of the circumstances leading to the recognition of the impairment are set out below.

While the Film and Pan-entertainment projects were entered into and the deposits were paid over the period from approximately March 2016 to June 2018, it was when the entertainment market in the PRC posed a large and expanding market opportunity, particularly when entertainment had become an important part of daily life, and consumers were having more readily available access to a diverse range of pan-entertainment options including movies (including internet movies), web series, variety shows, entertainment events, IP-derivatives, music and other leisure activities.

Based on information extracted from publicly available sources, the market size of the PRC entertainment market reached approximately RMB1,283.0 billion in 2017, representing the second largest in the world, and was expected to further grow to RMB3,213.8 billion in 2022, representing a compound annual growth rate ("**CAGR**") of 20.2% from 2017. The growth was mainly attributable to factors including the development of technology in the mobile internet era, increasing consumer spending power and per capita disposable income of PRC citizens, diversified and personalised entertainment formats become available to viewers, and a general improvement of the quality of entertainment content stimulating higher expectation and demand from the target audiences.

Focusing on the film industry in the PRC, the movie market size increased at a CAGR of 29.2% from 2012 to 2017 and reached a market size of RMB76.1 billion, and was then expected to further grow at a CAGR of 20.2% to reach a market size of RMB190.9 billion by 2022 with a corresponding expected increase in the PRC gross box office at a CAGR of 16.8% between 2017 and 2022, according to certain industry analyses that can be accessible in the public regime. For instance, the gross box office in the PRC during the 2018 Lunar New Year holiday week reached RMB5.8 billion, representing an approximately 68.3% growth from that of the similar period in 2017. Similar to those of the entertainment market as mentioned above, the drive in the PRC movie industry was attributable to, among other things, the increased demand for quality movie content and rapid development of entertainment infrastructure such as the increase in the number of movie screens in the PRC.

Therefore, the investments made by the Group in the film production and pan-entertainment were made against the backdrop of a promising industry outlook at the material times, and when the Group had been able to tap into such opportunities to develop its media-related businesses.

In addition, despite it appeared that a relatively large amount of deposits have been paid to the parties under the Film and Pan-entertainment projects were entered into over the course of business of the media-related segment, account had to be taken with respect to the practicalities of the pan-entertainment and movie production processes. In general, the exercise would be capital and labour-intensive with substantial upfront investments to be made to support the pre-production activities, such as assessment and amendments of the screenplay, film casting and location scouting. Funding would continuously be required and expended throughout the production stages for the purchase or leasing of equipment, engaging actors and actresses and professional crews for the shooting, costume and make-up designs and arrangements with respect to the action choreography and shooting logistics; as well as in the subsequent post-production stages to put in place audio and visual effects (such as 3D animation effects) for the movie, and production of the film scores and film songs, and the distribution stage including promotion and arranging for release into theatres and online streaming platforms, upon which the ultimate product would commence generating box office income, together with the merchandise deriving therefrom (where available), and create returns to all the prior investments. Similar operational and funding processes would have to be undergone by pan-entertainment projects, and depending on its nature, more effort would be placed on specific contexts such as content creation, theme event planning and ticketing, venue set-up, IP-licensing and derivative merchandise creation and the like.

The role of the Group in respect of the business segment of advertising and media-related services had been more focused on becoming a funding provider to support the film production and distribution exercise by the professional parties in anticipation for the investment return upon success of the film distribution, particularly when the movie and pan-entertainment projects require specialised skillset and professional manpower to manage the technicalities within. However, film production is a lengthy and capital-intensive exercise by nature and would involve a number of processes to have gone through before a movie project may become successful in the end, which could be a few years from the commencement of the pre-production stage. As such, the processes would inevitably be affected by a number of factors which might often fall within the scenario when they were not entirely within the ambit and control of the Group and were unable to be reasonably foreseen in the first place (for instance, imposition of stricter regulatory controls over the movie content and film casts, as well as change of the appetite and preference of target audiences in light of the prevalent topics and themes in the entertainment industry at a particular point of time), even when due care had been exercised by the Group in the project selection and forming the decision to invest in the projects. The Group had been trying to maintain appropriate monitoring of the project progress and the input of funds thereto, and actively pursuing for more scalable and promising project opportunities with participation from prominent or well-known directors, producers, actors and actresses.

