



DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

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

ANNUAL REPORT 2023

A semi-transparent, glowing virtual human figure stands in the center, facing forward. The figure is composed of a grid of fine lines, giving it a digital or mesh-like appearance. It is positioned in front of the main title text.

UNLEASHING THE POWER OF VIRTUAL HUMAN

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. FOK Lai Yan

STOCK CODE

547

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKERS

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

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants
Registered Public Interest Entity Auditor

SOLICITOR

Reed Smith Richards Butler LLP



digitaldomain.com



Digital Domain
Holdings



Digital
Domain

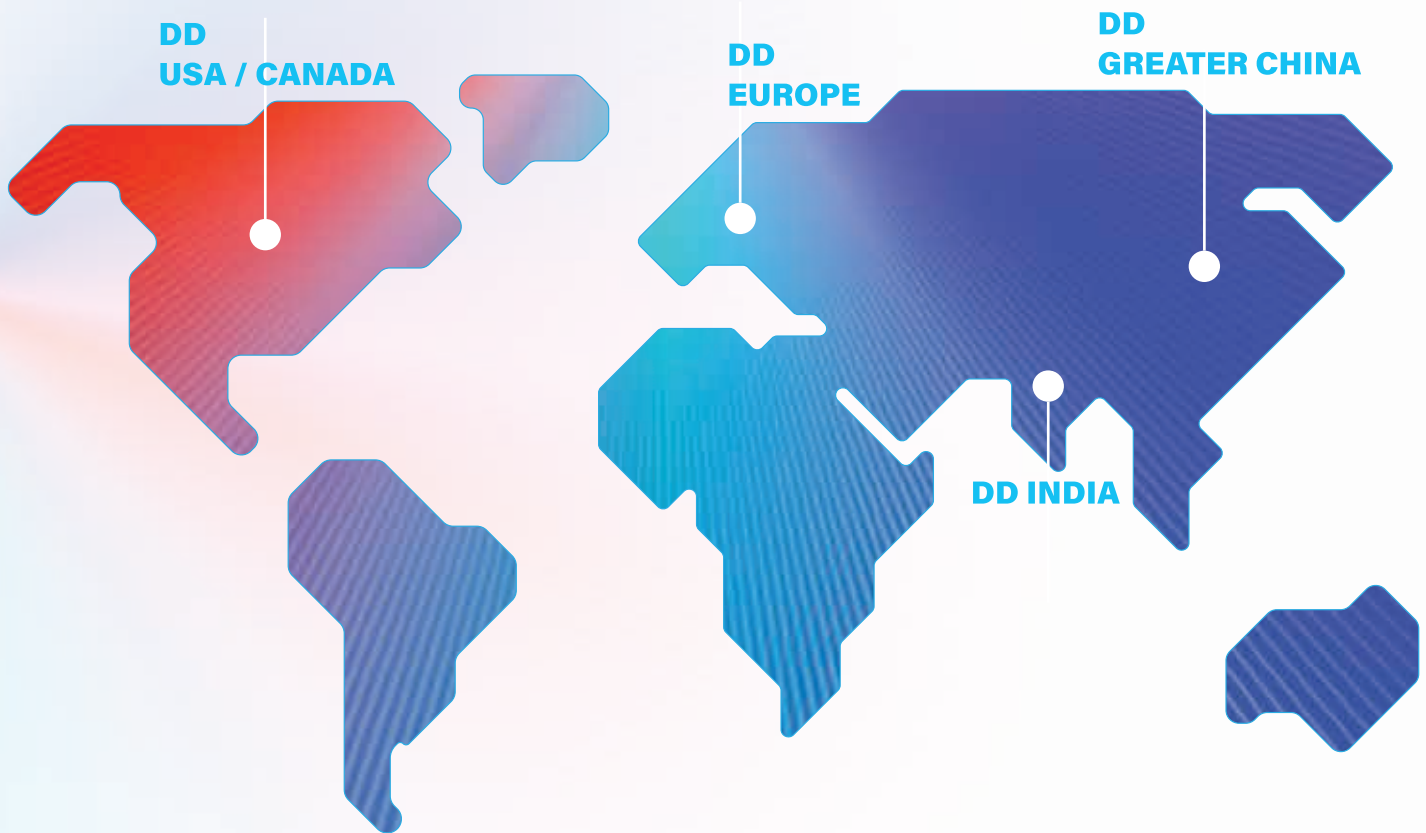


DigitalDomain
数字王国

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

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

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



**VISUAL EFFECTS
PRODUCTION AND
POST-PRODUCTION**

**VIRTUAL
HUMAN
BUSINESS**

**CO-PRODUCTION
(FEATURE FILMS/
EPISODES SERIES)**

Note

For details and full names of these businesses/projects/companies, please refer to "Chief Executive Officer's Review" section of this report on pages 6 to 40.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors ("Board") of Digital Domain Holdings Limited ("Company"), I am delighted to present the annual report of the Company and its subsidiaries (collectively, "Group") for the year ended 31 December 2023.

Although there have been some improvements in the global economy after the challenges of COVID-19, the pace of recovery has been slower than expected. In addition, a number of global events, such as tightened monetary policies, inflationary pressures, interest rate hikes, and ongoing geopolitical tensions from 2023 that are continuing into 2024 are expected to contribute towards significant uncertainties to the markets in which we operate during 2024.

In our industry, the aftermath of Hollywood strikes and the advent of artificial intelligence ("AI") present both challenges and opportunities. As we navigate through these unpredictable changes, Digital Domain stands resilient as a top-tier, financially independent studio. Our success over the past 30 years and our outlook for the future is rooted in our ability to merge cutting-edge digital artistry with the most advanced technologies seamlessly.





A new wave of technological revolution and industrial transformation is developing in depth. The development of AI has ignited people's imaginations about the future, triggering a worldwide craze for AI technology. By leveraging this development and change of mindset, we have a clear strategy (including further investment in our AI research lab) to pursue high-growth opportunities in our markets through our two key business lines (visual effects and virtual human) by enhancing our business models and products in order to cope with the changes globally.

On behalf of the Board and our management team, I would like to express my appreciation to the clients, business partners and shareholders for their trust and continuing support. Additionally, I would like to convey my heartfelt gratitude to all directors for their professional guidance and counsel, and to our dedicated management team and staff for their diligence and efforts, which have contributed to the growth and success of the Group in the past year.

SEAH Ang (Daniel)

Acting Chairman

Hong Kong, 22 March 2024

CHIEF EXECUTIVE OFFICER'S REVIEW




SEAH Ang (Daniel)
Chief Executive Officer

FINANCIAL AND BUSINESS REVIEW

During the year ended 31 December 2023, the Group achieved a revenue of HK\$736,501,000 (2022: HK\$958,651,000), showing a decrease of approximately 23% compared to that of the previous year. The gross profit of the Group amounted to HK\$120,191,000 (2022: HK\$216,862,000) during the year under review, showing a decrease of approximately 45%. The decrease in turnover and gross profit were attributable to the reduction in the media entertainment segment. As at 31 December 2023, the total assets of the Group amounted to HK\$1,253,923,000 (as at 31 December 2022: HK\$1,029,703,000). The loss attributable to the owners of the Company for the year was HK\$394,571,000 (2022: HK\$206,320,000). The loss for the year was approximately HK\$475,776,000 (2022: HK\$215,265,000). The loss for the year was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
 - (a) amortisation and depreciation expenses excluding depreciation related to Right-of-use Assets and amortisation of film rights mentioned in (e) below amounted to the value of HK\$62,954,000 (2022: HK\$72,821,000);
 - (b) the impairment losses on goodwill and intangible assets attributable to a cash generating unit (CGU) of HK\$44,746,000 (2022: HK\$ Nil) and impairment losses attributable to associates of HK\$3,248,000 (2022: HK\$12,180,000);
 - (c) share of losses of associates of HK\$2,000 (2022: HK\$2,000);
 - (d) fair value loss on financial assets measures at fair value through profit or loss of HK\$8,318,000 (2022: HK\$24,430,000);
 - (e) amortisation of film rights of HK\$26,106,000;



*I WOULD LIKE TO EXTEND MY
UTMOST APPRECIATION TO OUR
SHAREHOLDERS, STAFF AND
OTHER VALUED STAKEHOLDERS
FOR THEIR CONTINUED
CONFIDENCE AND SUPPORT.
WE WILL CONTINUE TO WORK
HARD TO DELIVER THE ONGOING
AND FUTURE SUCCESS OF
DIGITAL DOMAIN.*

- (f) impairment on film rights of HK\$104,423,000; and
- (g) there was no impairment losses on investment in a joint venture (2022: HK\$71,000);
- (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\$709,733,000 (2022: HK\$958,651,000) and incurred a loss of approximately HK\$324,385,000 (2022: HK\$100,960,000). The loss included the impairment loss on goodwill and related intangible assets (if applicable) of HK\$149,169,000 (2022: HK\$ Nil) 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\$149,169,000 (2022: HK\$ Nil)) for the year ended 31 December 2023 was a loss of HK\$183,598,000 (2022: profit of HK\$6,148,000). 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).

“Photo of Mr. Daniel Seah: source from South China Morning Post Principals’ Forum 2023”



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:

Telly Awards

Mr. Jan Philip CRAMER, Mr. Michael MELCHIORRE, Ms. Elizabeth BERNARD, Mr. Daniel BROVERMAN and Mr. Eric KIMELTON were awarded a Silver Telly Award for the studio's exceptional visual effects contributions to **"She-Hulk: Attorney at Law"**.



The Visual Effects Society Awards

Mr. Jan Philip CRAMER and Ms. Elizabeth BERNARD were nominated for the Outstanding Animated Character in an Episode, Commercial or Real-Time Project award for Digital Domain's exceptional work on **"She-Hulk: Attorney at Law"**.

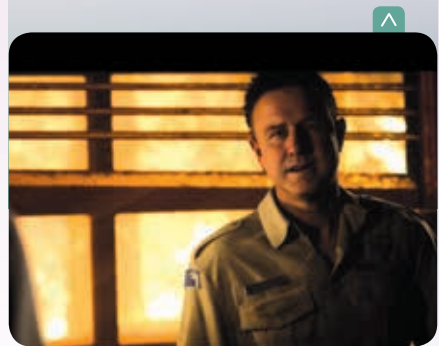


The Hollywood Professional Association Awards

Mr. Aladino DEBERT, Mr. Greg TEEGARDEN, Mr. James REID, Mr. Mathew ROTMAN and Mr. Viv JIM received an HPA Award win for their team's incredible work on Amazon Prime Video's **"Citadel"** in the Outstanding Supporting Visual Effects - Episode or Series Season category.



Mr. Aruna INVERSIN, Mr. Paul PIANEZZA, and Ms. Kimberly CHEIFER received a nomination for Outstanding Visual Effects in a Real-Time Project for Digital Domain's exceptional work on **"The Quarry"**, a 2022 interactive drama horror video game developed by Supermassive Games.



Clio Awards

The Digital Domain team was recognised for their virtual human work recreating three historic figures for the **"Citadel" MYTH** Trailer which worked as the marketing tool to launch the series, which won two Clio Bronze Awards in the Television | Series: Trailer and Television | Series: Video Promo - Special Shoot categories.

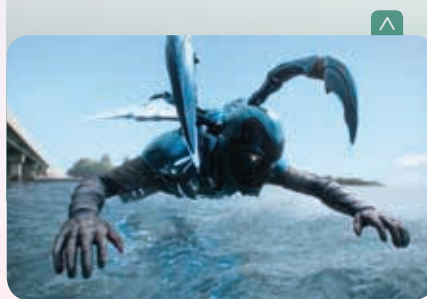




The artists of Digital Domain 3.0, Inc. (“DD3I”), a subsidiary of the Company, have provided VFX services for work including:

- 1 **“Ant-Man and the Wasp: Quantumania”** – VFX Supervisor, Mr. David HODGINS and his talented team completed work on the film, bringing the Marvel villain, MODOK to life, that follows the adventures of Ant-Man and the Wasp, which was released in February 2023. The work made the Top 10 list for this year’s Academy Awards in the VFX category.
- VFX Supervisor, Mr. Mitch DRAIN completed work with Netflix Studios as the production-side VFX on the film **“Chupa”**, which was released in April 2023.
- 2 **“Extraction 2”** – VFX Supervisor, Mr. Jean-Luc DINSDALE and his team of artists worked on the sequel for the Netflix action thriller film directed by San HARGRAVE, which was released in June 2023. The team created a thrilling and action-packed 22 minutes oner for the film.

“Blue Beetle” – VFX Supervisor, Mr. Jay BARTON and his team of Digital Domain artists worked on the Warner Bros. film, which was released in August 2023. Mr. BARTON and his team delivered almost 700 shots and utilised the studio’s proprietary machine learning cloth tool, ML Cloth, for the first time on a feature film.



- VFX Supervisor, Mr. Joel BEHRENS is continuing work alongside production VFX Supervisor, Mr. Matthew BUTLER on an upcoming Netflix film.
- VFX Supervisor, Mr. Piotr KARWAS and his team began work on an upcoming George NOLFI film.



- VFX Supervisor, Mr. Scott EDELSTEIN and his team completed work on Sony Pictures film, **“Madame Web”**. The film was released in February 2024.

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

1 "The Last of Us" Season 1 –

The Digital Domain team completed exceptional environmental work on Season 1 of HBO's "The Last of Us" in 2022 and the series released on 15 January 2023.

2 "Carnival Row" Season 2 –

Digital Domain finished the production of Season 2 of "Carnival Row" for Amazon in 2021, and the show was made available to viewers on 17 February 2023 featuring brilliant virtual human, environment and creature work created by our artists.

3 "The Mandalorian" Season 3 –

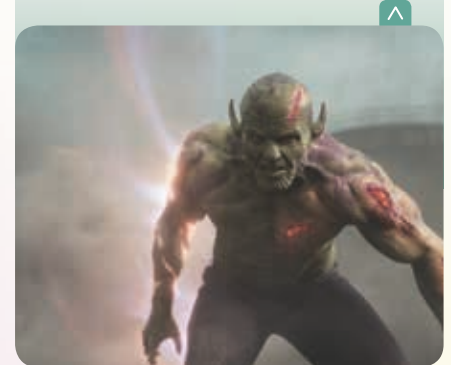
Digital Domain's first Lucasfilm project led by VFX Supervisor, Mr. Nikos KALAITZIDIS, Mr. KALAITZIDIS and his outstanding team completed work on the Disney+ series, creating an intense battle between Bo-Katan and Moff Gideon, which released on 1 March 2023.

4 "Citadel" –

VFX Supervisor, Mr. Aladino DEBERT and his team of creatives completed work on the first season of one of Amazon's newest series, and was asked to include work in the client's Emmy submission. The work included captivating visual effects with intricate water work, employing a groundbreaking, proprietary ocean simulation technique known as the "Water Kit".

"Secret Invasion" Season 1 –

VFX Supervisor, Mr. David CUNNINGHAM, and his team of visual effects experts completed work for Season 1 of the Marvel Studios series, which showcased our team's incredible creature work and released in June 2023.



1



2



3



4

5 **"Ahsoka" Season 1** – VFX Supervisor, Mr. Nikos KALAITZIDIS and his talented team of Digital Domain artists completed work on the first season of the Disney+ series, "Ahsoka", which was released on 23 August 2023. The Digital Domain team was responsible for the colourful lightsaber duel between Sabine and Shin, and Ahsoka and Marrok.

- **"The Morning Show"** – VFX Supervisor, Mr. Nikos KALAITZIDIS, and his talented team completed work on the third season of the series produced by Apple Studios. The series is premiered in September 2023.



- **"Echo"** – VFX Supervisor, Mr. Aladino DEBERT, and his skilful team completed work on the new Marvel Studios series that released in January 2024.

- VFX Supervisors, Mr. Kelly PORT and Mr. Michael MELCHIORRE along with their teams are currently working on an upcoming Marvel Studios series expected to release in 2024.

- VFX Supervisor, Mr. Nikos KALAITZIDIS, and his artistic team began work on an upcoming HBO series.

- The award-winning Digital Domain team, led by VFX Supervisor, Mr. Nikos KALAITZIDIS, is working on an upcoming series for Sony Pictures Television.

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

- 6** Netflix's **"Extraction 2"**
 - Sony Pictures' **"Madame Web"**
 - Three upcoming Marvel Studios' films
 - An upcoming Netflix film
 - An upcoming Marvel Studios' series
 - An upcoming film directed by Francis Ford COPPOLA
 - An upcoming New Line Cinema film
 - An upcoming Twentieth Century Fox film
 - An upcoming George NOLFI film
 - An upcoming 20th Century Studios film
 - Season 2 of an upcoming HBO Max series

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

- Legendary's **"Dune: Part 2"**
- An upcoming Skydance video game
- A trailer for an upcoming Skydance video game

- A project in collaboration with Something Wicked Games
- An upcoming game for Sucker Punch Studios
- A commercial for CrowdStrike in collaboration with Radical Media

We provided VFX services for advertisements, special venue projects and games. Work completed in 2023 include:

- For **The Brand Agency and Amazon Studios**, the Digital Domain advertising team worked with the VHG team, utilising the studio's proprietary technology Charlatan to recreate three historical figures that were used in a promo to launch the **"Citadel"** Season 1 series marketing campaign. The work earned two Clio Awards.
- In collaboration with Trailer Park, the Digital Domain team created dynamic simulation water advertisement for NDO H2O bottled water.



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 a number of separate motions to dismiss all or portions of 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 with respect to only one of the seven motion pictures (the "Picture") that were originally part of the lawsuit for unspecified monetary damages. The case concerning the other six motion pictures was stayed

pending the conclusion of the trial of the Other Lawsuits concerning the Picture.

The jury trial of the Other Lawsuits concerning only the Picture commenced on 4 December 2023. After the close of evidence but prior to submitting the case to the jury, the court ruled that the jury would decide the amount of any compensatory damages, if any, that should be awarded and provide an advisory opinion to the court with respect to disgorgement of the Picture's profits allocable to the use of the Disputed IP, if any. On 21 December 2023, the jury returned a verdict in favour of the Claimant, awarding US\$250,638 in compensatory damages and an advisory opinion that US\$345,098 of the Picture's profits were allocable to the use of the Disputed IP and this should be disgorged to the Claimant. The court will in due course prepare Findings of Fact and Conclusions of the Law based on the evidence presented at the trial and issue its decision on the disgorgement of profits. After the court has issued its decision, it is expected that there will be an appeal to United States Court of Appeal for the Ninth Circuit.

On 21 April 2022, the Claimant filed a 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 pleaded, in the lawsuit did not give rise to legally-actionable claims. The court has given the Claimant three opportunities to file amendments that rectify the legal defects that the court has identified with respect to the New Lawsuit and each subsequent amended complaint. The US Subsidiary's clients filed a motion to dismiss the latest amended complaint. In response to this motion, the court again dismissed the amended complaint, but gave the Claimant another opportunity to file another amended complaint that remedies the legal defects that the court has noted. The Claimant has not yet filed another amended complaint.

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. The US Subsidiary has renewed its discussions with the insurance company in an attempt to obtain insurance coverage for the indemnity claims brought against it in view of the developments with the jury trial described above.

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 denied that it is obligated to indemnify these clients on the grounds that the US Subsidiary did not use the Disputed IP during the production of the motion pictures that are subject of the New Lawsuit and thus did not breach a warranty to the clients. US Subsidiary also submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it with respect to the New Lawsuit, but the request for insurance coverage was denied on the grounds that all claims arising from the Disputed IP were specifically excluded from coverage.



