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DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “Directors” and the “Board” respectively) of Digital Domain Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2022 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	4	958,651	864,214
Cost of sales and services rendered		(741,789)	(740,249)
Gross profit		216,862	123,965
Other income and gains	5	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	7	(28,372)	(24,779)
Fair value loss on financial assets measured at fair value through profit or loss	13	(24,430)	(27,694)
Fair value gain on investment properties	10	14,266	-
Impairment loss on goodwill	11	-	(16,170)
Impairment loss on intangible assets	11	-	(216,302)
Reversal/(recognition) of impairment loss on trade receivables and contract assets		936	(6,357)
Impairment loss on other receivables		(3,963)	(81,674)
Impairment loss on investment in a joint venture		(71)	-
Impairment loss on investment in an associate	12	-	(163,626)
Impairment loss on amounts due from associates	12	(12,180)	(71,335)
Share of losses of associates		(2)	(24,383)
Loss before taxation	6	(219,085)	(778,312)
Taxation	8	3,820	(2,234)
Loss for the year		(215,265)	(780,546)

	<i>Note</i>	2022	2021
		<i>HK\$'000</i>	<i>HK\$'000</i>
Loss attributable to:			
- Owners of the Company		(206,320)	(722,004)
- Non-controlling interests		(8,945)	(58,542)
		<u>(215,265)</u>	<u>(780,546)</u>
Loss per share from attributable to the owners of the Company:			
Basic and diluted	<i>9</i>	HK cents (4.77)	HK cents (17.31)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	HK\$'000	HK\$'000
Loss for the year	<u>(215,265)</u>	<u>(780,546)</u>
Other comprehensive income		
<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	1	(1,384)
Share of other comprehensive income of a joint venture	<u>-</u>	<u>25</u>
Other comprehensive income for the year	<u>(2,551)</u>	<u>(18,935)</u>
Total comprehensive income for the year	<u>(217,816)</u>	<u>(799,481)</u>
Total comprehensive income attributable to:		
- Owners of the Company	(210,164)	(739,015)
- Non-controlling interests	<u>(7,652)</u>	<u>(60,466)</u>
	<u>(217,816)</u>	<u>(799,481)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		50,919	83,791
Investment properties	<i>10</i>	24,668	-
Right-of-use assets		82,292	56,314
Goodwill and intangible assets	<i>11</i>	522,211	533,994
Interests in associates	<i>12</i>	30,048	34,730
Interests in joint ventures		8	71
Financial asset measured at fair value through other comprehensive income		-	-
Financial assets measured at fair value through profit or loss	<i>13</i>	41,349	70,151
Deposits	<i>14</i>	10,239	7,344
Deferred tax assets		1,551	681
		<u>763,285</u>	<u>787,076</u>
Current assets			
Trade receivables, other receivables and prepayments	<i>14</i>	107,670	140,710
Contract assets		2,536	24,558
Tax recoverable		2,659	-
Cash and cash equivalents and pledged bank deposits		153,553	247,755
		<u>266,418</u>	<u>413,023</u>
Current liabilities			
Trade payables, other payables and accruals	<i>15</i>	193,558	170,845
Lease liabilities		25,061	26,567
Contract liabilities		53,624	86,707
Borrowings		149,016	49,646
Tax payable		3,621	7,604
		<u>424,880</u>	<u>341,369</u>
Net current (liabilities)/assets		<u>(158,462)</u>	<u>71,654</u>
Total assets less current liabilities		<u>604,823</u>	<u>858,730</u>
Non-current liabilities			
Other payables	<i>15</i>	-	10,304
Borrowings		192,846	238,758
Lease liabilities		75,508	52,352
Deferred tax liabilities		43,450	46,530
		<u>311,804</u>	<u>347,944</u>
NET ASSETS		<u>293,019</u>	<u>510,786</u>
Capital and reserves			
Share capital		43,290	43,290
Reserves		332,467	542,582
Equity attributable to owners of the Company		<u>375,757</u>	<u>585,872</u>
Non-controlling interests		<u>(82,738)</u>	<u>(75,086)</u>
TOTAL EQUITY		<u>293,019</u>	<u>510,786</u>

NOTES

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 media entertainment business.

As at 31 December 2022, in the opinions of the Directors of the Company (“the Director”), 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.

(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 ²
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Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ 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.

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.

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.