The decision to invest in the Film and Pan-entertainment Projects had been carried out as part of the ordinary and usual course of business of the Group at the material times. In line with the geographic coverage of its operations, the Group generally focused on the media-related opportunities in the PRC and Hong Kong, and to a much lesser extent, Southeast Asian markets (for instance, when part of the movies were to be filmed and/or distributed in Southeast Asian countries or involved their local film casts or production casts). Its objective was to achieve short to mid-term (i.e. one to five years) investment returns by way of recognition of film rights and/or receipt of its entitlement of the box office income and income generated from other distribution channels as well as IP-derivatives of such media projects. All of the Film and Pan-entertainment Projects were entered into in line with the above investment objective.

In selecting the appropriate investments, the Company would generally proceed in a disciplined manner with due consideration of a number of factors as particularlised below. To this end, at the material times, the Group had established a task force comprising, among others, a former executive Director and two managers at the investment department of Shanghai Zhongteng, to take the lead in conducting market research, identifying opportunities and negotiating the terms of the media-related investment projects. The task force was generally responsible for, among other things, engaging in preliminary discussions and due diligence with the potential targets; identifying suitable potential investment opportunities; preparing recommendations to Shanghai Zhongteng and the Company for consideration; and upon the latter's approval, assisting in the negotiations of the terms of investment and monitoring of the implementation process as and when necessary.

When evaluating the Film and Pan-entertainment Projects, factors from macro perspective such as the PRC economic trends, entertainment market and film production industry trends and governmental policy support as mentioned above would have been taken into account in assessing the investment opportunities. In addition, project-specific details such as strategic and portfolio fit of the projects; investment focus and potential synergy effect with the Group's other investment projects and the business segment in general; availability of market information as to the project nature and participants; and maturity and growth potential of the particular media category or genre, as well as the financial return evaluation and capital management would be examined. As part of the due diligence process, the task force and the Company would request for copies of identification documents from the counterparties such as identity cards (for individuals) and business licence and unified social credit code (for corporates) to conduct basic background checks to assess any particular red-flags. Further details of the underlying media projects, including the estimated total project costs and timeline, funding arrangement, expected genre, storyboard and cast and scale of distribution, would be obtained from the project owners and production teams to facilitate the assessment.

To this end, the Group aimed to maintain a diversified portfolio to encompass a broader set of media projects in order to minimize the concentration risk and undue reliance on any particular project. Specifically, diversification was achieved on two aspects, namely (i) the media types underlying the projects; and (ii) the genre within a particular media type. In respect of the former, the Film and Pan-entertainment Projects encompassed a wide range of media categories ranging from internet movie filming and casting (under the Film Production Agreement), 3D-animation design (under the Film Post-production Agreement) to role playing games ("**RPGs**"), card games and online comics (under the Pan-entertainment LOIs). In respect of the latter, taking the Film Production Agreement as an example, the transactions thereunder involved investment into six internet movies covering topics of mystery and suspense thrillers, romance, science fiction, action movie, comedy and animation catered for juveniles. Similarly, in respect of the pan-entertainment projects, the RPGs and comics covered genres ranged from fantasy-themed RPGs, action RPGs, battle-themed RPGs to manga-styled comics advocating for goal pursuance by a young athlete as well as environmental awareness.

Furthermore, despite the Group's role had been more focused towards acting as a funding provider to support the film production and distribution exercise as mentioned above, the task force and the Company appreciated that the Film and Pan-entertainment Projects, as with other media-related projects, were capital and resource-intensive in nature. That being the case, the Group maintained monitoring of the projects from time to time to keep itself abreast of the progress updates and the continued viability of the projects. As such, the Group had been able to realise certain goals (such as by recognising film rights under the Film Production Agreement) and successfully demand for partial refunds from the counterparties, and to timely withdraw from other film production and post-production projects that rendered no longer favourable investments due to the difficulties encountered along the process and re-invest such sum in other projects (namely, the interest in the nine film production projects in replacement of those under the Film Production Agreement and the Film Post-production Agreement) which would have presented better investment opportunities by then.