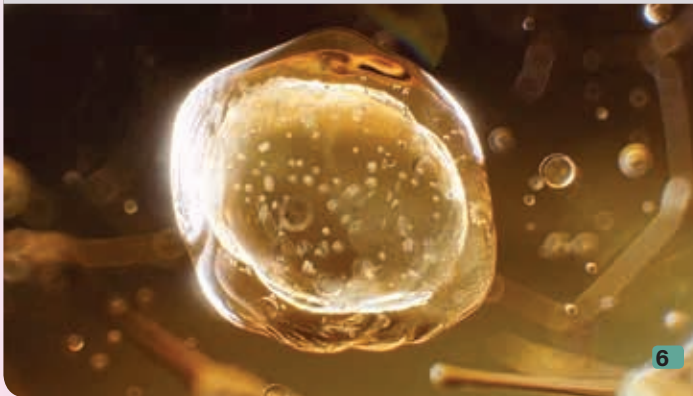
DIGITAL DOMAIN CHINA:

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

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

Visual effects and colour grading services delivered for feature films and episodic this year include **1** “Ride On”, **2** “The Legends of Monkey King”, **3** “Lost You-Forever”, as well as the upcoming “Ali’s Dream Castle” and “Supernova Era”.





In 2023, DD China continues to provide post-production and production services (e.g. shooting, editing, colour grading and music production) for various high-profile clients, including: **AUPRES**, **4** **Bosideng**, **BULL**, **BYD**, **Cadillac**, **Clinique**, **5** **Corona**,

6 **Estée Lauder**, **7** **GUANZHU**, **HUAWEI**, **8** **HONOR**, **Lancôme**, **L'ORÉAL**, **L'Oréal Paris**, **MEIZU**, **Minute Maid**, **Moonton Games** “**Mobile Legends: Bang Bang**” and “**Watcher of Realms**”, **Pechoin**, **Schwarzkopf** and **Yili**.

Digital Domain’s visual artistry and technology innovation have been recognised by the following recent awards:

- In December 2023, Lore, the **9** “**Watcher of Realms**” cinematic trailer that was created by Digital Domain received a **Bronze DAwards under Craft - Art Direction**.





10



- DD India team completed work on the Amazon Studios series, **“The Village”**.

DIGITAL DOMAIN INDIA:

10 2023 was a busy year for Digital Domain India (“DD India”) in terms of producing diversified work and rising up the value chain. It achieved the goal of having local resources work with our North American teams on a common platform with improved efficiency and establishing a global ‘Round The Clock’ production model. DD India will focus on developing sales efforts in the local market offering Digital Domain’s varied services and technical expertise.

- The DD India team is currently working on three upcoming films for DD North American team.

- **“Black Mirror” Season 6** – The DD India team completed work on Netflix’s “Black Mirror”. The series released in June 2023.



In addition to collaborating with our North American team delivering great work across shows and platforms, DD India made a significant stride in the local market producing visual effects for **Season 1 of “The Village”** across all six episodes, which is now streaming on Amazon Prime. DD India is also working on two of the biggest anticipated features releasing in 2024. This is in line with DD India’s roadmap of targeting the growing domestic entertainment market.

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.

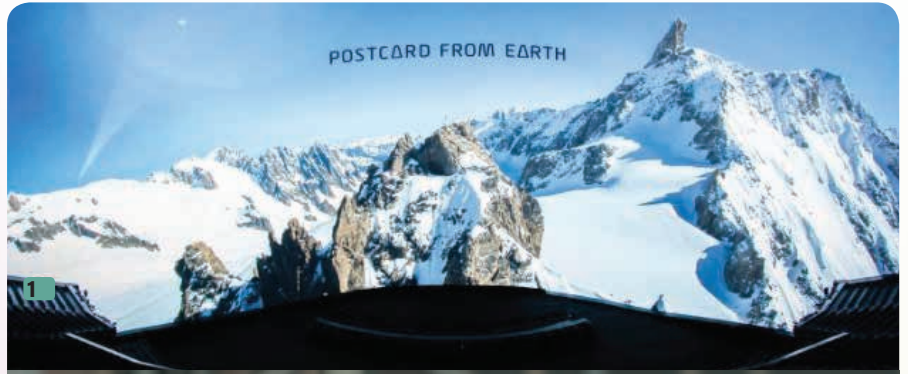


NEW MEDIA AND VIRTUAL HUMAN BUSINESS

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

NORTH AMERICA REGION:

- 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.
- Digital Domain has partnered with **Madison Square Garden (MSG)** and **Sphere Entertainment** for a one-of-a-kind, immersive film, **1 "Postcard from Earth"** by filmmaker Darren ARONOFSKY, only available in Vegas, United States. The film was shot with an 18k resolution at 60 frames per second, making it a grand, but challenging project for the entire production.



Digital Domain's Virtual Human Group ("VHG") in North America - research and development aided multiple projects and resulted in new developments in 2023:

- Charlatan:** VHG partnered with the advertising and games team, utilising the studio's proprietary tool, Charlatan, for Amazon Studios **"Citadel"** and the series' **"Myth"** promo. The technology was also used on Netflix's **"Extraction 2"**, as well as Marvel Studios' **2 "Secret Invasion"**. Additionally, the technology, which allows for precise and realistic face replacement, is being tested on an upcoming Marvel Studios film.
- ML Cloth System:** Digital Domain's ML Cloth System was used on projects including Warner Brother's **3 "Blue Beetle"**, and also a Sony feature film **"Madame Web"**. The technology and its capabilities was featured in several press outlets including "Digital Media World", "VFX Voice" and "before & afters", highlighting our team's work on **"Blue Beetle"**, which marks its first use on a major feature film.
- Samson:** The hair technology tool, Digital Domain's Samson has been utilised for several projects including **"Secret Invasion"**, **4 "Ahsoka"**, **"Blue Beetle"**, **"Madame Web"**, an upcoming Netflix film, and **"The Morning Show"**.

VHG participated in several events this year, including:

- VHG's Mr. Peter RABEL and Mr. Rickey CLOUDSDALE alongside VFX Supervisor, Mr. Aruna INVERSIN attended Game Developers Conference (GDC) 2023 where they presented their work on Supermassive Games' **"The Quarry"**.

- Software Developer, Mr. Jose SERRA, presented on markerless facial mocap online for **SPARK FX 2023** and participated in Q&A.
- VFX Supervisor, Mr. Matthias WITTMANN participated on a panel at **Digital Hollywood - The AI Summit: Breaking the Net** where he discussed how Digital Domain is leading charge in virtual human development.



- VFX Supervisor, Mr. Matthias WITTMANN also spoke on a panel titled **"Exploring Human Interaction with AI: The "Her" Phenomenon - Productivity vs. Dependency vs. Addiction"** at the **AI Bill of Rights, Ethics & the Law Summit**.
- Chief Technology Officer, Mr. Hanno BASSE, VFX Supervisor, Matthias WITTMANN, and Virtual Human Zoey were interviewed for a documentary series on the **"Future of AI"** for the Germany's top public television with global reach, **ARD German Television** and featured on streaming platform, **Mediathek**.



- Chief Technology Officer, Mr. Hanno BASSE, participated in several events to keep the company up to date with the current trends in the industry. These events included a keynote presentation and panel discussions at the **Society of Motion Pictures and Television Engineers (SMPTE) Media Summit**, as well as the **GABA Southern California** where he discussed the **"Future of Cinema"**.

- Chief Technology Officer, Mr. Hanno BASSE, was also part of a virtual panel for the **RealTime Conference** where the topic of discussion was **"VFX, Smart Technologies, and the Changing Face of Filmmaking"**. In collaboration with **Variety Intelligence Platform (VIP+)**. Mr. BASSE took part in a discussion that focused on the opportunities and uses of generative AI in film and TV production. Mr. BASSE also contributed to a research for VIP+ on AI and virtual humans.



- Chief Technology Officer, Mr. Hanno BASSE, had a conversation with the **Better Tech Podcast** where they discussed the impact of AI and data analytics.

THE GREATER CHINA REGION:

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

- 1 From March 2023, **MetaAge Group** has partnered with Digital Domain to create a series of internal training videos. These videos feature virtual HR consultant who introduce new employees to the company, course platform, and operational guidelines. The project aims to streamline the company's training procedures and enhance efficiency.
- 2 Featuring “**Digital Transformation & Green Transition**”, **2023 Smart City Summit and Expo (SCSE)** took place in Taipei from 28 March to 31 March 2023. The organisers specially arranged an AI virtual tour guide, so that visitors can have the opportunity to experience the latest technology interaction up close. The AI virtual tour guide is the latest technology of cooperation between MomentX and Digital Domain, behind which is the virtual human control software Momentum Cloud independently developed by Digital Domain. Visitors can not only ask the virtual tour guide questions related to the expo, but also ask anything you want to chat or learn about, including weather, food and attractions around the exhibition hall.



- 3 In April 2023, Digital Domain participated in the “**AI EXPO Taiwan 2023**” to showcase an AI virtual fortune teller. The booth attracted a large audience who gathered to experience the personalised and real-time interactive fortune-telling.



4 In May 2023, Digital Domain exhibited an AI virtual business assistant at the “**Computex 2023**”. The virtual assistant interacted with visitors, answering questions about client companies for international business professionals.

5 In June 2023, the prestigious AI industry event, “**FUTURE COMMERCE 2023 AI TAIWAN**” with the theme “**AI FOR ALL**”, featured Digital Domain’s virtual human, **Nonoka**, as the protagonist in the opening video. Through its connection and contrast with real-world humans, virtual human conveyed the message that AI solutions applied across industries are already transforming human lives, heralding the dawn of a new era.



6 In June 2023, Digital Domain demonstrated AI virtual human solutions at the “**FUTURE COMMERCE 2023 AI TAIWAN**”. The exhibition showcased three interactive modes, featuring a poetic young girl, a compassionate soul guide, and a friendly café server. These diverse personas represented the versatility of service-oriented virtual humans.



7 **MomentX** and Digital Domain once again cooperated to participate in the “**FUTURE COMMERCE 2023 AI TAIWAN**” and unveiled a brand new AI assistant in the “AI New Imagination” exhibition area. Combining interactive experience and co-creation participation, the AI assistant not only answers questions related to the exhibition, but also can lead the audience to understand the influence and creation of generative AI before 2030.



8 In June 2023, **Digital Signage Japan 2023**, the largest exhibition for display, signage, and applications, prominently featured Virtual Human as one of its main themes. Numerous talk sessions and seminars were held, highlighting the concept of the Virtual Human. Japanese partner **WAS**, in collaboration with **NewPhoria**, showcased an application that enables communication with a Virtual Human, powered by OpenAI and Digital Domain's Momentum Cloud. The Virtual Human was displayed on transparent screens, making many booth visitors feel as though the Virtual Human truly existed there.





9 In July 2023, **Red Hat**, a leading brand in open-source software solutions, conducted a conference focusing on the digital transformation of financial institutions. This conference addressed the contemporary challenges confronting fintech operators. Red Hat arranged for Virtual Receptionists, created by Digital Domain, to be deployed at the event for welcoming guests and providing information about the event, along with corporate introductions and explanations of various solutions.

10 In July 2023, Digital Domain collaborated with **Cathay United Bank** to create the world's first pair of virtual influencer twins, **Virtual Human Luna** and **Virtual Human Apollo**, serving as the image ambassadors for Cathay United Bank's digital brand "CUBE". They will be sharing a personal, simple, textured, and beautiful financial life by documenting their daily experiences within CUBE's official IG community.



The creation of these virtual twins involved meticulous simulation, encompassing head and hair modelling, skin material rendering, as well as detailed light effects including pores and skin texture. Notably, the simulation accounted not only for pores but also for muscle structure, leveraging real facial features and advanced AI technology to produce more natural and authentic facial expressions. This effort results in a more comfortable, approachable, and relatable appearance.

In addition, Digital Domain's Virtual Human team also used the lighting effects of the 3D scene to 100% restore the real space and colours, allowing Virtual Human Luna and Virtual Human Apollo to appear more realistically and delicately in life scenes.

11 In September 2023, at the **2023 Marketeers Hangout "Metamorphosis"** themed event, Digital Domain's **Indonesian** partner **V2** showcased a real-time interactive AI virtual human on a high-resolution screen. This innovative technology not only represents a new way of interaction between brands and consumers in the digital era but also highlights innovative explorations in marketing strategies. It resonates with the event's emphasis on creative and technological transformation, symbolising the continuous evolution of marketing and technology.

In September 2023, a virtual human made its debut at the **GBI Praise Revival for Jesus (CK7)** event was held at the Integrity Convention Centre in Indonesia, introducing a unique perspective on Biblical stories. This innovative integration of technology with storytelling not only adds a new dimension to historically rich stories and myths but also underscores the immense potential of combining virtual and real elements to engage modern audiences and create immersive experiences.



12 In October 2023, the **2023 Japan IT Week Autumn**, Japan's largest IT trade exhibition, showcased a myriad of the latest IT solutions and technologies, heralding the future trends in technology. In this exhibition, the collaboration between Japanese partner **WAS** and software company **SoftNet** particularly stood out. Their joint display of the Digital Domain's real-time AI virtual human technology captivated extensive interest, heralding a new era in the field of virtual interactions.

13 In October 2023, at the **Taiwan Innotech Expo (TIE)**, the **Industrial Technology Research Institute (ITRI)** showcased a conversational AI guide integrating Digital Domain's Momentum Cloud – a cloud based virtual human engine coupled an advanced Large Language Model (LLM), the system provided on-site tours and answered questions in real time. Featuring highly interactive and lifelike virtual characters, Momentum Cloud effectively enhances the user experience in both guiding and customer service systems. This development paves the way for the emerging trend of integrating AI into various services.

14 In November 2023, at the **DIGITIMES Supply Chain Summit 2023** themed "Reinventing the Future", convened experts and industry leaders globally amid the reconstruction of the supply chain, focusing on six tracks – semiconductors, future cars, advanced manufacturing, information security, artificial intelligence (AI), and cloud services. **Virtual anchor Sabrina** expertly navigated the audience through a comprehensive review of global dynamics and the latest industry trends, signalling the start of the forum.

15 On 24 November 2023, the **Taipei International Financial Expo 2023** unfolded grandly at Taipei World Trade Centre 1, where the Digital Domain announced exciting news by unveiling its development of "**Generative AI in Financial Services**". This groundbreaking initiative involves upgrading virtual entities through the integration of AI technology and forging close collaborations with major financial giants such as **CTBC Bank** and **Taishin International Bank**.

Teaming up with Taishin International Bank, Digital Domain created “**Virtual Human Teller Rose & Sunny**”, incorporating AI semantic recognition technology along with large language model. The virtual human teller Rose displayed in the expo area can instantly respond to various inquiries related to consumer benefits and credit cards, providing personalised services.

In addition to the virtual human teller, Digital Domain has also crafted different personas of “**AI Assistants**” for **CTBC Bank**. These assistants offer services related to financial management and credit card consultations. The intelligent assistants integrate the bank’s product knowledge base and provide personalised investment advice, savings strategies, and more based on customer account history. With human-like expressions, interactions, smiles, and gestures, the AI assistants aim to make the user experience feel less like interacting with a cold machine.

Digital Domain is at the forefront of the AI-powered virtual human race, and this technology has now matured. Through widespread application, the goal is to more precisely address corporate and customer issues. Technology always originates from human histories and cultures. Meeting the modern consumer’s demand for innovative technology applications in life, artificial intelligence, and virtual humans are set to become indispensable elements of the next generation.



16 In November 2023, **InterBEE 2023**, a technology exhibition for broadcasting and content creation in **Japan**, was visited by industry experts to explore cutting-edge technologies, solutions, and platforms. Digital Domain’s Japanese partner, **WAS**, in collaboration with the smart voice company **ReadSpeaker** (a subsidiary of Hoya Corporation, Japan), demonstrated the advanced virtual human technology of Digital Domain’s Momentum Cloud. This showcased technological innovation and promoted technical cooperation, brand development, content creation, and information dissemination.

17 **V2 Indonesia’s** permanent technology demo site (House of Future) at Plaza Indonesia located in Central Jakarta, Indonesia constantly showcasing digital technologies and applications related to virtual human.



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

NORTH AMERICA REGION:

- VFX Supervisor, Mr. Jan Philip CRAMER and Animation Supervisor, Ms. Elizabeth BERNARD presented their work on **"She-Hulk: Attorney at Law"** at **SPARK FX 2023**.
- VFX Supervisor, Mr. Jan Philip CRAMER presented his team's work on **"She-Hulk: Attorney at Law"** at **Film and Media Exchange (FMX) 2023** in Stuttgart, Germany.
- Ms. Lala GAVGAVIAN, the President for VFX Business and Chief Operating Officer for the Group, and VFX Supervisor, Mr. Piotr KARWAS attended the **1 Mastercard OFF CAMERA International Festival of Independent Cinema**. Mr. KARWAS participated in two panels during the event, discussing his work on **Apex Legends' "Northstar"** as a case study. He highlighted the extensive VFX work involved in game development and the use of AI in the VFX industry.
- Ms. Charlotte NELSON, Vice President of Strategic Organisation Planning, participated on a panel at **Production Summit** where the topic of discussion was machine learning and where the technology will take us.



- In addition to SPARK FX and FMX, Mr. CRAMER participated in several other speaking opportunities. At **SIGGRAPH 2023**, VFX Supervisor, Mr. Jan Philip CRAMER, was part of a Short Talk, discussing our Digital Domain's work on **"She-Hulk: Attorney at Law"**. In collaboration with **2 Bow Valley Centre For Entertainment Arts**, Mr. CRAMER also discussed his work on **"She-Hulk: Attorney at Law"** in a presentation titled **3 "She-Hulk: The Art and Science of Animation, Simulation and AI"**. Alongside Mr. Eric KIMELTON, Head of Production and Executive Producer, and Mr. Matt SMITH, Charlantan Department Supervisor, Mr. CRAMER took part in a roundtable discussion about

the future of animation and VFX hosted by the **Academy of Art**. Lastly, Mr. CRAMER participated in a roundtable webinar titled "3D Animation Beyond 24: Insights from Industry Leaders" where speakers dived into the future of 3D Animation and Visual Effects in the exclusive online event created by the **Centre for Entertainment Arts**.





- Digital Domain hosted an event at their Los Angeles studio to commemorate the first-of-its-kind co-brand partnership with **4 PRG** (Production Resource Group), the global leader in entertainment and live event solutions. Through the specialised expertise of both parties, Digital Domain and PRG are now able to offer seamless end-to-end service covering ideation to execution as individual entities, all under one roof.

- **5** The Digital Domain Human Resources team also held several presentations, forging connections with Animation and VFX film students in **Vancouver** and **Montreal**, offering guidance on Breaking Into the VFX Industry. The Human Resources team visited universities and schools including, Emily Carr University, Vancouver Film School, Think Tank, Infocus Film School, Lost Boys | School of Visual Effects (Quebec), and Kwantlen Polytechnic University – Wilson School of Design.



THE GREATER CHINA REGION:

- In May 2023, VFX Supervisor, Mr. Wang GUO discussed how generative artificial intelligence is revolutionising the creative landscape, through **YiMagazine's** special edition.
- In July 2023, Public Relations Director & Deputy General Manager, China, Mr. Allen CHEN,

joined the **1** **20th China Digital Entertainment Expo and Conference**, or **ChinaJoy 2023**, where he shared the insights on how artificial intelligence is reshaping filmmaking.