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 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 17);
- 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 11(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. REVENUE AND SEGMENT REPORTING

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15:		
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
	<u>958,651</u>	<u>864,214</u>

Disaggregation of revenue from contracts with customers

Segment	Media entertainment	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Types of goods or service		
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
	<u>958,651</u>	<u>864,214</u>
Total revenue from contracts with customers	<u>958,651</u>	<u>864,214</u>
Geographical markets		
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
	<u>958,651</u>	<u>864,214</u>
Total revenue from contracts with customers	<u>958,651</u>	<u>864,214</u>
Timing of revenue recognition		
A point in time	24,937	63,464
Over time	933,714	800,750
	<u>958,651</u>	<u>864,214</u>
Total revenue from contracts with customers	<u>958,651</u>	<u>864,214</u>

(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

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	2021
	HK\$'000	HK\$'000
Revenue from external customers and reportable segment revenue	<u>958,651</u>	<u>864,214</u>
Reportable segment loss	<u>(91,356)</u>	<u>(398,994)</u>
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	<u>541,430</u>	<u>581,029</u>

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

	2022	2021
	HK\$'000	HK\$'000
Loss before taxation		
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*	<u>(51,767)</u>	<u>(24,498)</u>
Consolidated loss before taxation	<u>(219,085)</u>	<u>(778,312)</u>

* 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Assets		
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	<u>30,646</u>	<u>42,248</u>
Consolidated total assets	<u><u>1,029,703</u></u>	<u><u>1,200,099</u></u>
Liabilities		
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	<u>57,411</u>	<u>49,241</u>
Consolidated total liabilities	<u><u>736,684</u></u>	<u><u>689,313</u></u>

(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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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
	<u>958,651</u>	<u>864,214</u>

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

(ii) Specified Non-current Assets

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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
	<u>710,146</u>	<u>708,900</u>

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 were two customers (2021: Nil) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenue as follows:

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

(e) Revenue

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

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

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.

5. OTHER INCOME AND GAINS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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	<u>2,424</u>	<u>3,919</u>
	<u>28,024</u>	<u>86,525</u>

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.

6. LOSS BEFORE TAXATION

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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	<u>787,257</u>	<u>769,239</u>

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.

7. FINANCE COSTS

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

8. TAXATION

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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	<u>(991)</u>	<u>(828)</u>
	<u><u>(3,820)</u></u>	<u><u>2,234</u></u>

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.

9. 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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	<u>(206,320)</u>	<u>(722,004)</u>
	2022	2021
<i>Number of share</i>		
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted (<i>Note</i>)	<u>4,329,027,625</u>	<u>4,171,108,547</u>

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.

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.

10. INVESTMENT PROPERTIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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.

11. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Licences for intellectual property rights	Film rights	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note (a))</i>	<i>(Note (b))</i>	<i>(Note (c))</i>	<i>(Note (d))</i>	<i>(Note (e))</i>	<i>(Note (f))</i>	<i>(Note (g))</i>	
COST								
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
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS								
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
CARRYING AMOUNT								
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:

- (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 11(b), 11(c), 11(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:

	Visual effects production services CGU	Post production services CGU	360 degree digital capture technology application CGU
2022			
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)	<u>806,262</u>	<u>226,785</u>	
	Visual effects production services CGU	Post production services CGU	360 degree digital capture technology application CGU
2021			
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)	<u>558,554</u>	<u>214,229</u>	<u>-</u>

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.

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 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.

- (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 this announcement, 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.

12. INTERESTS IN ASSOCIATES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Share of net assets	580	582
Amounts due from associates (<i>Note</i>)	<u>227,116</u>	<u>219,616</u>
	227,696	220,198
Less: Accumulated impairment loss on amounts due from associates	<u>(197,648)</u>	<u>(185,468)</u>
	<u><u>30,048</u></u>	<u><u>34,730</u></u>

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.

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.

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 investment in associates, was recognised for the year.

13. 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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Listed equity securities outside Hong Kong, at fair value	<u>41,349</u>	<u>70,151</u>

The movements of the Group's financial assets measured at FVTPL were as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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	<u>(4,372)</u>	<u>(4,549)</u>
As at 31 December	<u>41,349</u>	<u>70,151</u>

14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current portion:		
Deposits (<i>Note (i)</i>)	<u>10,239</u>	<u>7,344</u>
Current portion:		
Trade receivables (<i>Notes (i) and (ii)</i>)	45,140	65,000
Consideration receivable (<i>Notes (i) and (iv)</i>)	-	3,288
Other receivables (<i>Notes (i) and (iii)</i>)	34,476	46,020
Deposits (<i>Note (i)</i>)	678	5,355
Prepayments	<u>27,376</u>	<u>21,047</u>
	<u>107,670</u>	<u>140,710</u>
Total trade receivables, other receivables and prepayments	<u>117,909</u>	<u>148,054</u>

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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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
	<u>45,140</u>	<u>65,000</u>

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 years, 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 receivable is 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 10.

- (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.