Taking into account of the above, the Company is of the view that the entering into of the Film and Pan-entertainment Projects were in the interest of the Company and the Shareholders as a whole, and that there was nothing to suggest that the directors of the Company had fallen short of their fiduciary duties or due care and diligence regarding the above investments.

As mentioned in the Annual Report and the announcement of the Company dated 10 June 2021, the Impairment Losses were recognised primarily as a result of the impact on the counterparties and the industry in general arising from the Pandemic, which would entirely be out of the anticipation of and control by the industry players, and would have thereby significantly impaired the recoverability of the deposits and other receivables from those counterparties. The film and pan-entertainment industries had suffered a severe impact from the Pandemic. Based on certain publicly available industry data analysis, the national box office and number of audience visiting the cinemas in 2020 recorded a year-on-year decrease of approximately 68.3% and 68.2% respectively when compared to that in 2019. In addition to the nationwide lockdown and social distancing measures requiring the closure of cinemas, the Notice on Suspension of Filming Work in relation to Film and Television Series During the COVID-19 Pandemic Period (《關於新冠疫情期間停止影視劇拍攝工作的通知》) jointly promulgated by the Television Production Committee and the Artiste Committee of China Federation of Radio and Television Associations (中國廣播電視社會組織聯合會電視製片委員會) on 31 January 2020 requested film and television production companies and crews to suspend filming work in relation to film and television series from January 2020. It was until the promulgation of the Notice from the China Film Administration in respect of Gradual Resumption of Opening of Cinema Theatres under the Normalisation of COVID-19 Prevention and Control) (《國家電影局關於在疫情防控常態化條件下有序推進電影院恢復開放的通知》) on 16 July 2021 upon which the movie production and cinema industry participants would have been permitted to resume operations in a gradual matter and remained subject to strict measures as mandated by the Guidance Manual for Cinema Theatres on Prevention and Control of COVID-19 Pandemic promogulated by the China Film Distribution and Projection Association (《中國電影發行放映協會電影放映場所恢復開放疫情防控指南》). Meanwhile, due to the sporadic and localised discovery of COVID-19 cases in various cities in the PRC throughout the latter half of the year, the number of new movie release and audience in the cinema theatres had not returned to the pre-COVID level, and the recovery of the movie production and pan-entertainment industry had been slow.

Therefore, the Impairment Losses were recognised against the backdrop of the impact of the Pandemic, which would have been out of the reasonable foreseeability of the industry participants or the Board in the previous years when the agreements were entered into, and deposits were paid, for the implementation of the movie production and pan-entertainment projects which had posed a relatively promising outlook at the material times. Further, the Company is of the view that the unfortunate event of the Pandemic, and the Impairment Losses recognised therefrom which had been carried out on a prudent approach in line with the requirements under the HKFRSs and on a proper basis with reference to the valuation reports in respect of the ECL of the Deposits and the Other Receivables prepared by an independent valuer (the "**Valuation Reports**"), shall not be used to draw any negative inferences on the Board's assessment and commitment into the movie production and pan-entertainment projects. Taking into account of the current circumstances, the Company intends to terminate all the agreements in relation to the Film and Pan-entertainment Projects, and enhance its effort to demand for refund from the counterparties. To this end, in line with the spirit underlying the PRC authorities' call for support of the integrity and consolidation of the PRC financial systems against the COVID-19 pandemic and taking into account of the current circumstances of the industry participants, the Company intends to continue with telephone calls and face-to-face meetings with the counterparties to understand their latest business and financial conditions, and make it clear to them that that will be the final opportunity to refund the deposits. If there is still no response from them upon the formal resumption of work after the Spring Festival, the Company will, taking into account (without limitation) the circumstances of the counterparties, resources of the Group as well as the industry and general economic conditions, resolve by then to proceed with escalating its actions including but not limited to launching legal actions upon advice from the Company's PRC legal advisers.