- In December 2023, Public Relations Director & Deputy General Manager, China, Mr. Allen CHEN, was invited to present at **Fresh Look Icons Talk 2023** held by **2** **Caijing**.



3

3 In September 2023, **The School of Creative Media at City University of Hong Kong (CityU)** collaborated with Digital Domain to announce the launch of the **“Digital Domain Scholarships”**. The scholarship scheme marks the 30th anniversary of the establishment of Digital Domain and aims to cultivate the next generation of film and television pioneers. With its expertise in virtual humans, visual effects, and visualisation, Digital Domain is committed to providing strong support for this scholarship scheme, which will begin in the 2023/2024 academic year and will last for three years.



4

4 In October 2023, Digital Domain was invited by the **City University of Hong Kong Foundation** to be the Technology Sponsor for Performance of the gala dinner, and Virtual Human Teresa Teng had a singing performance with the guest. There were over 550 distinguished guests attended the dinner, at which the donation raised was to support the strategic research development of the University.



5

5 In December 2023, the Group's CEO, Mr. SEAH Ang, was invited by the **South China Morning Post** to attend the **“Hong Kong Principals' Forum”** as a guest speaker. He showcased the potential applications and developments of AI and virtual humans in the future of education to over 200 outstanding leaders, professionals, and principals from the education sector. During the presentation, Virtual Human Teresa Teng interacted with the guests, bringing everyone a pleasant surprise.





CO-PRODUCTIONS

Feature Films:

Titanic 25th Anniversary 4K 3D release

James CAMERON, a director, writer, and producer, is known for his iconic film **"Titanic"**. The film won 11 Oscars and is famous for its romantic storyline. In 2023, the film celebrated its 25th anniversary. In honour of this milestone, the remastered 4K 3D version of the film was released on 10 February 2023. This new version includes updated technology, such as variable-frame-rate and high-frame-rate capabilities, making the viewing experience even more immersive than the previous version released in 2017. The new remastered version was released in 48 markets worldwide.



The Group partnered with **Mr. Lucas FOSTER**, a renowned film producer responsible for producing blockbuster films like **"Ford v Ferrari"**, **"Mr. & Mrs. Smith"**, **"Man on Fire"** and more. Together, we produce the film titled **"Children of the Corn"**. Filming for the

film took place in Australia despite the pandemic in 2020. The film was later released in March 2023, followed by a worldwide release. The amortisation cost of the film rights was recognised under **"Administrative expenses and other net operating expenses"** in the Company's consolidated income statement.

The film **"Ender's Game"** was released in November 2013 in the US. The film is based on a best-selling and award-winning novel. It features an all-star cast including Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, Abigail Breslin and Ben Kingsley. The film is an epic adventure that continues to generate income from non-box office channels both within and outside the US. Summit Entertainment distributed the film in association with OddLot Entertainment and is a Chartoff Productions/ Taleswapper/OddLot Entertainment/ K/O Paper Products/DD3I.

The profit sharing from participation rights in **"Titanic"**, **"Children of the Corn"** and **"Ender's Game"** were recognised under **"Other income and gains"** in the Company's consolidated income statement.



DDCP AND INVESTMENTS IN EUROPE

Formation of DDCP

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

Investment in asknet

On 3 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 248,431 common shares (**"asknet Sale Shares"**) of asknet Solutions AG (**"asknet"**), a publicly traded German e-commerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) for an aggregate consideration of approximately EUR3,709,000 (approximately HK\$34,586,000), i.e. amounting to approximately EUR14.93 (approximately HK\$140.79) per asknet Sales Share. The asknet Sale Shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021. 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. 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. By order of the Karlsruhe District Court, insolvency proceedings were opened against asknet's assets on 1 December 2023 due to asknet's application for insolvency. The insolvency proceedings are still in progress. As at 31 December 2023, the asknet Sale Shares represented approximately 7.6% of the total issued common shares of asknet. The investment has already been fully impaired.

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. HLEE announced on 24 October 2023 the publication of the prospectus for the capital increase by means of subscription rights offer and further announced on 2 November 2023 3,500,000 new bearer shares were subscribed. Its share capital therefore increased from 9,460,000 bearer shares to 12,960,000 bearer shares with a nominal value of CHF9.00 each. As at 31 December 2023, the HLEE Sale Shares represented approximately 2.04% of the total number of bearer shares of HLEE in issue. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

TRADING SEGMENT

2023 has been a groundbreaking year for Generative AI (artificial Intelligence) across various fields, the Group had focused on Generative AI related to our VH and VFX businesses and also the overall AI ecosystem. With the tech industry steadfastly focused on AI, with the continued rollout of advanced AI chips leading to significant

enhancements in processing speeds. This advancement is set to drive growth in DRAM (Dynamic Random Access Memory) across various AI applications, including smartphones, servers and notebooks. DRAM is a type of random-access semiconductor memory that stores each bit of data in a memory cell, usually consisting of a tiny capacitor and transistor, both typically based on a MOS (metal-oxide-semiconductor) technology.

During the year under review, with the suitable business partners (suppliers and purchasers) being identified and secured, the Group resumed its trading capabilities and started the trading DRAM the result of which are reported in the trading segment to generate supplemental income for the Group given the continued challenging operating environment. The trading segment recorded a turnover of approximately HK\$26,768,000 (2022: HK\$ Nil) and the profit of this segment is HK\$3,297,000 (2022: HK\$ Nil). We believe the growth in demand of DRAM will continue in financial year 2024 and will adopt a steady business strategy for this product to seek to optimise the economic benefits for the Group.

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 other associates.

VIRTUAL HUMAN TERESA TENG

In 2014, Digital Domain Media (HK) Limited (“DDM”), (originally an indirect wholly-owned subsidiary of the Company but became 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.

1 In January 2023, Virtual Human Teresa Teng performed The Magic Blade's iconic theme song “Tianya” at its online **Spring Festival Gala**.

On 17 January 2023, “Kugou Live” organised an immersive Chinese New Year (CNY) Festival online concert, allowing all players to participate. The event featured a special appearance by a legendary superstar, the Virtual Human Teresa Teng, created by Digital Domain. With her sweet and gentle voice, the Virtual Human Teresa Teng enchanted the audience with a performance of the game's theme song, leaving them mesmerised. She enthusiastically interacted with the online viewers and extended CNY blessings to everyone.



2 On 23 January 2023, **The 2023 Beijing Radio and Television Spring Festival Gala** invited Virtual Human Teresa Teng, to make a stunning appearance, performing "I Only Care About You" alongside female singers **Cyndi WANG** and **Cecilia HAN**. This awe-inspiring cross-temporal collaboration became the highlight of the night's news. Virtual Human Teresa Teng, created by a team of artists from Digital Domain, took approximately six weeks to construct. In addition, the visual effects that impressed the

audience during the performance were also crafted by the Digital Domain team, including lighting, special effects, and pre-compositing.

3 On 1 February 2023, **Malaysia United Overseas Bank** hosted an exclusive event for VIP clients. They specially invited the Virtual Human Teresa Teng, who made a remarkable comeback on stage using the latest hologram projection technology, delivering an incredibly lifelike performance.

When the audience saw the Virtual Human Teresa Teng appear so realistically before their eyes, they could not help but gasp in astonishment, as if transported back to that classic era, overwhelmed by emotions and memories. The legendary revival of Virtual Human Teresa Teng was made possible through the exclusive technology of Digital Domain. This technology allowed the grace and charm of the superstar diva to be authentically showcased, leading the audience to relive this musical legend.





4

鄧麗君
浮空投影演唱會
(8月12日)
12 Aug 2023
Mother's Day

Teresa

2023 Teresa Teng Hologram Concert
Thailand Bangkok

世界各地鄧麗君

| | | | |
|------------------|-----------------|-------------|-----------------|
| Thailand 附場加場 | Japan エンレイ嬢舞 | China 王菲 | Malaysia 曾慶佳 |
|------------------|-----------------|-------------|-----------------|

表演時間：7：30pm
演出地點：TRUE ICON (True Icon Hall, 7th Floor, ICONSIAM)
票價：THB 4000 THB 3500 THB 2500 THB 2000
網站：www.thaticketmajor.com

Production Co. 泰國真人演唱會及傳媒公司
TERESA TENG Hologram
DIGITAL DOMAIN

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7

- 4 On 12 August 2023, **“2023 Teresa Teng Hologram Concert”** was held at the True Icon Hall in **Bangkok, Thailand**. This concert was jointly organised by the Teresa Teng Foundation and Digital Domain.
- 5 In addition to Virtual Human Teresa Teng’s performance, there were also four singers from around the world who are famous for imitating Teresa Teng. They performed Teresa Teng’s classic songs one after another throughout the night, allowing fans to relive the sweetest and most unforgettable songs of Teresa Teng.
- 6 From 25 August 2023 to September 2023, to celebrate the Mid-Autumn Festival, the **Overseas Community Affairs Council “OCAC”** has specially organised the **“2023 Cultural Goodwill Mission”** to tour 12 cities in five Asian countries. With the theme of **“The Moon Represents My Heart”**, the performance combines new technology and live performance to present **“Teresa Teng”** returning to the stage with many of her classic songs.
- 7 In August 2023, Virtual Human Teresa Teng performed at the **“OneSong Orchestra: Crazy for Taiwan Concert”**, an event combining instrumental, vocal, and technological elements to create a mesmerising audiovisual experience.

OneSong Orchestra presented a surprise for the audience by using technology to interact between the Virtual Human Teresa Teng and singer **Winnie Hsin** on stage. This technology was produced in collaboration with Digital Domain and Teresa Teng Foundation, and has already been showcased in multiple performance venues, appearing alongside renowned singers. This is the first collaboration with OneSong Orchestra.

When Virtual Human Teresa Teng appeared on the big screen, greeted the audience with a sweet smile, and started singing the familiar song **“The Moon Represents My Heart”**, the audience erupted in astonishment. Then Winnie Hsin took the stage and sang **“May Ever Last”** together, blurring the boundaries between the virtual and the reality through their voices, creating a fantastic and emotionally-moving scene.

BEIJING XU GU (虚谷未来科技(北京) 有限公司)

In 2019, Beijing Xu Gu was set up as an associate of the Company and operates several virtual human projects within Mainland of China. Using Digital Domain Group’s virtual human technology, Beijing Xu Gu continues to innovate and develop virtual IP live broadcasts, content marketing and

business development, around the four core strengths of **“new technology lightweight operation, multi-form virtual person creation, multi-content development, and multi-scenario business development”**. Beijing Xu Gu’s projects break the barriers between virtual space and the real world, and create a **“real person + virtual human”** immersive live broadcast experience based on high-precision real-time interaction, and lightweight operation. Beijing Xu Gu brings innovation and new opportunities to the live broadcast industry.

- 8 In December 2022, **Tencent Music Entertainment Group (TME)** co-created by **TME, RM LABS, and Beijing Xu Gu**, launched **super-realistic virtual idol LUCY**, which immediately sparked a circle-breaking interest. From January to May 2023, Beijing Xu Gu continued to provide virtual content production for its daily operations.



- In January 2023, Beijing Xu Gu joined the **“Chaoyang Dark Horse Digital Human Application Scene Accelerator”**, which is an industrial co-creation base for virtual human enterprises nationwide under the guidance of the Chaoyang District People’s Government of Beijing Municipality and co-created by the Zhongguancun Science Park Administrative Committee, Dark Horse Technology Group Co., Ltd. (“Dark Horse”) and Beijing Chaoyang International Technology Innovation Service Co., Ltd (“CITIS”).
- In February 2023, Beijing Xu Gu was honoured to be listed in the first **Metaverse ∞ Billboard**, and was awarded **“Top 10 Metaverse Enterprises of 2022”**. In addition, the General Manager of Beijing Xu Gu was invited to attend and deliver a keynote speech.
- In March 2023, Beijing Xu Gu appeared at the **Web 3.0 Eco Release Conference “Towards a Vibrant Web 3.0 Building for the Future”** organised by the Beijing Municipal Science and Technology Commission, Administrative Commission of Zhongguancun Science Park, Beijing Municipal Bureau of Economy and Information Technology, Beijing Association for Science and Technology and Chaoyang District People’s Government of Beijing Municipality, where the Virtual Human Teresa Teng, Virtual Human Elbor, Virtual Human Nonoka and Virtual Human Alice, demonstrated around super-realistic virtual human real-time interaction, super-realistic fabric real-time calculation and lightweight virtual live broadcast solutions.
- In March 2023, Beijing Xu Gu appeared at the **2023 (2nd) China Virtual Human Industry Conference and AIGC Innovation and Development Forum**. During the event, Virtual Human Alice was selected as one of the **“Top 100 Chinese Virtual Humans in 2023”** published by iiMedia Research, and was honoured with the **“Most Influential Virtual Idol Award of China in 2023”**, becoming the only children’s virtual IP on the list and receive such awards. In addition, the General Manager of Beijing Xu Gu was invited to participate in the summit dialogue.
- In May 2023, the **「悦然址上」 brand strategy launch and 23rd anniversary celebration** was held as scheduled, for which Beijing Xu Gu provided virtual human holographic show solutions.
- In June 2023, Beijing Xu Gu joined the **“Beijing Digital Human Base Deposit Platform”**. This platform will focus on the process of intellectual property rights confirmation, rights protection and transaction security, and provide notary legal services such as intellectual property rights protection, evidence collection, and rights protection for virtual human enterprises, so as to solve the problem of intellectual property rights protection for the property rights of virtual human and related digital assets.
- In October 2023, the **“Three Year Action Plan for Web 3.0 Innovation and Development of Chaoyang District, Beijing (2023-2025)”** was announced to foster leading-edge application and vigorous growth of Web 3.0 ecosystem. Beijing Xu Gu’s creation approach and lightweight application mode of virtual humans has been selected as one of the **“Demonstration Solutions”**, due to the significant technological advancement leading to establishment of the industry.

GOODWILL AND INTANGIBLE ASSETS OF THE GROUP

As at 31 December 2023, the Group had intangible assets of approximately HK\$340,857,000 (being approximately 27% of the Group’s total assets as at the same date). Such intangible assets comprised goodwill of approximately HK\$249,453,000 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 2023 are set out in Note 16 to the consolidated financial statements included in this report.



The pre-tax discount rate, corporate income tax rate, post-tax weighted average cost of capital, market rate of return and levered equity beta and terminal rates adopted in the valuations as at 31 December 2023 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 2022, 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 2024 that the Company expects to be derived from (i) projected work supported by signed contracts ("Committed Work"), (ii) budgeted engagements based on prospective identified projects and subject to negotiations (discounted for likelihood of success ("Success Discount")), based on management assessment by reference to historical success rate as well relationships with the counterparty ("Likely Work") and (iii) other projects that are not under negotiation at the time of forecast but may become available during the year, based on the prior year's operating experience ("Possible Work"), while cost projections were based largely on historical rates with adjustment for inflation. This approach is consistent with that adopted in prior years.

The Group's revenues are generally project based and the projects are often the subject of competitive tender, so it is not possible to make predictions

with certainty. Shareholders should note that in addition to the goodwill and intangible assets of the Group that are subject to impairment review or are amortised over the years, certain research and development costs of technology being developed in-house are also expensed and charged to the income statement in the year of incurrence (instead of being capitalised) contributing to the Group's losses in the media entertainment segment over the years.

VE CGU

As at 31 December 2023, the goodwill allocated to the VE CGU was approximately HK\$209,013,000 (2022: HK\$209,155,000) with headroom of approximately HK\$112,592,000 (2022: HK\$335,866,000) 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 14.4% (2022: 12.0%) and a pre-tax discount rate of 18.7% (2022: 19.1%). 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 2023, the goodwill allocated to the PP CGU was approximately HK\$85,186,000 (2022: HK\$85,186,000) without headroom for the year (2022: HK\$92,978,000) based on the value-in-use ascribed to this CGU, as a result of which an impairment loss of approximately HK\$44,746,000 was made against this CGU as at 31 December 2023. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 3.6% (2022: 5.3%) and a pre-tax discount rate of 13.9% (2022: 16.4%) respectively, due to lower amount of Committed Work and tax losses carried forward. 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.

FILM RIGHTS

Film rights represent films produced or films production in progress by the Group. As at 31 December 2022, there was only one film under production. The film is internally produced by the Group which is entitled to all retained profit generated from the film right, after sharing with producers and other independent parties of certain percentages specified in the agreements between the Group and those parties.

During the year ended 31 December 2023, the film has been released in the USA and various locations in the world. Accordingly, amortisation of the capitalised production costs associated with the film right commenced over its useful life of 5 years during the year. In view of the unfavourable box office result during the year, the Directors have carried out the impairment testing on the film rights. The recoverable amount of this asset has been determined based on the value in use calculation. The calculation uses cash flow projections based on latest revised financial budgets approved covering a 5-year period. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted broadcasting income, such estimation is based on the asset's past performance from box office and other receipts of the film during the year and management's expectations for the market development. The lower-than-expected box office results following the release of the film which would have represented the main source of net cash inflow for the film (similar to other theatrically released films) and consequential reduction of estimated revenue from other forms of exploitation of the film rights led to the impairment loss in respect of the film rights of HK\$104,423,000 (equivalent to the remainder of the capitalised production costs of the film after

amortisation) being recognised in profit or loss for the year ended 31 December 2023. Other key assumptions for the value-in-use calculations for the film rights included a risk free rate of 3.88% (2022: 3.99%) and equity risk premium of 6.87% (2022: 5.5%).

EVENT AFTER THE REPORTING PERIOD

SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

As disclosed under the section titled "Capital" below, the Company on 19 October 2023 entered into the subscription agreement with Whole Share Capital Inc. ("Whole Share"). Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 600,000,000 shares to Whole Share at the subscription price of HK\$0.207 per subscription share. The Subscription to Whole Share was completed on 24 January 2024. The Subscription shares to Whole Share was allotted and issued pursuant to the specific mandate of the Company. The Subscription shares issued to Whole Share represent approximately 9.62% of the issued share capital of the Company of 6,233,798,625 shares as at the date of announcement of the 4th Subscription (i.e. 19 October 2023) as defined in the below section titled "Capital" and approximately 7.52% of the issued share capital of the Company of 7,979,248,625 shares as enlarged by the Subscription to Whole Share.

The gross proceeds and net proceeds from the Subscription to Whole Share are approximately HK\$124,200,000 and approximately HK\$124,100,000 respectively, and are intended to be applied towards the continued development of the research projects of DD Lab and general working capital of the Group. For details, please refer to the Company's announcement dated

19 October 2023 and circular dated 14 November 2023.

CAPITAL

SHARES

As at 31 December 2023, the total number of the Company shares of HK\$0.01 each in issue (the "Shares") was 7,379,248,625 Shares. As at 24 January 2024 (upon the issue of the Shares mentioned in above section titled "Event After the Reporting Period"), the total number of the Shares issued was 7,979,248,625.

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"). 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 (i.e. 17 January 2023) 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 20 April 2023, the Company entered into the subscription agreement with One Music Investment Co., Ltd. ("One Music"). Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 646,430,000 shares to One Music at the subscription price of HK\$0.222 per subscription share (the "2nd Subscription"). The 2nd Subscription was completed on 3 May 2023 and the 2nd Subscription shares were allotted and issued pursuant to the general mandate of the Company. The 2nd Subscription shares represent approximately 14.21% of the issued share capital of the Company of 4,548,402,625 shares as at the date of announcement of the 2nd Subscription (i.e. 20 April 2023) and approximately 12.44% of the issued share capital of the Company of 5,194,832,625 shares as enlarged by the 2nd Subscription.