15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current portion:		
Other payables	<u>-</u>	<u>10,304</u>
Current portion:		
Trade payables	39,985	46,871
Other payables	64,866	48,789
Interest payables	32,182	22,628
Accruals	<u>56,525</u>	<u>52,557</u>
	<u>193,558</u>	<u>170,845</u>
Total trade payables, other payables and accruals	<u>193,558</u>	<u>181,149</u>

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 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
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	<u>5,546</u>	<u>5,085</u>
	<u>39,985</u>	<u>46,871</u>

16. 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.

17. EVENTS AFTER THE REPORTING PERIOD

- (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 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 Company under Chapter 14A of the Listing Rules.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: HK\$Nil).

REVIEW AND OUTLOOK

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).

A. 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 **“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 **“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 ***“Spider-Man: No Way Home”***.

The Emmy Awards

Supervised by Mr. Manolo MANTERO, Season 4 of the *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 ***“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’ ***“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 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 are working on the “Shazam!” spin off starring Dwayne “The Rock” Johnson. The film is due out 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 the upcoming horror film to be released in 2023 globally.
- ***“Black Panther: Wakanda Forever”*** – VFX Supervisor Mr. Hanzhi TANG and his team are working 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 began working on a few shots for Halloween special that will be 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.

Digital Domain China:

With the establishment of Digital Domain China (“DD China”), the Group has a strong operating platform in China with studios located in Beijing and Shanghai.

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 *“Too Cool To Kill”*, *“Don’t Forget I Love You”*, *“Stranger Things Season 4”*, *“Ms. Marvel”*, *“She-Hulk: Attorney at Law”*, *“Ordinary Hero”*, *“Black Adam”*, *“Virgin Blue”*, *“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, Bosideng, Burberry, Budweiser, Ctrip, Curél, Fanta, HARBIN, HONOR, HUAWEI, IKEA, IM, Jay Chou “Greatest Works of Art”, Kiehl’s, LANCÔME, LEGOLAND Shanghai Resort, L’ORÉAL, Luzhou Laojiao, Meizu, MI, Nutrilite, Papergames “Bloom Up”, Samsung “Starry Night” ft. Lu Chuan, Starbucks, Tencent Games “SPARK 2022” and XPENG.**

Digital Domain professionals based in the locations of Beijing and Shanghai 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. “*RRR*” and “*KGF Chapter 2*”, and international shows such as “*House of the Dragons*” and the critically acclaimed “*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 Experiential 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:

- “*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 fifteen 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 "*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 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 **Itemax** 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, **COMPUTEX 2022**: Integrating **Digital Domain’s Momentum Cloud Service** and Acer’s SpatialLabs, 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 teller Rose** is transformed into a “navigator” to introduce the feature of the virtual branch to the participating public audiences. In addition, virtual human teller 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, which allowed Murichi to record various videos in real time. Even though Murichi is cartoon material, the powerful scenes can 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 content 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 in 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 “*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 revenue and gains” in the Group’s consolidated income statement.

E. 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 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 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 owned 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 (許富凱) 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.
- 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**”.
- 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).

- On 21 October 2022, the **China (Macao) Creative Industry Conference and 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 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 (虛谷未來科技(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 the unique 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)** will be 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 kids, virtual human Alice was on the list of **“2022 TOP 50 Commercial Value Potential of Virtual Humans”**.
- In 2022, from 2 - 3 August 2022, the **2022 WISE Metaverse & Game Industry Summit** hosted by **36Kr** will be 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 (Macau) 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**, 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 11 to the financial statements included in this announcement.

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 as 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: HK\$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, 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 our lending bank, that we will be able to re-finance for a term of 3 years, for 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 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 emergencies loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$346,000). This loan is unsecured and not repayable within 12 months from 31 December 2022.

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 respectively. 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 United States dollars and loans amounting to approximately HK\$6,677,000 are denominated in Canadian dollars. 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 (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 (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, 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.

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 ended 31 December 2022.

CORPORATE GOVERNANCE

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 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:

- (a) 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;

- (b) 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;
- (c) 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; and
- (d) 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.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2022.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2022 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Company at www.digitaldomain.com and the Stock Exchange at www.hkexnews.hk respectively. The annual report of the Company will be despatched to shareholders and available at the same websites in due course.

By Order of the Board
DIGITAL DOMAIN HOLDINGS LIMITED
Seah Ang
Executive Director and Chief Executive Officer

Hong Kong, 30 March 2023

As at the date of this announcement, Mr. Seah Ang and Dr. Sun Ta-Chien are the executive Directors; Mr. Li Weiqiang, Mr. Cui Hao, Ms. Alla Y Alenikova and Mr. Brian Thomas McConville are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Dr. Elizabeth Monk Daley and Mr. Woo King Hang are the independent non-executive Directors.