Valuation method for the Impairment Losses and reasons for its adoption

The Group performs impairment assessment under the ECL model on financial assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group measures the loss allowance equal to 12m ECL unless when there has been a significant increase in credit risk since initial recognition, for which the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that are available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, for example, a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 180 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Besides, a financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data of the following events:

- a significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Over the years, the management of the Group (the "**Management**") had tried to communicate with the debtors for recovery of the deposits and/or payments or otherwise negotiate for a novation of the contract terms to the satisfactory of the parties. As no constructive response had been received, the Management issued demand letters to request for the repayment of deposits, however, no response had been received from the debtors. Therefore, the Company engaged its PRC counsel to issue demand letters on its behalf to demand for an immediate repayment of deposits. Meanwhile, the Company noted that the debtors had experienced significant operational difficulties in light of the Pandemic. In addition, as there had been no response from the debtors even after the demand letters were presented to them, the Management considered that the credit risk of the debtors had increased significantly and the amounts would have been credit impaired. As such, the Company had engaged an independent valuer to perform an assessment on the ECL on those amounts and recognised the Impairment Losses with reference to such amounts as presented in the Valuation Reports.

Methodology and basis used in determining the Impairment Losses

The methodology and detailed basis for determining the Impairment Losses based on the general approach are set out below:

General Approach

In general, each debtor would be mainly categorised into corporate or individual, from which corporate would be further divided based on their respective business nature/industry.

As such, for the ECL rates for corporate, research has been performed for each corporate which is then assigned a rate of probability of default by its selected industry and by referencing to the source from Moody's Corporation. On the other hand, for the ECL rates for individual, a credit rating of B– is assumed as no information is provided for further research. In addition, staging will be assigned to each corporate in accordance with stage 1, 2, or 3 of the general approach with details as follows:

i. Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12m ECL are recognised. 12m ECL refer to the ECL that result from default events that are possible within 12-months after the reporting date.

ii. Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk as at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL refer to ECL that result from all possible default events over the expected life of the financial instruments.

iii. Stage 3 includes financial instruments that have objective evidence of impairment as at the reporting date. For these assets, lifetime ECL are recognised. Lifetime ECL refer to ECL that result from all possible default events over the expected life of the financial instruments.

Unless specified as below, stage 1 of general approach will be adopted for the impairment assessment.

HK$77.5 million for the Deposit for Film Production

In respect of such category of deposits, there are certain debtors comprising a mix of corporates and individuals for this deposit where there are objective evidence of impairment as of the valuation date. As a result, for these specific cases, stage 3 of the general approach was adopted for such assessment.

For most of the individuals, the Group noted that the deposit has been on account for more than 365 days. The Group had already attempted various alternatives to chase for payment, including sending demand notes to the debtors' addresses as provided. In such cases, the lowest credit rating was assigned to these individual debtors with recovery rate being referenced to the S&P Global Ratings.

For the corporates which engage in the film production industry, it was noted that due to the Pandemic, these debtors experienced significant operational difficulties with cash flow issues on hand, while their respective payments had been outstanding on the Group's account for over 365 days. On a conservative basis, the Group determined that it was prudent to assign the lowest credit rating to these corporate-level debtors with the recovery rate being referenced to the S&P Global Ratings.

For the remaining amount, the Group has fully provided for such figure due to inability to obtain objective evidence ultimately.

HK$9.0 million for the Deposit for the Purchase of Film Rights

In respect of such category of deposits, there was a debtor being an individual where there was an objective evidence of impairment as of the valuation date. As a result, for this specific case, stage 3 of the general approach had been adopted for such assessment.

For such individual, the Group noted that the deposit had been outstanding on its account for more than 365 days. The Group had already attempted various alternatives to chase for payment, including sending demand notes to the debtor's provided addresses. In such case, the lowest credit rating has been assigned to this individual debtor with the recovery rate being referenced to the S&P Global Ratings.

For the remaining amount, the Group has fully provided for such figure due to inability to obtain objective evidence ultimately.

HK$52.5 million for other receivables

Most of the items in such category are deemed to be under stage 1 as these financial instruments have a significant increase in credit risk since initial recognition and do not have objective evidence of impairment.

As mentioned above, each debtor would be mainly categorised into corporates or individuals, from which corporates would be further divided based on their respective business nature/industry. Then, a rate of probability of default would be derived by its selected industry and by reference to the source from Moody's Corporation.