The gross proceeds and net proceeds from the 2nd Subscription are approximately HK\$143,500,000 and approximately HK\$143,100,000 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 20 April 2023 and 3 May 2023.

On 12 June 2023, the Company entered into the subscription agreements with Allied Talent Global Limited ("Allied Talent") and Delight On Group Limited ("Delight On"). Pursuant to the subscription agreements, the Company conditionally agreed to allot and issue 528,966,000 shares to Allied Talent and 510,000,000 shares to Delight On respectively at the subscription price of HK\$0.224 per subscription share (the "3rd Subscription"). The 3rd Subscription was completed on 20 June 2023 and the 3rd Subscription shares were allotted and issued pursuant to the general mandate of the Company. The 3rd Subscription shares represent approximately 20.00% of the issued share capital of the Company of 5,194,832,625 shares as at the date of announcement of the 3rd Subscription (i.e. 12 June 2023) and approximately 16.67% of the issued share capital of the Company of 6,233,798,625 shares as enlarged by the 3rd Subscription.

The gross proceeds and net proceeds from the 3rd Subscription are HK\$232,700,000 and approximately HK\$232,500,000 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 12 June 2023 and 20 June 2023.

SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

On 19 October 2023, the Company entered into the subscription agreements with Meiyin Investment Co., Ltd. ("Meiyin"), Irobot Innovation Co., Ltd. ("Irobot") and Whole Share. Pursuant to the subscription

agreements, the Company conditionally agreed to allot and issue 580,000,000 shares to Meiyin, 565,450,000 shares to Irobot and 600,000,000 shares to Whole Share respectively at the subscription price of HK\$0.207 per subscription share (the "4th Subscription"). The Subscription of such new shares under specific mandate was approved by the shareholders of the Company at the special general meeting held on 1 December 2023. The Subscriptions to Meiyin and Irobot were completed on 29 December 2023. The Subscription shares to Meiyin and Irobot were allotted and issued pursuant to the specific mandate of the Company. The Subscription shares issued to Meiyin and Irobot represent approximately 18.37% of the issued share capital of the Company of 6,233,798,625 shares as at the date of announcement of 4th Subscription (i.e. 19 October 2023) and approximately 15.52% of the issued share capital of the Company of 7,379,248,625 shares as enlarged by the Subscriptions to Meiyin and Irobot. The subscription to Whole Share was completed in January 2024 (please refer to the above section titled "Event After the Reporting Period").

The gross proceeds and net proceeds from the Subscriptions to Meiyin and Irobot are approximately HK\$237,100,000 and approximately HK\$236,800,000 respectively, and are intended to be applied towards the continued development of the research projects of DD Lab and general working capital of the Group. For details, please refer to the Company's announcement dated 19 October 2023 and circular dated 14 November 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 during the year under review and since the date of adoption (16 June 2022).

USE OF PROCEEDS FOR EQUITY FUNDRAISING ACTIVITIES

| Date of announcement and/or circular | Fundraising activity | Net proceeds raised | Proposed use of proceeds | Actual use of the net proceeds up to 31 December 2023 |
|--------------------------------------|-------------------------------|-------------------------------|--|--|
| 17 January 2023 and 2 February 2023 | Issue of 219,375,000 Shares | Approximately HK\$69,760,000 | (1) Development of the Group's media entertainment segment (2) General working capital of the Group | (1) Development of the Group's Media entertainment segment: approximately HK\$60,000,000; and (2) General working capital of the Group (including but not limited to salary and rental): approximately HK\$9,760,000. The net proceeds have been fully utilised in accordance with the proposed use. |
| 20 April 2023 and 3 May 2023 | Issue of 646,430,000 Shares | Approximately HK\$143,100,000 | (1) Development of the Group's media entertainment segment (2) General working capital of the Group | (1) Development of the Group's Media entertainment segment: approximately HK\$120,000,000; and (2) General working capital of the Group (including but not limited to salary and rental): approximately HK\$23,100,000. The net proceeds have been fully utilised in accordance with the proposed use. |
| 12 June 2023 and 20 June 2023 | Issue of 1,038,966,000 Shares | Approximately HK\$232,500,000 | (1) Development of the Group's media entertainment segment (2) General working capital of the Group | (1) approximately HK\$124,300,000 has been used for development of the Group's media entertainment segment (of which HK\$13,300,000 has been used for the development and integration of generative artificial intelligence technology into the Group's business and production process) and the remaining amount of approximately HK\$50,700,000 is expected to be utilised on or before 29 February 2024; and (2) approximately HK\$55,200,000 has been applied towards the general working capital (including but not limited to salary and rental); and the remaining amount of approximately HK\$2,300,000 is expected to be used on or before 29 February 2024. |
| 19 October 2023 and 14 November 2023 | Issue of 1,745,450,000 Shares | Approximately HK\$360,900,000 | (1) the continued development of the research projects of DD Lab, including research and development expenses, data acquisition costs, hardware and software investments, salaries for research personnel, and collaborative partnerships with external institutions (2) General working capital of the Group | (1) approximately HK\$312,000,000 towards the continued development of the research projects of DD Lab, with approximately HK\$252,180,000 being earmarked towards the cost of research personnel and support staff (including the cost of collaborative partnerships with external institutions); approximately HK\$27,300,000 towards intellectual property rights related investments (such as data acquisition costs, Research and Development expenses and patent applications costs); approximately HK\$24,330,000 for hardware and software investments and approximately HK\$8,190,000 for rental expenses for additional facilities and research space and other sundry expenses is expected to be used on or before 31 December 2026; and (2) approximately HK\$48,900,000 towards the general working capital of the Group is expected to be used on or before 30 June 2024. |

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 2023, the Group had banking facilities from two banks in the United States amounting to US\$19,000,000 (approximately HK\$148,386,000) and these banking facilities were fully utilised during the year. Among the above mentioned US\$19,000,000 facilities, (i) Utilised facilities of US\$6,000,000 (approximately HK\$46,859,000) has been successfully refinanced for another 3 years (to 2026), and (ii) Utilised facilities of US\$10,000,000 (approximately HK\$78,098,000) has also been refinanced for another 2 years (to 2025). These banking facilities were secured by time deposits of the Group. The Group had a banking facility from a bank in Hong Kong in the amount of US\$3,000,000 (approximately HK\$23,429,000) being utilised and was secured by a time deposit of the Group. The Group had banking facilities

from a bank in Canada in amount of CAD6,900,000 (approximately HK\$40,681,000) and the utilised portion of these banking facilities were CAD730,000 (approximately HK\$4,304,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries. During the year under review, the Group repaid a loan in amount of US\$1,000,000, approximately HK\$7,754,000 which was secured by two investment properties of the Group.

As at 31 December 2023, the loan granted under emergencies loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$354,000). This loan is unsecured and not repayable within 12 months from 31 December 2023 and early repaid in January 2024.

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 2023, the Group also had lease liabilities of HK\$96,956,000, which were determined at the present value of the lease payments that are payable at that date. The amount included in lease liabilities of HK\$134,000 related to office equipment (leased assets) secured by the lessor's charge over the leased assets. The terms of payments were 60 months. 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\$172,479,000 as at 31 December 2023. One indirect wholly-owned subsidiary has a loan in amount of US\$3,500,000 (approximately HK\$27,064,000) which is unsecured, interest-free and is not repayable within 13 months from 31 December 2023. One indirect wholly-owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,350,000), 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\$78,098,000) 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 2023 were US\$8,000,000 (approximately HK\$62,478,000) 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 2023. As at 31 December 2023, there was a other loan with principal amount of US\$5,800,000 (approximately HK\$45,297,000) early repaid in January 2024. This other loan was unsecured with a fixed interest rate.

During the year ended 31 December 2023, the Group also repaid two other loans (aggregated principal amount of HK\$7,800,000) which were unsecured with a fixed interest.

The total cash and bank balance as at 31 December 2023 was approximately HK\$635,854,000. As at 31 December 2023, the Group had banking facilities of approximately HK\$212,497,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$168,692,000 are denominated in United States dollars and loans amounting to approximately HK\$4,304,000 are denominated in Canadian dollars. During the year under review, all of the Group's bank loans (except the Five Years Loan was 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) as at 31 December 2023 was spread over a period of five years, with approximately 31% repayable within one year and 44% repayable between one to two years and 25% repayable between two to five years.

The Group's current assets were approximately HK\$720,727,000 while the current liabilities were approximately HK\$397,934,000 as at 31 December 2023. As at 31 December 2023, the Group's current ratio was 1.8 (as at 31 December 2022: 0.6).

As at 31 December 2023, 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 67% (as at 31 December 2022: 118%).

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 2023, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2023, the total headcount of the Group was 929. 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 global economy 2023 has shown positive development following the lifting of COVID related restrictions, there has also been much focus on inflation and recession. Alongside indications that inflation may have peaked, the three major world economies, the US, the European Union and China, all appear to be experiencing or facing the prospect of slow down. Additionally, uncertainties and geopolitical tensions, such as Sino-U.S. relationship, conflicts in Russian/Ukraine conflict, and those in the Middle East Region, are likely to continue in the foreseeable future. All these issues are fuelling concerns over a looming recession. We anticipate that global markets will experience fluctuations in 2024.

Geopolitical and economic developments, alongside the regulatory, fiscal and monetary policy responses adopted, are contributing to uncertainties for the Group. These uncertainties may continue to impact the costs of operations and consumer demand in the future. Our clients' perception of the demand for their products ultimately drive the demand and pricing of our products and services. For instance, global economic conditions can affect feature films' budgets and roll-out schedules. At the same time, a perceived reduction in consumer spending power can also impact our clients' product advertising budgets and campaign schedules.

Besides the macro situation we just mentioned, the media industry faced a significant challenge in 2023 due to the Hollywood industry strikes that began

on 2 May 2023. These strikes, carried out by various guilds, led to production delays for the Group's clients in 2023 and early 2024. However, the Company anticipated that these clients will be able to make up for lost time in the second half of 2024.

Based on the above unstable business environment and challenges that the Group is facing, we are adopting a prudent approach in our business strategies (including, for example, cost control, adjusting business direction and product mix) and at the same time, the Group is also looking for new opportunities.

Our "Objective" is to promote business and prosperity by leveraging our unique diversity in markets, shareholders, directors and staff. This is the guiding principle behind our strategy as we concentrate on developing our visual effects and virtual human businesses. Despite the intense competition in our markets, we actively seek out new projects and business opportunities in feature films, online games, television/OTT episodes and commercials. To increase our working capacity, improve efficiency and reduce production costs in the long term, the Group will continue to assess the cost structure, function and operational performance of each studio in North America and Asia. Additionally, the Group is also exploring potential projects in Europe and India with our business partners.

In relation to the virtual human business, the Group will continue to enhance current product and service offerings and explore new services and products (such as artificial intelligence

function, multi-language function, 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-training and/or medical sectors.

Alongside most advanced technology companies, we will continue to deploy substantial financial and human resources in continuing research and development (R&D) in new technologies (such as setting up a research lab for Artificial Intelligence Generated Content (AIGC) that can further enhance the Group's production capabilities), and will seek to recruit and retain appropriate global talent to support the Group's future development. To strengthen our business ecosystem and support our R&D requirements, we will actively seek financing and collaboration opportunities with strategic partners, investors and universities.

Finally, we want to assure you that we will remain vigilant in keeping a close eye on external factors to ensure that we create a balanced approach between opportunities and risks. As management, it is important for us to act in the best interests of shareholders while expressing our gratitude for the trust you have placed in us and for your continued support of the Group. We are confident in our ability to create long-term, sustainable value for all our stakeholders – clients, shareholders, staff and management. We take this opportunity to express our appreciation to all our management and colleagues for their valuable contribution to the Group.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

During the financial year of 2023, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

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

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

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

During the year, the Company held the annual general meeting and a special general meeting on 31 May 2023 and 1 December 2023 respectively. Ms. Alla Y Alenikova, the non-executive Director, was unable to attend the above annual general meeting and special general meeting. Mr. Brian Thomas McConville, the non-executive Director, was unable to attend the above annual general meeting while Ms. Lau Cheong, the independent non-executive Director, was unable to attend the above special general meeting.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. It has carried out an annual review of the existing implemented systems and procedures, including control measures of financial, operational and compliance and risk management functions of the Group. Since the Group's corporate and operation structure is simple for diverting resources to establish a separate internal audit department, during the year, the Company engaged external independent consultants to conduct a review on revenue and cost budgeting cycle and financial reporting cycle of Digital Domain 3.0, Inc. ("DD3.0"), Mothership Media, Inc. ("MMI"), Digital Domain Productions 3.0 (BC), Ltd. ("DDP3.0") and Digital Domain Productions Quebec, Ltd. ("DDPQ" together with DD3.0, MMI and DDP3.0, collectively "DDNA") during the year ended 31 December 2023. DDNA are subsidiaries of the Company and principally engaged in the provision of visual effects production and post-production services for major motion picture studios, networks, streaming services, advertisers, brands and games. Based on the assessment, weakness and potential risk on internal control and risk management has been identified in revenue and cost budgeting cycle. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function as well as those relating to ESG performance and considered they are adequate. The Board were not aware of any material internal control defects, and considered such systems effective and adequate.

THE BOARD

Responsibilities

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

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the independent auditor of the Company about its reporting responsibilities for the consolidated financial statements of the Company is set out on pages 71 to 76 in the independent auditor's report.

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

CORPORATE GOVERNANCE REPORT

THE BOARD (CONTINUED)

Composition

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

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Biographical details of the current Directors are set out in the directors' report on pages 54 to 57. Save as disclosed in the aforesaid biographical details of the Directors, none of the Directors has any financial, business, family or other material/relevant relationships between the Board members.

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

During the year ended 31 December 2023, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented at least one-third of the board.

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

CORPORATE GOVERNANCE REPORT

THE BOARD (CONTINUED)

Composition (continued)

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

Board Meetings and General Meetings

During the year ended 31 December 2023, seven Board meetings, the annual general meeting (“AGM”) for the year 2023 and a special general meeting (“SGM”) of the Company were held with details of the Directors’ attendance set out below:

| Directors | Attendance/Number of Meetings | | |
|---|-------------------------------|-----|-----|
| | Board Meetings | AGM | SGM |
| <i>Executive Directors</i> | | | |
| Mr. SEAH Ang (<i>Acting Chairman and CEO</i>) | 7/7 | 1/1 | 1/1 |
| Dr. SUN Ta-Chien | 7/7 | 1/1 | 1/1 |
| <i>Non-executive Directors</i> | | | |
| Mr. LI Weiqiang | 5/7 | 1/1 | 1/1 |
| Mr. CUI Hao | 4/7 | 1/1 | 1/1 |
| Ms. Alla Y ALENIKOVA | 7/7 | 0/1 | 0/1 |
| Mr. Brian Thomas MCCONVILLE | 7/7 | 0/1 | 1/1 |
| <i>Independent Non-executive Directors</i> | | | |
| Mr. DUAN Xiongfei | 7/7 | 1/1 | 1/1 |
| Ms. LAU Cheong | 5/7 | 1/1 | 0/1 |
| Dr. Elizabeth Monk DALEY | 7/7 | 1/1 | 1/1 |
| Mr. WOO King Hang | 6/7 | 1/1 | 1/1 |

Directors’ Training

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

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

During the year of 2023, all Directors were provided with reading materials on the relevant rules and regulating updates.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

DELEGATION BY THE BOARD

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

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

BOARD COMMITTEES

Executive Committee

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

Audit Committee

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (CONTINUED)

Nomination Committee

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

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

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

| Nomination Committee Members | Attendance/Number of Meetings |
|---------------------------------------|-------------------------------|
| Mr. DUAN Xiongfei (<i>Chairman</i>) | 1/1 |
| Ms. LAU Cheong | 1/1 |
| Mr. WOO King Hang | 1/1 |
| Mr. SEAH Ang | 1/1 |

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

Remuneration Committee

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION POLICY

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

Nomination Criteria

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

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

Nomination Procedures and Process

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

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

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

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

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

As at the date of the annual report, the Board consists of three female members and seven male members, biographical details of the current Directors are set out in the directors' report on pages 54 to 57. The Nomination Committee considered that the Board was sufficiently diverse in terms of gender and involved in extensive experience, skills and knowledge in financial and business management, and media entertainment, it can enable the Company to maintain a high standard of operation. As at 31 December 2023, the ratio of male and female in the workforce (including the executive Directors of the Company and its significant subsidiaries) is 78% and 22%, respectively.

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2022.

CORPORATE GOVERNANCE REPORT

WHISTLEBLOWING POLICY

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

ANTI-CORRUPTION POLICY

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

INDEPENDENT AUDITOR'S REMUNERATION AND AUDITOR RELATED MATTERS

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2023 are set out as follows:

| Type of services | HKS'000 |
|--------------------------------------|---------|
| <i>Audit services:</i> | |
| Audit of annual financial statements | 2,239 |
| <i>Non-audit services:</i> | |
| Agreed upon procedures | 203 |

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

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

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

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

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

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

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

The Board shall arrange to hold such general meeting within 2 months after the receipt of such written requisition. Pursuant to Bye-law 59 of the Bye-laws, the Company shall serve requisite notice of the general meeting, including the time and date of the general meeting; save for an electronic meeting, the place of the general meeting and if there is more than one meeting location as determined by the Board, the principal place of the general meeting; if the general meeting is to be a hybrid meeting or an electronic meeting, the notice shall include a statement to that effect and with details of the electronic facilities for attendance and participation by electronic means at the general meeting or where such details will be made available by the Company prior to the general meeting; and particulars of resolutions to be considered at the general meeting.

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (CONTINUED)

Putting Forward Proposals at General Meetings

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

Making Enquiry to the Board

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

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

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

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

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2023 and the state of affairs of the Company and of the Group as at 31 December 2023 are set out in the consolidated financial statements and their accompanying notes on pages 77 to 159. No interim dividend was paid or declared in respect of the year ended 31 December 2023 (2022: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

RESERVES

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

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2023 amounted to HK\$984,302,000 solely comprised of contributed surplus.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2023 are set out in note 30 to the consolidated financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Five Years Financial Summary" on page 160 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of the investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

Investment properties were valued as at 20 November 2023 (disposal date of the investment properties) and 31 December 2022 by the management and Knight Frank Asset Appraisal Limited, an independent firm of professionally qualified valuers, respectively. The valuations gave rise to fair value loss amounted to HK\$3,841,000 (2022: gain of HK\$14,266,000).

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements in the Company's issued share capital and share options during the year and outstanding as at 31 December 2023 are set out in notes 26 and 28 to the consolidated financial statements respectively.

DIRECTORS

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

Executive Directors

SEAH Ang
SUN Ta-Chien

Non-executive Directors

LI Weiqiang
CUI Hao
Alla Y ALENIKOVA
Brian Thomas MCCONVILLE

Independent Non-executive Directors

DUAN Xiongfei
LAU Cheong
Elizabeth Monk DALEY
WOO King Hang

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Li Weiqiang, Mr. Cui Hao and Mr. Duan Xiongfei will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

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

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

SEAH Ang, aged 39, joined the Group in 2013 as an executive vice president and was appointed as executive director and the chief executive officer of the Company on 29 September 2014. He was also appointed as acting chairman of the board of directors and the chairman of the executive committee of the Company on 4 June 2020 respectively. Mr. Seah is presently a member of the nomination committee and the remuneration committee of the Company, and the authorised representative of the Company for the acceptance of service of any process or notice required to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited, a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on the Stock Exchange.

SUN Ta-Chien, aged 54, was appointed as an executive director and a member of the executive committee of the Company on 24 December 2022. Dr. Sun is a professor of the Graduate School of Financial Management of CTBC Business School as well as a consultant of General Chamber of Commerce of the Republic of China and the director of Blockchain Application and Development Institute. He was a former member of the Legislative Yuan of Taiwan for over 10 years. Dr. Sun is experienced in financial technology and blockchain application and development.

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

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Non-executive Directors

LI Weiqiang, aged 52, was appointed as a non-executive director of the Company on 31 March 2022. Mr. Li is the executive vice general manager and the secretary of the board of directors of Poly Culture Group Corporation Limited ("Poly Culture", withdrawn of the listing of its H shares on the Stock Exchange from 4:00 pm on 14 November 2023 (formerly stock code: 3636)). He was an executive director of Poly Culture from 21 June 2019 to 2 November 2021. Poly Culture is interested in 532,360,000 shares in the Company. Mr. Li presently serves as the chairman of Poly Film Investment Corporation Limited, Shenzhen Poly Art Square Operations Management Co., Ltd., Shenzhen Poly Culture Development Co., Ltd. and Hainan International Culture and Artworks Exchange Co., Ltd. (海南國際文化藝術品交易中心股份有限公司), a director of Beijing Poly Theatre Management Corporation Limited, and a non-executive director of Straco Corporation Limited (新加坡星雅集團), the shares of which are listed on Singapore Exchange Limited (trading code: S85.SG).

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

CUI Hao, aged 35, was appointed as a non-executive director of the Company on 30 May 2019. Mr. Cui is currently the director of general office and international exchange of Poly Culture Group Corporation Limited ("Poly Culture", withdrawn of the listing of its H shares on the Stock Exchange from 4:00 pm on 14 November 2023 (formerly stock code: 3636)). He served in the board office and poly strategy research institute of China Poly Group Corporation. Mr. Cui is also a member of the 15th Dongcheng District, Beijing Municipal Committee of Chinese People's Political Consultative Conference (CPPCC). Mr. Cui holds a Master's Degree in School of English and International Studies – American Studies in Beijing Foreign Studies University, a Bachelor's Degree in English Language and Literature and Economics in Shanghai International Studies University and Shanghai University of International Business and Economics respectively.

Alla Y ALENIKOVA, aged 48, was appointed as a non-executive director of the Company on 9 November 2022. She has more than 20 years of experience in the financial sector. Ms. Alenikova worked for top institutions in various jurisdictions devising and implementing strategies and organising the livelihoods of ultra-high-net-worth individuals (UHNWIs) and their families. Ms. Alenikova is currently the chief executive officer and a board member of GS Finances AG, a multi-family office (MFO) based in Switzerland. She was appointed as a member of the board of managers of Digital Domain Capital Partners S.à r.l., the first subsidiary of the Company established in Europe, between January 2021 to October 2021. Ms. Alenikova's earlier experiences included high-level positions at UBS Wealth Management and Citi Private Bank (New York). Ms. Alenikova is currently a director and ultimate beneficial owner of Wisteria Heights Advisory AG.

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

Brian Thomas MCCONVILLE, aged 57, was appointed as a non-executive Director and a member of the remuneration committee of the Company on 28 June 2021. Mr. McConville is a senior level executive with 30 years' experience providing effective fiscal and operations management leadership to both new and expanding enterprises. He has a record of accomplishment of improving operations, impacting business growth and maximising profits through achievements in investment management, costs reductions, internal controls, and productivity/efficiency improvements. Mr. McConville has served in executive roles as chief executive officer, president, and vice chairman in areas including artificial intelligence, cloud-based technology, and media. He was also a managing principal in a U.S. based holding company focused on management of positions in listed European companies. Mr. McConville was an owner, president, and board member of Collectrium, LLC, which was successfully sold to Christies Auction House in 2015. He is also an avid art collector, with a focus on Asian contemporary works. Mr. McConville holds a Bachelor of Arts in Political Studies from Bard College.

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Independent Non-executive Directors

DUAN Xiongfei, aged 55, was appointed as an independent non-executive director of the Company on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. He was an independent non-executive director, the chairman of the nomination and corporate governance committee, and a member of the audit committee and remuneration committee of Huobi Technology Holdings Limited (now known as Sinohope Technology Holdings Limited), the shares of which are listed on the main board of the Stock Exchange (stock code: 1611), from October 2018 to April 2022. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from The University of Chicago. He has over 20 years of experience in securities trading and the investment industry. Mr. Duan is currently the investment manager of MIE Holdings Corporation, a company listed on the Stock Exchange (stock code: 1555). He joined Atlantis Investment Management as Fund Manager in 2010 and registered as a Commodity Trading Advisor (CTA) in the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC) in 2004.

LAU Cheong, aged 40, was appointed as an independent non-executive director of the Company on 21 July 2009 and is presently a member of the audit committee, the nomination committee and the remuneration committee of the Company. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the chief executive officer of Sino Jet Management Limited and the president of Ponticello International Group Incorporated.

Elizabeth Monk DALEY, aged 81, was appointed as an independent non-executive director of the Company on 20 July 2020. Dr. Daley has been the dean of the School of Cinematic Arts at the University of Southern California ("USC") since 1991. She is the inaugural holder of the Steven J. Ross/Time Warner Dean's Chair. Dr. Daley was also the founding executive director of the USC Annenberg Center for Communication from 1994 to 2005 and serves as the executive director of the USC Institute for Multimedia Literacy.

Before joining USC in 1989 as chair of the Film and Television Production Program, Dr. Daley had engaged in various positions in the entertainment industry, ranging from film and television producer to media consultant. She had also served on the board of the World Economic Forum's Global Agenda Council on Media, Entertainment and Information. Dr. Daley currently is an independent director and a member of the nominating and governance committee and the compensation committee of Avid Technology, Inc., the shares of which ceased trading prior to the opening of trading on 7 November 2023 and were delisted on The Nasdaq Global Select Market under symbol "AVID". In addition, she is a member of both the Directors Guild of America and the Academy of Motion Picture Arts and Sciences.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Independent Non-executive Directors (continued)

WOO King Hang, J.P., aged 62, was appointed as an independent non-executive Director and a member of each of the audit committee, remuneration committee and nomination committee of the Company on 28 June 2021. He has extensive experience in financial and business management. Mr. Woo is currently the vice chairman of the board of directors and a non-executive director of Centenary United Holdings Limited ("Centenary United"), an independent non-executive director, the chairman of audit committee and a member of corporate governance committee and remuneration committee of MOS House Group Limited ("MOS"), an independent non-executive director, a member of audit committee and nomination committee of Crocodile Garments Limited ("Crocodile") and a senior advisor of a technology start up company. Mr. Woo was an independent non-executive director of Hans Energy Company Limited ("Hans Energy") from June 2019 to December 2021.

Mr. Woo is a Justice of the Peace appointed by the Chief Executive of the HKSAR and an adjunct professor at the Department of Public and International Affairs, City University of Hong Kong.

Mr. Woo is a fellow member of each of the Institute of the Chartered Accountants in England and Wales, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Certified Public Accountants. He holds a Master's Degree of Business Administration from Kellogg School of Management, Northwestern University and the Hong Kong University of Science and Technology, a Bachelor's Degree of Laws from Peking University and a Master's Degree of Laws from the City University of Hong Kong.

Mr. Woo is an honorary officer of the Auxiliary Medical Service, an advisor of School of Chinese Medicine of the Chinese University of Hong Kong and a member of each of the Hospital Governing Committee, the Queen Elizabeth Hospital and Hong Kong Advisory Council on AIDS. He serves as a member of each of the Advisory Committee on Admission of Quality Migrants and Professionals and the Police Education and Welfare Trust Management Committee. He is a vice chairman of Hong Kong PHAB Association and the chairman of Kwun Tong District Senior Police Call Honorary President Council.

Mr. Woo was a project controller of NWS Service Management Limited from January 2019 to April 2019, and served as a financial controller and an executive director of Hip Hing Construction Company Limited from February 2006 to June 2010 and from July 2010 to December 2018 respectively, both companies being wholly-owned subsidiaries of NWS Holdings Limited ("NWSHL"). He was also a director of Bell Tea Overseas Limited ("BTO", formerly known as Hip Hing Overseas Limited) from 2 July 2010 to 18 October 2018. BTO was a wholly-owned subsidiary of NWSHL and incorporated in Hong Kong on 13 April 1993 and was principally engaged in the business of construction overseas. On 19 September 2018, a winding up order (the "Order") was granted by the High Court of Hong Kong (the "High Court") on BTO. On 5 July 2021, the High Court ordered that BTO be dissolved. Mr. Woo confirmed that the Order was in relation to the non-payment for a sum arising from an arbitration case involving contractual dispute relating to the construction works of a building in Dubai which commenced in or about 2007 and was completed in or about 2011 between the petitioner of the Order and a joint venture entity (the "BTO JV") in which BTO had 30% interests. An award (the "Award") was granted by an arbitration institution in Dubai in favor of the said petitioner, which then enforced the whole amount of the Award in the High Court against, among others, BTO. Mr. Woo further confirmed that he was not involved in any of the matters concerning the operations of the BTO JV, the construction works or the said arbitration or matters leading to the granting of the Order.

The shares of each of Centenary United (stock code: 1959), MOS (stock code: 1653), Crocodile (stock code: 122), Hans Energy (stock code: 554) and NWSHL (stock code: 659) are listed on the main board of the Stock Exchange.

SHARE OPTION SCHEME

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

(1) Purpose

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

(2) Participants

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

(3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the 2022 Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 432,902,762 Shares, representing approximately 5.43% of the Shares in issue as at the date of this annual report.

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

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

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

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

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

(i) 2012 Option Scheme

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

| Name and category of participants | Number of Options | | | | At 31 December 2023 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|-----------------------------------|-------------------------------|-------------------------|---------------------------|----------------------------------|---------------------|---------------|-----------------------------|---------------------------------|
| | At 1 January 2023 | Granted during the year | Exercised during the year | Cancelled/lapsed during the year | | | | |
| Director | | | | | | | | |
| Seah Ang | 10,000,000 (Notes 2 and 3) | - | - | - | 10,000,000 | 28/05/2014 | 28/05/2017 to 27/05/2024 | 0.98 |
| Employees of the Group | | | | | | | | |
| Zhou Jian | 15,000,000 (Notes 2 and 3) | - | - | - | 15,000,000 | 28/05/2014 | 28/05/2017 to 27/05/2024 | 0.98 |
| Fan Lei | 15,000,000 (Notes 2 and 3) | - | - | - | 15,000,000 | 28/05/2014 | 28/05/2017 to 27/05/2024 | 0.98 |
| Other employees, in aggregate | 34,473,000 (Note 2) | - | - | - | 34,473,000 | 28/05/2014 | 28/05/2017 to 27/05/2024 | 0.98 |
| | 2,099,000 (Note 4) | - | - | - | 2,099,000 | 06/05/2015 | 06/05/2015 to 05/05/2025 | 13.20 |
| | 2,000,000 (Note 4) | - | - | - | 2,000,000 | 06/05/2015 | 06/05/2016 to 05/05/2025 | 13.20 |
| | 1,900,000 (Note 4) | - | - | - | 1,900,000 | 06/05/2015 | 06/05/2017 to 05/05/2025 | 13.20 |
| | 9,150,006 (Note 5) | - | - | - | 9,150,006 | 29/01/2016 | 29/01/2016 to 28/01/2026 | 4.13 |
| | 8,149,998 (Note 5) | - | - | - | 8,149,998 | 29/01/2016 | 29/01/2017 to 28/01/2026 | 4.13 |
| | 7,583,327 (Note 5) | - | - | - | 7,583,327 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 4.13 |
| | 5,000,000 (Note 7) | - | - | - | 5,000,000 | 22/06/2016 | 22/06/2017 to 21/06/2026 | 4.95 |
| | 5,000,000 (Note 7) | - | - | - | 5,000,000 | 22/06/2016 | 22/06/2018 to 21/06/2026 | 4.95 |
| | 1,666,671 (Note 8) | - | - | - | 1,666,671 | 29/07/2016 | 29/07/2016 to 28/07/2026 | 5.66 |
| | 1,169,998 (Note 8) | - | - | - | 1,169,998 | 29/07/2016 | 29/07/2017 to 28/07/2026 | 5.66 |
| | 843,324 (Note 8) | - | - | - | 843,324 | 29/07/2016 | 29/07/2018 to 28/07/2026 | 5.66 |
| | 10,999,999 (Note 10) | - | - | - | 10,999,999 | 24/04/2019 | 24/04/2019 to 23/04/2029 | 1.30 |
| | 666,667 (Note 10) | - | - | - | 666,667 | 24/04/2019 | 29/02/2020 to 23/04/2029 | 1.30 |
| | 333,333 (Note 10) | - | - | - | 333,333 | 24/04/2019 | 24/04/2020 to 23/04/2029 | 1.30 |

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

(i) 2012 Option Scheme (continued)

| Name and category of participants | Number of Options | | | | At 31 December 2023 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|---|------------------------------|-------------------------|---------------------------|-----------------------------------|---------------------|---------------|-----------------------------|---------------------------------|
| | At 1 January 2023 | Granted during the year | Exercised during the year | Cancelled/ lapsed during the year | | | | |
| Employees of the Group (continued) | | | | | | | | |
| Other employees, in aggregate (continued) | 666,667 (Note 10) | - | - | - | 666,667 | 24/04/2019 | 28/02/2021 to 23/04/2029 | 1.30 |
| | 333,334 (Note 10) | - | - | - | 333,334 | 24/04/2019 | 24/04/2021 to 23/04/2029 | 1.30 |
| | 29,050,000 (Note 11) | - | - | - | 29,050,000 | 21/05/2020 | 21/05/2020 to 20/05/2030 | 0.46 |
| | 9,220,000 (Note 11) | - | - | - | 9,220,000 | 21/05/2020 | 21/05/2021 to 20/05/2030 | 0.46 |
| | 7,360,000 (Note 11) | - | - | - | 7,360,000 | 21/05/2020 | 21/05/2022 to 20/05/2030 | 0.46 |
| Others | | | | | | | | |
| Amit Chopra | 4,800,000 (Note 2) | - | - | - | 4,800,000 | 28/05/2014 | 28/05/2017 to 27/05/2024 | 0.98 |
| | 500,000 (Note 4) | - | - | - | 500,000 | 06/05/2015 | 06/05/2015 to 05/05/2025 | 13.20 |
| | 500,000 (Note 4) | - | - | - | 500,000 | 06/05/2015 | 06/05/2016 to 05/05/2025 | 13.20 |
| | 500,000 (Note 4) | - | - | - | 500,000 | 06/05/2015 | 06/05/2017 to 05/05/2025 | 13.20 |
| | 3,333,334 (Notes 5 and 6) | - | - | - | 3,333,334 | 29/01/2016 | 29/01/2016 to 28/01/2026 | 4.13 |
| | 3,333,333 (Notes 5 and 6) | - | - | - | 3,333,333 | 29/01/2016 | 29/01/2017 to 28/01/2026 | 4.13 |
| | 3,333,333 (Notes 5 and 6) | - | - | - | 3,333,333 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 4.13 |
| Wang Wei-Chung | 166,667 (Note 5) | - | - | - | 166,667 | 29/01/2016 | 29/01/2016 to 28/01/2026 | 4.13 |
| | 166,667 (Note 5) | - | - | - | 166,667 | 29/01/2016 | 29/01/2017 to 28/01/2026 | 4.13 |
| | 166,666 (Note 5) | - | - | - | 166,666 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 4.13 |

DIRECTORS' REPORT

SHARE OPTION SCHEME (CONTINUED)

(i) 2012 Option Scheme (continued)

| Name and category of participants | Number of Options | | | | At 31 December 2023 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|-----------------------------------|------------------------|-------------------------|---------------------------|----------------------------------|---------------------|---------------|-----------------------------|---------------------------------|
| | At 1 January 2023 | Granted during the year | Exercised during the year | Cancelled/lapsed during the year | | | | |
| Wei Ming | 30,000,000 (Note 9) | - | - | - | 30,000,000 | 13/02/2017 | 13/02/2017 to 12/02/2027 | 4.69 |
| Total | 224,465,324 | - | - | - | 224,465,324 | | | |

Notes:

- Options are valid for 10 years from the date of grant.
- Options granted on 28 May 2014 are exercisable with effect from the 3rd anniversary of the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.99 per share.
- The Options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on 28 May 2014 (i.e. the date of grant) were approved by the Shareholders at the special general meeting of the Company held on 23 July 2014.
- Each of one third of the Options granted to the grantees on 6 May 2015 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$13.90 per share.
- Each of one third of the Options granted to the grantees on 29 January 2016 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$4.00 per share.
- The Options conditionally granted to Mr. Amit Chopra on 29 January 2016 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 7 June 2016.
- 5,000,000 Options granted on 22 June 2016 are exercisable from each of the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$4.95 per share.
- Each of one third of the Options granted to the grantees on 29 July 2016 are exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$5.50 per share.

SHARE OPTION SCHEME (CONTINUED)

(i) 2012 Option Scheme (continued)

Notes: (continued)

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

(ii) 2022 Option Scheme

No share option under the 2022 Option Scheme was granted, exercised, cancelled or has lapsed during the year and since the date of adoption.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules were as follows:

Interests and short positions in the Shares and underlying Shares

| Name of Director | Capacity | Number of Shares held | Number of underlying Shares held | Total interests (Long/short positions) | Approximate percentage of the issued share capital |
|------------------|--|-----------------------|----------------------------------|--|--|
| Seah Ang | Interest of controlled corporation and beneficial owner (Notes 1 and 2) | 200,853,132 | 10,000,000 | 210,853,132 (Long position) | 2.86% |
| | Interest of controlled corporation (Note 1) | 50,213,479 | - | 50,213,479 (Short position) | 0.68% |

Notes:

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

Save as disclosed above, as at 31 December 2023, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix C3 to the Listing Rules.

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

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2023, which may also constitute connected transactions under the Listing Rules, are disclosed in note 36 to the consolidated financial statements.