With the probability of default of each industry, the Group had assigned a credit rating to the industry by referencing to Standard & Poor's Financial Services LLC, and referenced to Moody's Corporation for the recovery rate.

For such corporates which engage in the film production industry, it was noted that due to the Pandemic, these debtors experienced significant operational difficulties with cash flow issues on hand, while their respective payments had been outstanding on the Group's account for over 365 days. On a conservative basis, the Group determined that it was prudent to assign the lowest credit rating to this corporate-level debtor with the recovery rate being referenced to the S&P Global Ratings.

In respect of the remaining in respect of the category of other receivables, there was a debtor being a corporate where there was an objective evidence of impairment as of the valuation date. As a result, for this specific case, stage 3 of the general approach had been adopted for such assessment.

Determination of the ECL rate

The ECL rate adopted for determining the Impairment Losses (the "**ECL Rate**") was derived by the formula as follows:

Expected Credit Loss Rate = Probability of Default x (1 – Recovery Rate) (the "**Formula**")

The ECL Rate was further adjusted by applying a forward-looking economic factor proxied by the average of the 5 years of real Gross Domestic Product growth rate in the PRC in reference to the source by the International Monetary Fund. As at 31 March 2021, such forward-looking factor was assessed as –5.78%.

The details of the assessment of the ECL Rate are as follows:

(i) The rate of probability of default was assigned by the industry of the debtor in reference to *2020 Annual Global Corporate Default Study And Rating Transitions* issued by Standard & Poor's Financial Services LLC (the "**S&P Source**"). The credit rating was assigned in reference to the S&P Source, taking into account the probability of default and the recovery rate as assessed below.

(ii) In respect of the corporate-level debtors, which had objective evidence of impairment as of the valuation date, the Group treated it as a special case and adopted stage 3 for such assessment. The continuing outbreak of the Pandemic posed significant difficulties on their business operations and maintenance of cash flows, and their respective payments had been on the Group's account for over 365 days. The Management, after further discussion with the independent valuer and on a conservative basis, assigned the lowest credit rating of D to the corporate-level debtors, with the recovery rate being referenced to the S&P Global Ratings as the overall basis. Based on the credit rating of D, a probability of default of 100% was adopted.

(iii) In respect of the individual debtors, the Management noted that the deposits have been on the Group's account for more than 365 days. The Group has made various attempts to demand for refund, including communicating with the individual debtors for recovery of the respective deposits and payments (or otherwise negotiate for a novation of contract terms to the satisfaction of the parties of the contracts), and issuing demand letters for an immediate repayment of deposits. In light of the Group's failure to recover such deposits and payments, the Management, from a prudent perspective, assigned the lowest credit rating of D to these individual debtors with the recovery rate being referenced to the S&P Global Ratings as the overall basis. Based on the credit rating of D, a probability of default of 100% was adopted.

(iv) In relation to the recovery rate, there was no evidence that the respective debts had any order preference in terms of receipt during liquidity, nor was there any security being held as collateral should the refund of the deposit or the receivable not be able to be received in due course. Accordingly, the "subordinated unsecured" recovery rate had been adopted for the debtors. This would translate into a 27.27% recovery rate based on the S&P Global Ratings.

Based on the above methods of assessment and inputting the above variables into the Formula, the ECL Rate was determined to be 72.73% in respect of the debtors.

The above additional information does not affect other information contained in the Announcement and the Annual Report. All the information in the Announcement and the Annual Report remains unchanged.

By order of the Board
Dadi International Group Limited
FU Yuanhong
Chairman

Hong Kong, 8 October 2021

As at the date of this announcement, the Board comprises of three executive Directors, namely Mr. Qu Zhongrang, Mr. Fu Yuanhong and Mr. Wu Xiaoming, two non-executive Directors, namely Mr. Ju Mengjun and Mr. Zhang Xiongfeng, and three independent non-executive Directors, namely Dr. Zhang Wei, Mr. Law Yui Lun and Dr. Jin Lizuo.

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

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its posting and the Company's website at http://www.dadi-international.com.hk.