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2023, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Interests and short positions in the Shares and underlying Shares

| Name | Capacity | Number of Shares held | Number of underlying Shares held | Total interests (Long/short positions) | Approximate percentage of the issued share capital |
|--|---|-----------------------|----------------------------------|--|--|
| Global Domain Investments Limited | Beneficial owner and deemed interest under section 317 of the SFO (Note 1) | 200,853,132 | - | 200,853,132 (Long position) | 2.72% |
| | Beneficial owner (Note 1) | 50,213,479 | - | 50,213,479 (Short position) | 0.68% |
| Seah Ang | Interest of controlled corporation and beneficial owner (Notes 1 and 2) | 200,853,132 | 10,000,000 | 210,853,132 (Long position) | 2.86% |
| | Interest of controlled corporation (Note 1) | 50,213,479 | - | 50,213,479 (Short position) | 0.68% |
| C Digital Libraries Inc. | Interest of controlled corporation (Note 3) | 838,806,000 | - | 838,806,000 (Long position) | 11.37% |
| Ng Clive Cheang Neng | Interest of controlled corporation (Note 3) | 838,806,000 | - | 838,806,000 (Long position) | 11.37% |
| Poly Culture Group Corporation Limited | Beneficiary of a trust (other than a discretionary interest) | 532,360,000 | - | 532,360,000 (Long position) | 7.21% |
| Jade Link Holdings Limited | Beneficial owner (Note 4) | 503,720,000 | - | 503,720,000 (Long position) | 6.83% |
| Tang Elaine Yilin | Interest of controlled corporation (Note 4) | 503,720,000 | - | 503,720,000 (Long position) | 6.83% |
| One Music Investment Co., Ltd. | Beneficial owner (Note 5) | 646,430,000 | - | 646,430,000 (Long position) | 8.76% |
| Chen Li-Pai | Interest of controlled corporation (Note 5) | 646,430,000 | - | 646,430,000 (Long position) | 8.76% |
| Chen Ling-Chuan | Interest of controlled corporation (Note 5) | 646,430,000 | - | 646,430,000 (Long position) | 8.76% |
| Allied Talent Global Limited | Beneficial owner (Note 6) | 528,966,000 | - | 528,966,000 (Long position) | 7.17% |
| Huang Chi-Cheng | Interest of controlled corporation (Note 6) | 528,966,000 | - | 528,966,000 (Long position) | 7.17% |

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

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

| Name | Capacity | Number of Shares held | Number of underlying Shares held | Total interests (Long/short positions) | Approximate percentage of the issued share capital |
|-----------------------------|--|-----------------------|----------------------------------|--|--|
| Delight On Group Limited | Beneficial owner (Note 7) | 510,000,000 | - | 510,000,000 (Long position) | 6.91% |
| Ding Jiann-Shing | Interest of controlled corporation (Note 7) | 510,000,000 | - | 510,000,000 (Long position) | 6.91% |
| Meiyin Investment Co., Ltd. | Beneficial owner (Note 8) | 580,000,000 | - | 580,000,000 (Long position) | 7.86% |
| Yu Li-Fu | Interest of controlled corporation (Note 8) | 580,000,000 | - | 580,000,000 (Long position) | 7.86% |
| Irobot Innovation Co., Ltd. | Beneficial owner (Note 9) | 565,450,000 | - | 565,450,000 (Long position) | 7.66% |
| Lu Wen-Der | Interest of controlled corporation (Note 9) | 565,450,000 | - | 565,450,000 (Long position) | 7.66% |
| Hsieh Shu Ying | Interest of controlled corporation (Note 9) | 565,450,000 | - | 565,450,000 (Long position) | 7.66% |

Notes:

- Global Domain Investments Limited was deemed to be interested in 200,853,132 Shares by holding 50,213,479 Shares and taking a deemed interest in 150,639,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
- Mr. Seah Ang holds 10,000,000 Options granted under the 2012 Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
- C Digital Libraries Inc. was deemed to be interested in 838,806,000 Shares held by Digital Knight Finance S.à r.l. which is 100% controlled by C Digital Libraries Inc. Mr. Ng Clive Cheang Neng was deemed to be interested in the above Shares by virtue of his 100% shareholding interest in C Digital Libraries Inc.
- Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in 503,720,000 Shares held by Jade Link Holdings Limited.
- One Music Investment Co., Ltd. is 99.97% and 0.03% controlled by Mr. Chen Li-Pai and by his spouse, Ms. Chen Ling-Chuan respectively. Mr. Chen Li-Pai and Ms. Chen Ling-Chuan were deemed to be interested in 646,430,000 Shares held by One Music Investment Co., Ltd.
- Allied Talent Global Limited is wholly-owned by Mr. Huang Chi-Cheng. Mr. Huang Chi-Cheng was deemed to be interested in 528,966,000 Shares held by Allied Talent Global Limited.
- Delight On Group Limited is wholly-owned by Mr. Ding Jiann-Shing. Mr. Ding Jiann-Shing was deemed to be interested in 510,000,000 Shares held by Delight On Group Limited.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

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

Notes: (continued)

8. Meiyin Investment Co., Ltd. is 99.95% controlled by Mr. Yu Li-Fu. Mr. Yu Li-Fu was deemed to be interested in 580,000,000 Shares held by Meiyin Investment Co., Ltd.
9. Irobot Innovation Co., Ltd. is 50% and 50% controlled by Mr. Lu Wen-Der and by his spouse, Ms. Hsieh Shu Ying respectively. Mr Lu Wen-Der and Ms. Hsieh Shu Ying were deemed to be interested in 565,450,000 Shares held by Irobot Innovation Co., Ltd.
10. The percentage of the issued share capital of the Company has been complied based on the total number of issued Shares as at 31 December 2023.

Save as disclosed above, as at 31 December 2023, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

| | |
|---------------------------------|-----|
| the largest supplier | 4% |
| five largest suppliers combined | 11% |

Sales

| | |
|---------------------------------|-----|
| the largest customer | 20% |
| five largest customers combined | 58% |

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

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

There was a banking facility (the "Facility") with the principal amount of HK\$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 31 December 2023, the outstanding loan principal of this Facility amounted to approximately HK\$4,909,000 and the original last monthly instalment repayment should be in the year 2014.

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

DIRECTORS' REPORT

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

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 41 to 51 of this annual report.

PRE-EMPTIVE RIGHTS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

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

For further details, please refer to the Environmental, Social and Governance Report which will be published as a separate report on the Company's website at www.digitaldomain.com and the website of the Stock Exchange at www.hkexnews.hk.

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

DIRECTORS' REPORT

COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)

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

For further details, please refer to the Environmental, Social and Governance Report which will be published as a separate report on the Company's website at www.digitaldomain.com and the website of the Stock Exchange at www.hkexnews.hk.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2023 is set out in the sections headed "Chairman's Statement" on pages 4 to 5 and "Chief Executive Officer's Review" on pages 6 to 40 of this annual report. An analysis of each of the Group's capital risk management and financial risk management is provided in notes 40 and 41 to the consolidated financial statements.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Mr. Li Weiqiang ("Mr. Li") held directorship in Poly Film Investment Corporation Limited (保利影業投資有限公司) ("Poly Film") and Poly Joy Spreader Digi-Entertainment (Beijing) Co., Ltd. (保利樂享文娛科技(北京)有限公司) ("Poly Joy"). Poly Film is a subsidiary of Poly Culture Group Corporation Limited ("Poly Culture"), which is interested in 532,360,000 shares in the Company, and involved in businesses of production, promotion and distribution of entertainment content while Poly Joy is majority controlled by Poly Culture through Poly Film and involved in production and distribution of film and television drama projects and exploration of virtual humans and digital assets businesses ("Such Companies").

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

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

EMOLUMENT POLICY

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

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

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

EQUITY-LINKED AGREEMENTS

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

MANAGEMENT CONTRACTS

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

REVIEW BY AUDIT COMMITTEE

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

INDEPENDENT AUDITOR

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

On behalf of the Board

Seah Ang

Executive Director and Chief Executive Officer

Hong Kong, 22 March 2024

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Digital Domain Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 77 to 159, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

KEY AUDIT MATTERS

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

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

As at 31 December 2023, the carrying amount of the Group's property, plant and equipment, right-of-use assets and goodwill and intangible assets amounted to HK\$34,562,000, HK\$76,711,000 and HK\$340,857,000 (collectively "non-financial assets"). The Group sustained a loss for the year ended 31 December 2023 and accordingly, management considered that there was indicator of impairment of the Group's non-financial assets.

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

INDEPENDENT AUDITOR'S REPORT

For the purpose of assessing impairment, these assets were allocated to respective cash generating units ("CGUs"). Impairment loss is recognised by which the carrying amount of a CGU exceeds its recoverable amount. Recoverable amount of each CGU is the higher of its fair value less costs of disposal and value-in-use. In measuring the CGUs' recoverable amounts, management, to their best estimate, had prepared cash flow projections with assumptions. Significant management judgement on assumptions with respect to the discount rate, revenue growth rates, forecasting periods was used. Based on the assessment, an impairment loss on goodwill of HK\$44,746,000 is recognised in profit or loss for the year ended 31 December 2023.

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

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

Our response:

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

- Understood and evaluated management's impairment assessment through discussion with the management and its external valuation specialist;
- Obtained the discounted cash flow analysis of the relevant CGUs prepared by the management and its external valuation specialist;
- Evaluated the competence and objectivity of the management's external valuation specialist;
- Discussed with the management's external valuation specialist to understand and evaluate the appropriateness of their valuation methodology;
- Engaged our internal valuation specialist to assist us in evaluating the management's impairment assessment methodology, the appropriateness of the discount rates used, the key assumptions applied and calculations contained;
- Assessed our internal valuation specialist's qualifications, experience and expertise and considered their objectivity and independence;
- Evaluated the historical accuracy of the discounted cash flow analysis made by the management and its external valuation specialist by comparing the historical analysis made against the actual performance of the Group; and
- Performed sensitivity analysis of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions.

INDEPENDENT AUDITOR'S REPORT

Impairment assessment of intangible asset – film rights

As at 31 December 2023, the carrying amount of the Group's film rights included in goodwill and intangible assets, before impairment assessment, amounted to HK\$104,423,000, which is significant to the total assets of the Group.

During the year, the film has been released in the USA and various locations in the world, with lower-than-expected box office results, which is an indication of impairment of the film right and accordingly directors of the Company conducted an impairment assessment on the film right as at 31 December 2023. For the purpose of assessing impairment, this asset was allocated to one CGU. Impairment loss is recognised by which the carrying amount of the CGU exceeds its recoverable amount. Recoverable amount of CGU is the higher of its fair value less costs of disposal and value-in-use. In measuring the CGU's recoverable amount, management, to their best estimate, had prepared cash flow projection with assumptions. Significant management judgement on assumptions with respect to the discount rates, estimated future cash flows, forecasting periods was used. Based on the assessment, an impairment loss of HK\$104,423,000 is recognised in profit or loss for the year ended 31 December 2023.

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

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

Our response:

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

- Understood and evaluated management's impairment assessment through discussion with the management;
- Obtained the discounted cash flow analysis of the relevant CGU prepared by the management;
- Discussed with the management to understand and evaluate the appropriateness of their valuation methodology;
- Challenged the reasonableness of key assumptions based on our knowledge of the business; and
- Reconciled input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of the forecast.

INDEPENDENT AUDITOR'S REPORT

Expected credit losses on amounts due from associates and other receivables

As at 31 December 2023, the Group had carrying amounts of amounts due from associates of HK\$28,406,000 and other receivables of HK\$44,407,000, respectively, net of accumulated allowance of expected credit losses of HK\$199,193,000 and HK\$83,708,000, respectively, which were significant to the Group's consolidated financial statements.

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

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

Refer to "Impairment loss on financial assets and contract assets" in summary of accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosures of interests in associates and trade receivables, other receivables and prepayments in note 17 and note 21 respectively and disclosures of credit risk management in note 41(a) to the consolidated financial statements.

Our response:

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

- Obtained an understanding of and evaluated the Group's credit policies;
- Evaluated the competence and objectivity of the management's external valuation specialist;
- Evaluated the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standards;
- Assessed, on sample basis, whether the amounts due from associates and other receivables were categorised in the appropriate ageing bracket by comparing individual items therein with relevant underlying documentation;
- Engaged our internal valuation specialist to assist us in assessing the methodologies and assumptions used by the management to calculate expected credit losses;
- Assessed our internal valuation specialist's qualifications, experience and expertise and considered their objectivity and independence;
- Evaluated management's impairment assessment on the default risk of these balances by challenging management's views of probability of default events of amounts outstanding;
- Challenged management's view of risk of default and loss given default of these balances by:
 - evaluated evidences including financial information, day past due information and credit rating of the underlying debtors available;
 - inquired and understood management's knowledge of future conditions that may impact expected receipts from the underlying debtors;
- Assessed the disclosures of the quantitative and qualitative considerations in relation to credit risks on these balances, by comparing these disclosures to our understanding of the matter; and
- Evaluated whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Limited

Certified Public Accountants

Chan Tsz Hung

Practising Certificate number: P06693

Hong Kong, 22 March 2024

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|--|--------------|------------------|------------------|
| Revenue | 6 | 736,501 | 958,651 |
| Cost of sales and services rendered | | (616,310) | (741,789) |
| Gross profit | | 120,191 | 216,862 |
| Other income and gains | 7 | 43,550 | 28,024 |
| Selling and distribution expenses | | (6,805) | (8,861) |
| Administrative expenses and other net operating expenses | | (434,370) | (401,294) |
| Finance costs | 9 | (35,335) | (28,372) |
| Fair value loss on financial assets measured at fair value through profit or loss | 20 | (8,318) | (24,430) |
| Fair value (loss)/gain on investment properties | 14 | (3,841) | 14,266 |
| Gain on disposal of subsidiaries | 37 | 2,456 | - |
| Impairment loss on goodwill | 16 | (44,746) | - |
| Impairment loss on intangible assets | 16 | (104,423) | - |
| (Recognition)/reversal of impairment loss on trade receivables and contract assets | 41(a) | (2,422) | 936 |
| Reversal/(recognition) of impairment loss on other receivables | 41(a) | 6,824 | (3,963) |
| Impairment loss on investment in a joint venture | | - | (71) |
| Impairment loss on amounts due from associates, net | 17 | (3,248) | (12,180) |
| Share of losses of associates | 17 | (2) | (2) |
| Share of losses of a joint venture | | (8) | - |
| Loss before taxation | 8 | (470,497) | (219,085) |
| Taxation | 11(a) | (5,279) | 3,820 |
| Loss for the year | | (475,776) | (215,265) |
| Loss attributable to: | | | |
| - Owners of the Company | | (394,571) | (206,320) |
| - Non-controlling interests | 31 | (81,205) | (8,945) |
| | | (475,776) | (215,265) |
| Loss per share attributable to the owners of the Company: | | | (Re-presented) |
| Basic and diluted | 12 | HK cents (6.48) | HK cents (4.24) |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|---|--------------|------------------|------------------|
| Loss for the year | | (475,776) | (215,265) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Currency translation differences | | 7,343 | (2,552) |
| Share of other comprehensive income of associates | 17 | - | 1 |
| Other comprehensive income for the year | | 7,343 | (2,551) |
| Total comprehensive income for the year | | (468,433) | (217,816) |
| Total comprehensive income attributable to: | | | |
| - Owners of the Company | | (387,031) | (210,164) |
| - Non-controlling interests | 31 | (81,402) | (7,652) |
| | | (468,433) | (217,816) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|--|--------------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | <i>13</i> | 34,562 | 50,919 |
| Investment properties | <i>14</i> | - | 24,668 |
| Right-of-use assets | <i>15</i> | 76,711 | 82,292 |
| Goodwill and intangible assets | <i>16</i> | 340,857 | 522,211 |
| Interests in associates | <i>17</i> | 28,406 | 30,048 |
| Interests in joint ventures | <i>18</i> | - | 8 |
| Loan to a joint venture | <i>19</i> | 916 | - |
| Financial assets measured at fair value through profit or loss | <i>20</i> | 31,719 | 41,349 |
| Deposits and consideration receivable | <i>21</i> | 18,279 | 10,239 |
| Deferred tax assets | <i>11(b)</i> | 1,746 | 1,551 |
| | | 533,196 | 763,285 |
| Current assets | | | |
| Trade receivables, other receivables and prepayments | <i>21</i> | 76,958 | 107,670 |
| Contract assets | <i>22(a)</i> | 7,915 | 2,536 |
| Tax recoverable | | - | 2,659 |
| Cash and cash equivalents and pledged bank deposits | <i>23</i> | 635,854 | 153,553 |
| | | 720,727 | 266,418 |
| Current liabilities | | | |
| Trade payables, other payables and accruals | <i>24</i> | 198,521 | 193,558 |
| Lease liabilities | <i>15</i> | 38,797 | 25,061 |
| Contract liabilities | <i>22(b)</i> | 51,668 | 53,624 |
| Borrowings | <i>25</i> | 104,719 | 149,016 |
| Tax payable | | 4,229 | 3,621 |
| | | 397,934 | 424,880 |
| Net current assets/(liabilities) | | 322,793 | (158,462) |
| Total assets less current liabilities | | 855,989 | 604,823 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|---|--------------|------------------|------------------|
| Non-current liabilities | | | |
| Borrowings | <i>25</i> | 246,019 | 192,846 |
| Lease liabilities | <i>15</i> | 58,159 | 75,508 |
| Deferred tax liabilities | <i>11(b)</i> | 44,478 | 43,450 |
| | | 348,656 | 311,804 |
| NET ASSETS | | | |
| | | 507,333 | 293,019 |
| Capital and reserves | | | |
| Share capital | <i>26</i> | 73,792 | 43,290 |
| Reserves | | 597,681 | 332,467 |
| Equity attributable to owners of the Company | | | |
| Non-controlling interests | <i>31</i> | (164,140) | (82,738) |
| TOTAL EQUITY | | | |
| | | 507,333 | 293,019 |

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2024 and are signed on its behalf by:

Seah Ang
DIRECTOR

Duan Xiongfei
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

| | Attributable to owners of the Company | | | | | | | | | Non-controlling interests | Total equity | |
|--|---------------------------------------|---------------|---------------|---------------------|-----------------------|------------------------------|---------------|--------------------|-------------|---------------------------|--------------|-----------|
| | Share capital | Share premium | FVOCI reserve | Contributed surplus | Share options reserve | Exchange fluctuation reserve | Other reserve | Accumulated losses | Total | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | | |
| Notes | (Note 26) | (Note 27(i)) | (Note 27(ii)) | (Note 27(iii)) | (Note 27(iv)) | (Note 27(v)) | (Note 27(vi)) | | | | | |
| As at 1 January 2022 | | 43,290 | 131,996 | (196,213) | 984,302 | 183,805 | (12,529) | 3,868 | (552,647) | 585,872 | (75,086) | 510,786 |
| Recognition of equity-settled share-based payment expenses | 28 | - | - | - | - | 49 | - | - | - | 49 | - | 49 |
| Total comprehensive income: | | | | | | | | | | | | |
| Loss for the year | | - | - | - | - | - | - | - | (206,320) | (206,320) | (8,945) | (215,265) |
| Currency translation differences | | - | - | - | - | - | (3,845) | - | - | (3,845) | 1,293 | (2,552) |
| Share of other comprehensive income of associates | 17 | - | - | - | - | - | 1 | - | - | 1 | - | 1 |
| Total comprehensive income for the year | | - | - | - | - | - | (3,844) | - | (206,320) | (210,164) | (7,652) | (217,816) |
| As at 31 December 2022 | | 43,290 | 131,996 | (196,213) | 984,302 | 183,854 | (16,373) | 3,868 | (758,967) | 375,757 | (82,738) | 293,019 |
| | Attributable to owners of the Company | | | | | | | | | Non-controlling interests | Total equity | |
| | Share capital | Share premium | FVOCI reserve | Contributed surplus | Share options reserve | Exchange fluctuation reserve | Other reserve | Accumulated losses | Total | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | | | |
| Note | (Note 26) | (Note 27(i)) | (Note 27(ii)) | (Note 27(iii)) | (Note 27(iv)) | (Note 27(v)) | (Note 27(vi)) | | | | | |
| As at 1 January 2023 | | 43,290 | 131,996 | (196,213) | 984,302 | 183,854 | (16,373) | 3,868 | (758,967) | 375,757 | (82,738) | 293,019 |
| Issue of shares on subscriptions, net of expenses | 26(a) | 30,502 | 652,245 | - | - | - | - | - | - | 682,747 | - | 682,747 |
| Total comprehensive income: | | | | | | | | | | | | |
| Loss for the year | | - | - | - | - | - | - | - | (394,571) | (394,571) | (81,205) | (475,776) |
| Currency translation differences | | - | - | - | - | - | 7,540 | - | - | 7,540 | (197) | 7,343 |
| Total comprehensive income for the year | | - | - | - | - | - | 7,540 | - | (394,571) | (387,031) | (81,402) | (468,433) |
| As at 31 December 2023 | | 73,792 | 784,241 | (196,213) | 984,302 | 183,854 | (8,833) | 3,868 | (1,153,538) | 671,473 | (164,140) | 507,333 |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|--|--------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Loss before taxation | | (470,497) | (219,085) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 8 | 25,453 | 37,760 |
| Depreciation of right-of-use assets | 8 | 42,508 | 30,303 |
| Amortisation of intangible assets | 8 | 63,607 | 35,061 |
| Loss on disposal of property, plant and equipment, net | 8 | 26 | 5,820 |
| Gain on disposal of subsidiaries | 37 | (2,456) | - |
| COVID-19-Related rent concessions | 7 | - | (1,703) |
| Effect of lease modification | 7 | (318) | (49) |
| Equity-settled share-based payment expenses | 8 | - | 49 |
| Net exchange losses | | 7,018 | 5,827 |
| Share of losses of associates | 17 | 2 | 2 |
| Share of losses of a joint venture | | 8 | - |
| Impairment loss on goodwill | 16 | 44,746 | - |
| Impairment loss on intangible assets | 16 | 104,423 | - |
| Impairment loss on investment in a joint venture | | - | 71 |
| Recognition/(reversal) of impairment loss on trade receivables and contract assets | 41(a) | 2,422 | (936) |
| (Reversal)/recognition of impairment loss on other receivables | 41(a) | (6,824) | 3,963 |
| Impairment loss on amounts due from associates | 17 | 3,248 | 12,180 |
| Fair value loss on financial assets measured at fair value through profit or loss | 20 | 8,318 | 24,430 |
| Fair value loss/(gain) on investment properties | 14 | 3,841 | (14,266) |
| Interest income | 7 | (6,835) | (2,131) |
| Finance costs | 9 | 35,335 | 28,372 |
| Operating loss before working capital changes | | (145,975) | (54,332) |
| Decrease in trade receivables, other receivables and prepayments | | 42,867 | 18,467 |
| (Increase)/decrease in contract assets | | (5,426) | 22,123 |
| (Decrease)/increase in trade payables, other payables and accruals | | (1,082) | 8,674 |
| Decrease in contract liabilities | | (1,956) | (33,083) |
| Cash used in operations | | (111,572) | (38,151) |
| Income tax paid | | (1,872) | (3,439) |
| Interest paid | | (17,107) | (13,576) |
| Net cash used in operating activities | | (130,551) | (55,166) |

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

| | <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|---|--------------|------------------|------------------|
| Cash flows from investing activities | | | |
| Interest received | | 6,296 | 732 |
| Purchases of property, plant and equipment | | (9,129) | (14,173) |
| Proceeds from disposal of property, plant and equipment | | 41 | 1,605 |
| Additions to intangible assets | | (30,289) | (25,206) |
| Advance to associates | | (2,534) | (7,569) |
| Repayment from an associate | | 926 | - |
| Advance to a joint venture | | (22) | - |
| Disposal of subsidiaries, net of cash disposed | <i>37</i> | 7,652 | - |
| Loan to a joint venture | <i>19</i> | (23,510) | - |
| Repayment of loan from a joint venture | <i>19</i> | 22,518 | - |
| Placement of pledged bank deposits | | (173,951) | (433,249) |
| Proceeds from redemption of pledged bank deposits | | 119,208 | 433,249 |
| Purchases of bonds | | (79,298) | - |
| Proceeds from disposal of bonds | | 81,731 | - |
| Net cash used in investing activities | | (80,361) | (44,611) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary shares, net of issuing expenses | <i>32</i> | 682,747 | - |
| New bank borrowings | | 70,542 | 22,561 |
| Repayment of bank borrowings | | (21,329) | (39,801) |
| Repayment of principal portion of lease liabilities | | (40,295) | (32,688) |
| Repayment of interest portion of lease liabilities | | (11,818) | (9,890) |
| New inception of other loans | | - | 86,302 |
| Repayment of other loans | | (40,705) | (14,147) |
| Net cash generated from financing activities | | 639,142 | 12,337 |
| Net increase/(decrease) in cash and cash equivalents | | 428,230 | (87,440) |
| Effect of foreign exchange rate changes | | (672) | (6,535) |
| Cash and cash equivalents at beginning of the year | | 36,480 | 130,455 |
| Cash and cash equivalents at end of the year | <i>23</i> | 464,038 | 36,480 |
| Analysis of the balances of cash and cash equivalents: | | | |
| Bank balances and cash | | 464,038 | 36,480 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and has its principal place of business at Suite 2005, 20/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

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

As at 31 December 2023, in the opinions of the directors of the Company (“the Directors”), the Company has no immediate and ultimate holding company or ultimate controlling party.

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

(a) Adoption of new or amended HKFRSs – effective on 1 January 2023

The HKICPA has issued a new and 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 HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform – Pillar Two Model Rules |
| HKFRS 17 | Insurance Contracts |

Except as disclosed below, none of these new or 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 new or amended HKFRSs that is not yet effective for the current accounting period.

Disclosure of Accounting Policies (Amendments to HKAS 1 Presentation of Financial Statements and HKFRS Practice Statement 2 Making Materiality Judgements)

The HKICPA issued HKFRS Practice Statement 2 Making Materiality Judgements in March 2021 to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. In April 2021, the HKICPA issued amendments to HKAS 1 and HKFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose ‘significant accounting policies’ with ‘material accounting policy information’. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements of the Group but affect the disclosure of accounting policies of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

(a) Adoption of new or amended HKFRSs – effective on 1 January 2023 (continued)

New Guidance on accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) was gazetted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers’ mandatory contributions under the mandatory provident fund (“MPF”) to offset severance payment (“SP”) and long service payments (“LSP”) (the “Abolition”). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 (the “Transition Date”). The following key changes will take effect since the Transition Date:

Accrued benefits derived from employers’ mandatory MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.

The pre-transition LSP/SP is calculated using the last month’s salary immediately preceding the Transition Date, instead of using the salary of employment termination date.

Due to the complexities of the accounting for the offsetting of employer’s MPF contributions and its LSP obligation and hence the impact arising from the Abolition, in July 2023 the HKICPA published ‘Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong’ (the “Guidance”) to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches, being:

Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee’s LSP benefits in terms of Hong Kong Accounting Standard 19.93(a)

Approach 2: Account for the employer’s MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation

To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its LSP liability and has applied the Approach 1 above retrospectively since the effective date of the Amendment Ordinance (i.e. June 2022). The application of the accounting policy does not have material impact on the Group’s financial statements for the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

(b) Amended HKFRSs that have been issued but are not yet effective and not early adopted

The following 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 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 ¹ |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements ¹ |
| Amendments to HKAS 21 | Lack of Exchangeability ² |

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

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date determined but available for adoption

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not believe that the amendments to HKAS 1 will have a significant impact on the classification of its liabilities. The Group does not expect any other standards issued by the HKICPA, but are yet to be effective, to have a material impact on the Group.

3. BASIS OF PREPARATION

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES

Associates

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

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

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

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

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

Property, plant and equipment

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

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

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

Impairment of non-financial assets (Other than goodwill)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Intangible assets and goodwill

(i) Goodwill

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

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

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

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

(ii) Acquired intangible assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Intangible assets and goodwill (continued)

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

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

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(vi) Derecognition of intangible assets

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

Financial instruments

(i) Financial assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(i) Financial assets (continued)

Debt instruments

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

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

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

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

Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

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

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

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

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

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

(iii) *Financial liabilities*

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

Financial liabilities at amortised cost

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(iv) *Effective interest method*

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

(v) *Equity instruments*

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

(vi) *Derecognition*

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

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

Leases

The Group as a lessee

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

Right-of-use assets

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

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

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

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

| | |
|-----------|---------------|
| Buildings | 2 to 10 years |
| Equipment | 2 to 5 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Lease liability

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

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

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

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

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

Employees' benefits

Short term employee benefits

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

Retirement benefit scheme

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Employees' benefits (continued)

Defined benefit plan obligations - LSP under the Hong Kong Employment Ordinance

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. For LSP obligations, the estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Group's MPF contributions that have been vested with employees, which are deemed to be contributions from the relevant employees.

Termination benefits

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

Share-based payments

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

(i) Services of visual effects production and post production

Revenue from the provision of services of visual effects production and post production is recognised over time, using the input method to measure progress towards complete satisfaction of the service, because (1) the Group's production works enhance assets that the customers control as the assets is enhanced; and (2) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs.

(ii) Licence fee income

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

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

(iii) Virtual human services

Revenue from the provision of virtual human services in connection with film-making is recognised over time, using the input method to measure progress towards complete satisfaction of the service, because (1) the Group's production works enhance assets that the customers control as the assets is enhanced; and (2) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(iii) *Virtual human services (continued)*

Revenue from the provision of virtual human services in connection with events or exhibitions is recognised at a point in time when the customer obtain control of the digital products. Factors to determine when the customer obtain control of the digital products include delivery documents and the goods have been delivered to and accepted by the customers.

(iv) *Sales of semiconductor memory chips*

Revenue arising from the sales of semiconductor memory chips is recognised at a point in time when the customer obtain control of the semiconductor memory chips. Factors to determine when the customer obtain control of the semiconductor memory chips include delivery documents and the goods have been delivered to and accepted by the customers.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

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

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

Impairment of non-financial assets (excluding film rights)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

Impairment of intangible asset - film rights

During the year, the film has been released in North America, Russia, Ukraine, Australia, New Zealand, Germany, Austria, etc. with lower-than-expected box office results. In determining whether the film rights included in intangible assets is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of this impairment, particularly in assessing:

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

Deferred tax

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

Provision for ECLs on trade receivables and contract assets

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

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

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

The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 21, 22(a) and 41(a) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

Impairment of amounts due from associates and other receivables

The loss allowances for amounts due from associates and other receivables are based on assumptions about risk of default of the underlying borrowers, which include assessment of creditworthiness, repayment history and days past due information of the underlying borrowers, and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 41(a).

Incremental borrowing rate on lease agreements

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

Useful lives of property, plant and equipment and intangible assets

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

Fair value measurements

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

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

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

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

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

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

The Group measures fair value of financial assets measured at FVTPL as detailed in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. REVENUE AND SEGMENT REPORTING

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| Provision of | | |
| - visual effects production and post production services | 697,167 | 933,714 |
| - virtual human services | 12,566 | 23,935 |
| - granting of licence for virtual reality contents | - | 1,002 |
| Sales of goods | 26,768 | - |
| | 736,501 | 958,651 |

Disaggregation of revenue from contracts with customers

| Segment | Media entertainment | | Trading | | Consolidated | |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 |
| Types of goods or service | | | | | | |
| Provision of | | | | | | |
| - visual effects production and post production services | 697,167 | 933,714 | - | - | 697,167 | 933,714 |
| - virtual human services | 12,566 | 23,935 | - | - | 12,566 | 23,935 |
| - granting of licence for virtual reality contents | - | 1,002 | - | - | - | 1,002 |
| Sales of goods | - | - | 26,768 | - | 26,768 | - |
| Total revenue from contracts with customers | 709,733 | 958,651 | 26,768 | - | 736,501 | 958,651 |

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Geographical markets | | |
| Hong Kong | 26,768 | 975 |
| The People's Republic of China (the "PRC") | 58,380 | 76,947 |
| The United States of America ("USA") | 249,928 | 316,265 |
| Canada | 391,306 | 546,929 |
| United Kingdom ("UK") | 1,837 | 13,685 |
| India | 8,190 | 3,126 |
| Other countries/regions | 92 | 724 |
| Total revenue from contracts with customers | 736,501 | 958,651 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

Disaggregation of revenue from contracts with customers (continued)

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Timing of revenue recognition | | |
| A point in time | 28,968 | 24,937 |
| Over time | 707,533 | 933,714 |
| Total revenue from contracts with customers | 736,501 | 958,651 |

(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. During the year, the Group commenced the business engaging in sales of semiconductor memory chips in Hong Kong, and it is considered as a new operating and reportable segment by the chief operating decision-makers.

The following summary describes the operations in the Group's two reportable segments, media entertainment and trading:

- provision of visual effects production and post production services, virtual human services, and granting of licence for virtual reality contents ("Media entertainment")
- sales of semiconductor memory chips ("Trading")

Management monitors the results of its operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss)/gains, 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, reversal/(recognition) of impairment loss on other receivables, share of losses of a joint venture, impairment loss on amounts due from associates, impairment loss on investment in a joint venture, fair value loss on financial assets measured at FVTPL, fair value (loss)/gain on investment properties, loss on disposal of unallocated property, plant and equipment, gain on disposal of subsidiaries, share of losses of associates, auditor's remuneration, depreciation of unallocated property, plant and equipment and depreciation of unallocated right-of-use assets, professional fees, unallocated finance costs, equity-settled share-based payment expenses, unallocated short-term lease expenses, unallocated other income and gains or losses (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, loan to a joint venture, 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, borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Reportable segment (continued)

| | Media entertainment | | Trading | | Consolidated | |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 |
| Revenue from external customers and reportable segment revenue | 709,733 | 958,651 | 26,768 | - | 736,501 | 958,651 |
| Reportable segment (loss)/gains | (324,385) | (100,960) | 3,297 | - | (321,088) | (100,960) |
| Additions to non-current assets | 77,897 | 95,360 | - | - | 77,897 | 95,360 |
| Depreciation and amortisation | (129,386) | (97,504) | - | - | (129,386) | (97,504) |
| Finance costs | (11,401) | (9,604) | - | - | (11,401) | (9,604) |
| Impairment loss on goodwill | (44,746) | - | - | - | (44,746) | - |
| Impairment loss on intangible assets | (104,423) | - | - | - | (104,423) | - |
| Recognition of impairment loss on other receivables | (1,226) | - | - | - | (1,226) | - |
| Loss on disposal of property, plant and equipment, net | (26) | (4,188) | - | - | (26) | (4,188) |
| Taxation (charged)/credited | (5,238) | 3,895 | - | - | (5,238) | 3,895 |
| Reportable segment assets | 682,080 | 782,143 | 26,827 | - | 708,907 | 782,143 |
| Reportable segment liabilities | 285,263 | 290,340 | 11 | - | 285,274 | 290,340 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Loss before taxation | | |
| Segment loss | (321,088) | (100,960) |
| Reversal/(recognition) of impairment loss on other receivables | 8,050 | (3,963) |
| Impairment loss on investment in a joint venture | - | (71) |
| Impairment loss on amounts due from associates | (3,248) | (12,180) |
| Fair value loss on financial assets measured at FVTPL | (8,318) | (24,430) |
| Fair value (loss)/gain on investment properties | (3,841) | 14,266 |
| Gain on disposal of subsidiaries | 2,456 | - |
| Loss on disposal of unallocated property, plant and equipment | - | (1,632) |
| Share of losses of associates | (2) | (2) |
| Share of losses of a joint venture | (8) | - |
| Auditor's remuneration | (2,442) | (2,361) |
| Depreciation of unallocated property, plant and equipment and depreciation of unallocated right-of-use assets | (2,182) | (5,620) |
| Professional fees | (70,246) | (34,778) |
| Unallocated finance costs | (23,934) | (18,768) |
| Equity-settled share-based payment expenses | - | (49) |
| Unallocated short-term lease expenses | (161) | (741) |
| Unallocated other income and gains | 21,351 | 23,971 |
| Other unallocated corporate expenses* | (66,884) | (51,767) |
| Consolidated loss before taxation | (470,497) | (219,085) |

* 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.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Assets | | |
| Reportable segment assets | 708,907 | 782,143 |
| Investment properties | - | 24,668 |
| Interests in associates | 28,406 | 30,048 |
| Interests in joint ventures | - | 8 |
| Loan to a joint venture | 916 | - |
| Financial assets measured at FVTPL | 31,719 | 41,349 |
| Unallocated cash and cash equivalents and pledged bank deposits | 460,525 | 120,841 |
| Unallocated corporate assets | 23,450 | 30,646 |
| Consolidated total assets | 1,253,923 | 1,029,703 |
| Liabilities | | |
| Reportable segment liabilities | 285,274 | 290,340 |
| Tax payable | 4,229 | 3,621 |
| Deferred tax liabilities | 44,478 | 43,450 |
| Borrowings | 350,738 | 341,862 |
| Unallocated corporate liabilities | 61,871 | 57,411 |
| Consolidated total liabilities | 746,590 | 736,684 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------------|------------------|------------------|
| Hong Kong | 26,768 | 975 |
| The PRC | 58,380 | 76,947 |
| USA | 249,928 | 316,265 |
| Canada | 391,306 | 546,929 |
| UK | 1,837 | 13,685 |
| India | 8,190 | 3,126 |
| Other countries/regions | 92 | 724 |
| | 736,501 | 958,651 |

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

(ii) Specified Non-current Assets

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-----------------------|------------------|------------------|
| Hong Kong | 33,055 | 37,113 |
| The PRC | 55,793 | 113,495 |
| Other regions of Asia | 10,553 | 13,653 |
| USA and Canada | 381,135 | 545,885 |
| | 480,536 | 710,146 |

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

(d) Major customers

The Group's customer base is diversified and there was three customers (2022: two) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenue as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|------------|------------------|------------------|
| Customer A | 146,723 | N/A ¹ |
| Customer B | 105,819 | N/A ¹ |
| Customer C | 82,209 | N/A ¹ |
| Customer D | - | 242,315 |
| Customer E | - | 190,655 |

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(e) Revenue

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|----------------------|------------------|------------------|
| Trade receivables | 37,397 | 45,140 |
| Contract assets | 7,915 | 2,536 |
| Contract liabilities | 51,668 | 53,624 |

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.

7. OTHER INCOME AND GAINS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Income arising from broadcasting movies and TV dramas | 34,221 | 4,053 |
| Interest income | 6,835 | 1,531 |
| Government subsidies (<i>Note</i>) | 333 | 17,664 |
| Effect of lease modification | 318 | 49 |
| COVID-19-Related rent concessions | - | 1,703 |
| Imputed interest on consideration receivable | - | 600 |
| Others | 1,843 | 2,424 |
| | 43,550 | 28,024 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

8. LOSS BEFORE TAXATION

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| This is arrived at after charging: | | |
| Cost of sales and services rendered (<i>Note</i>) | 616,310 | 741,789 |
| Loss on disposal of property, plant and equipment, net | 26 | 5,820 |
| Exchange differences, net | 12,410 | 840 |
| Auditor's remuneration: | | |
| - audit services | 2,239 | 2,107 |
| - non-audit services | 203 | 254 |
| Depreciation of property, plant and equipment (<i>Note</i>) | 25,453 | 37,760 |
| Depreciation of right-of-use assets (<i>Note</i>) | 42,508 | 30,303 |
| Amortisation of intangible assets (<i>Note</i>) | 63,607 | 35,061 |
| Short-term lease expenses | 615 | 2,203 |
| Staff costs (<i>Note</i>): | | |
| - Directors' remuneration (<i>Note 10</i>) | 5,783 | 4,030 |
| - Other staff costs: | | |
| Salaries, wages and other benefits | 602,298 | 768,166 |
| Retirement benefit scheme contributions | 11,235 | 15,012 |
| Equity-settled share-based payment expenses | - | 49 |
| Total staff costs | 619,316 | 787,257 |

Note:

Cost of sales and services rendered include HK\$484,023,000 (2022: HK\$615,066,000) 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.

9. FINANCE COSTS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Imputed interest on lease liabilities (<i>Note 15</i>) | 11,818 | 9,890 |
| Interest on bank and other loans | 23,517 | 18,482 |
| | 35,335 | 28,372 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration is analysed as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Fees: | | |
| Executive director | 918 | 20 |
| Independent non-executive directors | 829 | 829 |
| Non-executive directors | 470 | 470 |
| | 2,217 | 1,319 |
| Other emoluments paid to executive directors: | | |
| Salaries and other benefits | 3,548 | 2,697 |
| Retirement benefit scheme contributions | 18 | 14 |
| | 3,566 | 2,711 |
| | 5,783 | 4,030 |

No directors waived any remuneration in respect of the years ended 31 December 2023 and 2022.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Seah Ang | | |
| - Salaries and other benefits | 3,548 | 2,697 |
| - Retirement benefit scheme contribution | 18 | 14 |
| | 3,566 | 2,711 |
| Sun Ta-Chien (Appointed on 24 December 2022) | | |
| - Fee | 918 | 20 |
| Brian Thomas McConville | | |
| - Fee | 470 | 470 |
| Lau Cheong | | |
| - Fee | 156 | 156 |
| Duan Xiongfei | | |
| - Fee | 156 | 156 |
| Woo King Hang | | |
| - Fee | 156 | 156 |
| Elizabeth Monk Daley | | |
| - Fee | 361 | 361 |
| Cui Hao | | |
| - Fee | - | - |
| Li Weiqiang (Appointed on 31 March 2022) | | |
| - Fee | - | - |
| Alla Y Alenikova (Appointed on 9 November 2022) | | |
| - Fee | - | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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

Five highest paid employees

The five highest paid individuals of the Group included one Director (2022: Nil). The remuneration of the remaining four (2022: five) highest paid employees, other than the Directors, is as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits | 15,704 | 19,330 |
| Retirement benefit scheme contributions | 33 | 29 |
| | 15,737 | 19,359 |

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

| | 2023 | 2022 |
|--------------------------------|------|------|
| HK\$3,000,001 to HK\$3,500,000 | 1 | 1 |
| HK\$3,500,001 to HK\$4,000,000 | 1 | 2 |
| HK\$4,000,001 to HK\$4,500,000 | 2 | 2 |

11. TAXATION

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

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--|-------|------------------|------------------|
| Current taxation - Hong Kong profits tax | | - | - |
| Current taxation - Overseas tax | | | |
| - provision for the year | | 3,668 | (731) |
| - under/(over)-provision in respect of prior years | | 1,815 | (2,098) |
| Deferred taxation | 11(b) | (204) | (991) |
| | | 5,279 | (3,820) |

During the year ended 31 December 2023, the Group utilised tax loss of HK\$707,000 to set off assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made for the year ended 31 December 2022 as there was no assessable profits arising in Hong Kong.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

11. TAXATION (CONTINUED)

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

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Loss before taxation | (470,497) | (219,085) |
| Taxation calculated at applicable rates of Hong Kong profits tax | (77,632) | (36,149) |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | (17,636) | (11,137) |
| Tax effect of expenses not deductible for tax purposes | 66,154 | 57,975 |
| Tax effect of income not assessable for tax purposes | (3,300) | (18,510) |
| Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences | (126) | (993) |
| Tax effect of unrecognised tax losses and temporary differences | 36,004 | 7,092 |
| Under/(over)-provision in respect of prior years | 1,815 | (2,098) |
| Taxation for the year | 5,279 | (3,820) |

(b) Deferred taxation

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

| | Notes | Accelerated tax depreciation HK\$'000 | Fair value arising from business combination HK\$'000 | Total HK\$'000 |
|---|-------|---|---|-------------------|
| As at 1 January 2022 | | 681 | (46,530) | (45,849) |
| Credited to profit or loss for the year | 11(a) | 991 | - | 991 |
| Exchange realignment | | (121) | 3,080 | 2,959 |
| As at 31 December 2022 and 1 January 2023 | | 1,551 | (43,450) | (41,899) |
| Credited to profit or loss for the year | 11(a) | 204 | - | 204 |
| Exchange realignment | | (9) | (1,028) | (1,037) |
| As at 31 December 2023 | | 1,746 | (44,478) | (42,732) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

11. TAXATION (CONTINUED)

(b) Deferred taxation (continued)

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax liabilities | (44,478) | (43,450) |
| Deferred tax assets | 1,746 | 1,551 |
| | (42,732) | (41,899) |

At the end of reporting period, the Group had unused tax losses of HK\$1,772,986,000 (2022: HK\$1,667,334,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2022: No deferred tax asset has been recognised in respect of such losses) due to the unpredictability of future profit streams. As at 31 December 2023, included in unrecognised tax losses are losses of HK\$195,973,000 (2022: HK\$213,709,000), HK\$4,128,000 (2022: HK\$4,128,000) and HK\$1,434,588,000 (2022: HK\$1,311,538,000) that will expire in 5 years, 17 years and 20 years, respectively, from the respective dates of incurrence; and the remaining balance of HK\$138,297,000 (2022: HK\$137,959,000) will be available to offset the future profit indefinitely.

12. LOSS PER SHARE

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Loss for the year attributable to owners of the Company for the purpose of basic loss per share | (394,571) | (206,320) |

| | 2023 | 2022 (Re-presented) |
|--|---------------|------------------------|
| <i>Number of shares</i> | | |
| Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted (Note) | 6,092,812,952 | 4,865,827,051 |

Note: The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the bonus elements in the issue of shares through share subscriptions on 3 May 2023, 20 June 2023, 29 December 2023 and 24 January 2024 with details set out in notes 26(a) and 39.

For the years ended 31 December 2023 and 2022, since the share options outstanding had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options were not assumed in the computation of diluted loss per share.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

13. PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixtures and equipment HK\$'000 | Machineries HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|---|---|-------------------------|---|-------------------|
| COST | | | | |
| As at 1 January 2022 | 297,913 | 6,595 | 931 | 305,439 |
| Additions | 14,058 | 115 | - | 14,173 |
| Disposals | (43,603) | - | - | (43,603) |
| Exchange realignment | (14,137) | (293) | 1 | (14,429) |
| As at 31 December 2022 and 1 January 2023 | 254,231 | 6,417 | 932 | 261,580 |
| Additions | 9,129 | - | - | 9,129 |
| Disposals | (88) | (526) | - | (614) |
| Transfer | 932 | - | (932) | - |
| Exchange realignment | 522 | (16) | - | 506 |
| As at 31 December 2023 | 264,726 | 5,875 | - | 270,601 |
| ACCUMULATED DEPRECIATION | | | | |
| As at 1 January 2022 | 215,695 | 5,953 | - | 221,648 |
| Depreciation charge for the year | 37,420 | 340 | - | 37,760 |
| Disposals | (36,178) | - | - | (36,178) |
| Exchange realignment | (12,308) | (261) | - | (12,569) |
| As at 31 December 2022 and 1 January 2023 | 204,629 | 6,032 | - | 210,661 |
| Depreciation charge for the year | 25,303 | 150 | - | 25,453 |
| Disposals | (21) | (526) | - | (547) |
| Exchange realignment | 482 | (10) | - | 472 |
| As at 31 December 2023 | 230,393 | 5,646 | - | 236,039 |
| NET CARRYING AMOUNT | | | | |
| As at 31 December 2023 | 34,333 | 229 | - | 34,562 |
| As at 31 December 2022 | 49,602 | 385 | 932 | 50,919 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

14. INVESTMENT PROPERTIES

| | Note | 2023 HK\$'000 | 2022 HK\$'000 |
|--------------------------|------|------------------|------------------|
| As at 1 January | | 24,668 | - |
| Addition | | - | 10,402 |
| Change in fair value | | (3,841) | 14,266 |
| Disposal of subsidiaries | 37 | (20,884) | - |
| Exchange realignment | | 57 | - |
| As at 31 December | | - | 24,668 |

During the year ended 31 December 2022, 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 20 November 2023 (disposal date of the investment properties) and 31 December 2022 by the management and Knight Frank Asset Appraisal Limited ("KF"), an independent firm of professionally qualified valuers, respectively, with recent experience valuing investment properties in the location held by the Group.

These valuations gave rise to fair value loss of HK\$3,841,000 during the year (2022: gain of HK\$14,266,000).

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\$766.7 to US\$861.1 (equivalent to approximately from HK\$5,987.5 to HK\$6,725.1) (2022: from US\$760.4 to US\$1,166.7 (equivalent to approximately from HK\$5,935.9 to HK\$9,107.6)) with an average of US\$817.2 (equivalent to approximately of HK\$6,381.9) (2022: ranging from US\$825 to US\$1,025 (equivalent to approximately of HK\$6,440.2 to HK\$8,001.5)). Premium of approximately ranging from 1.6% and 6.4% specific to the location of the Group's residential properties located in the USA compared to recent sales on the comparable transactions was included in the valuation of the fair value of the investment properties as at 31 December 2022.

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 or losses recognised in consolidated income statement for the years arise from the investment properties held at the end of the reporting period or at the date of disposal.

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

On 20 November 2023, the Group disposed of the investment properties through disposal of subsidiaries. Details are set out in note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

15. LEASES

Nature of leasing activities (as lessee)

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

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

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

RIGHT-OF-USE ASSETS

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

| | Buildings HK\$'000 | Equipment HK\$'000 | Total HK\$'000 |
|---|-----------------------|-----------------------|-------------------|
| As at 1 January 2022 | 54,194 | 2,120 | 56,314 |
| Additions | 59,692 | 182 | 59,874 |
| Depreciation charge | (28,817) | (1,486) | (30,303) |
| Effect of lease modification | (151) | - | (151) |
| Exchange realignment | (3,347) | (95) | (3,442) |
| As at 31 December 2022 and 1 January 2023 | 81,571 | 721 | 82,292 |
| Additions | 38,635 | - | 38,635 |
| Depreciation charge | (41,992) | (516) | (42,508) |
| Effect of lease modification | (1,724) | - | (1,724) |
| Exchange realignment | 22 | (6) | 16 |
| As at 31 December 2023 | 76,512 | 199 | 76,711 |

LEASE LIABILITIES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-----------------------------------|------------------|------------------|
| As at 1 January | 100,569 | 78,919 |
| Additions | 38,635 | 59,869 |
| Interest expense | 11,818 | 9,890 |
| COVID-19-Related rent concessions | - | (1,703) |
| Lease payments | (52,113) | (42,578) |
| Effect of lease modification | (2,042) | (200) |
| Exchange realignment | 89 | (3,628) |
| As at 31 December | 96,956 | 100,569 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

15. LEASES (CONTINUED)

LEASE LIABILITIES (continued)

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

Future lease payments are due as follows:

| As at 31 December 2023 | Minimum lease payments HK\$'000 | Interest HK\$'000 | Present value HK\$'000 |
|--|------------------------------------|----------------------|---------------------------|
| Not later than one year | 46,161 | 7,364 | 38,797 |
| Later than one year and not later than two years | 36,924 | 3,884 | 33,040 |
| Later than two years and not later than five years | 25,827 | 1,727 | 24,100 |
| Later than five years | 1,057 | 38 | 1,019 |
| | 109,969 | 13,013 | 96,956 |

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

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------------|------------------|------------------|
| Current liabilities | 38,797 | 25,061 |
| Non-current liabilities | 58,159 | 75,508 |
| | 96,956 | 100,569 |

The total cash outflow for leases for the year ended 31 December 2023 was HK\$52,728,000 (2022: HK\$44,781,000).

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FOR THE YEAR ENDED 31 DECEMBER 2023

16. GOODWILL AND INTANGIBLE ASSETS

| | Goodwill HK\$'000 (Note (a)) | Trademarks HK\$'000 (Note (b)) | Proprietary software HK\$'000 (Note (c)) | Participation rights HK\$'000 (Note (d)) | Patents HK\$'000 (Note (e)) | Licences for intellectual property rights HK\$'000 (Note (f)) | Film rights HK\$'000 (Note (g)) | Total HK\$'000 |
|---|------------------------------------|--------------------------------------|---|---|-----------------------------------|--|---------------------------------------|-------------------|
| COST | | | | | | | | |
| As at 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 and 1 January 2023 | 690,049 | 19,516 | 249,831 | 382,267 | 107,922 | 10,938 | 128,499 | 1,589,022 |
| Additions | - | - | 28,635 | - | - | - | 1,654 | 30,289 |
| Write off | - | - | - | (58,891) | - | (10,938) | - | (69,829) |
| Exchange realignment | (142) | 9 | 1,762 | 117 | 1,424 | - | 58 | 3,228 |
| As at 31 December 2023 | 689,907 | 19,525 | 280,228 | 323,493 | 109,346 | - | 130,211 | 1,552,710 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS | | | | | | | | |
| As at 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 and 1 January 2023 | 395,708 | - | 170,146 | 382,267 | 107,922 | 10,768 | - | 1,066,811 |
| Amortisation for the year | - | - | 37,331 | - | - | 170 | 26,106 | 63,607 |
| Impairment for the year | 44,746 | - | - | - | - | - | 104,423 | 149,169 |
| Write off | - | - | - | (58,891) | - | (10,938) | - | (69,829) |
| Exchange realignment | - | - | 872 | 117 | 1,424 | - | (318) | 2,095 |
| As at 31 December 2023 | 440,454 | - | 208,349 | 323,493 | 109,346 | - | 130,211 | 1,211,853 |
| CARRYING AMOUNT | | | | | | | | |
| As at 31 December 2023 | 249,453 | 19,525 | 71,879 | - | - | - | - | 340,857 |
| As at 31 December 2022 | 294,341 | 19,516 | 79,685 | - | - | 170 | 128,499 | 522,211 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes:

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|------------------------------------|------------------|------------------|
| Visual effects production services | 209,013 | 209,155 |
| Post production services | 85,186 | 85,186 |
| | 294,199 | 294,341 |

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

The recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to professional valuation reports issued by KF.

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 2022.

The cash flow projections beyond the budget period are extrapolated using a growth rate of 2.0% to 2.5% (2022: 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:

| 2023 | Visual effects production services CGU | Post production services CGU |
|--|---|---------------------------------|
| Average revenue growth rate within budget period | 14.4% | 3.6% |
| Pre-tax discount rate | 18.7% | 13.9% |
| Average gross margin | 21.5% | 47.5% |
| Recoverable amount (HK\$'000) | 555,266 | 81,663 |

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(a) (continued)

(i) Visual effects production services CGU

As at 31 December 2023, the recoverable amount for the visual effects production services CGU is HK\$555,266,000 (2022: HK\$806,262,000). The recoverable amount is significantly above the carrying amount of the visual effects production CGU. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

Sensitivity of value in use to reasonable possible changes in key assumptions:

| <i>Key assumptions</i> | <i>Sensitivity</i> |
|------------------------|---|
| Pre-tax discount rate | If the pre-tax discount rate is 0.5% higher/lower, while all other variables were held constant, the recoverable amount would decrease by HK\$22,439,000 and increase by HK\$23,976,000 (2022: decrease by HK\$31,295,000 and increase by HK\$33,122,000) respectively. |
| Long-term growth rate | If the long-term growth rate is 0.5% higher/lower, while all other variables were held constant, the recoverable amount would increase by HK\$13,563,000 and decrease by HK\$12,753,000 (2022: increase by HK\$18,344,000 and decrease by HK\$17,260,000) respectively. |

The recoverable amount is significantly above the carrying amounts of the visual effects production services CGU. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

(ii) Post production services CGU

As at 31 December 2023, the recoverable amount for the post production services CGU is HK\$81,663,000 (2022: HK\$226,785,000). During 2023, the number of projects from post production services CGU decreased. Management is of the opinion that the possibility for increment of the number of projects to a higher level is remote. Accordingly, impairment loss on the related goodwill of HK\$44,746,000 for post production services CGU was recognised in profit or loss during the year ended 31 December 2023.

Sensitivity of value in use to reasonable possible changes in key assumptions:

| <i>Key assumptions</i> | <i>Sensitivity</i> |
|------------------------|---|
| Pre-tax discount rate | If the pre-tax discount rate is 0.5% higher/lower, while all other variables were held constant, the recoverable amount would decrease by HK\$3,456,000 and increase by HK\$3,758,000 (2022: decrease by HK\$6,825,000 and increase by HK\$7,317,000) respectively. |
| Long-term growth rate | If the long-term growth rate is 0.5% higher/lower, while all other variables were held constant, the recoverable amount would increase by HK\$2,281,000 and decrease by HK\$2,097,000 (2022: increase by HK\$4,040,000 and decrease by HK\$3,769,000) respectively. |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

- (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 had not been renewed and therefore expired during the year ended 31 December 2022. 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 Group renewed the other trademark during the year. 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 2023, the other trademark is allocated to the Group's visual effects production services CGU for the purpose of impairment testing.

- (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. Accumulated 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 years.

- (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, there was only one film under production. The film is internally produced by the Group which is entitled to all retained profit generated from the film right, after sharing with producers and other independent parties of certain percentages specified in the agreements between the Group and those parties.

During the year ended 31 December 2023, the film has been released in the USA and various locations in the world. Accordingly, amortisation of the capitalised production costs associated with the film right commenced over its useful life of 5 years during the year. As at 31 December 2023, based on the lower-than-expected box office results following the release of the film which would have represented the main source of net cash inflow for the film (similar to other theatrically released films), the Directors have determined that it is unlikely that the Group would be able to recover the remainder of the capitalised production costs after amortisation. The Directors have carried out the impairment testing on the film rights. The recoverable amount of this asset has been determined based on the value in use calculation. The calculation uses cash flow projections based on latest revised financial budgets approved covering a 5-year period. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted broadcasting income, such estimation is based on the asset's past performance and management's expectations for the market development. An impairment loss in respect of the film rights of HK\$104,423,000 is recognised in profit or loss for the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

17. INTERESTS IN ASSOCIATES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Share of net assets | 579 | 580 |
| Amounts due from associates (<i>Note</i>) | 227,020 | 227,116 |
| | 227,599 | 227,696 |
| Less: Accumulated impairment loss on amounts due from associates | (199,193) | (197,648) |
| | 28,406 | 30,048 |

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.

As at 31 December 2023 and 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.

Impairment loss on amounts due from associates of HK\$3,248,000 (2022: HK\$12,180,000) including net share of losses of HK\$1,680,000 (2022: HK\$12,180,000) recognised in excess of investment in associates, were recognised for the year ended 31 December 2023. The impairment loss on amounts due from associates comprise of the followings:

- (i) During the year ended 31 December 2023, the Group received a repayment of HK\$926,000 from Lead Turbo Group. Accordingly, a reversal of impairment loss of HK\$926,000 (2022: impairment loss of HK\$6,776,000) in interest in Lead Turbo Group was recognised in profit or loss for the year ended 31 December 2023.
- (ii) The Group advanced HK\$2,494,000 to DD Space (Beijing) during the year ended 31 December 2023. Management assessed the ECL of the amount due from DD Space (Beijing) and recognised an impairment of HK\$2,494,000 (2022: HK\$3,966,000) for the year ended 31 December 2023.
- (iii) The Group recognised share of losses for the year of HK\$1,680,000 (2022: HK\$1,438,000) on the Group's long-term interest in Digital Domain Virtual Human Group, in excess of its investment in the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

17. INTERESTS IN ASSOCIATES (CONTINUED)

Details of the Group's unlisted material associates are as follows:

| Name of associate | Form of business structure | Place of incorporation and business | Particulars of issued and paid up capital | Effective equity interest attributable to the Group as at 31 December 2023 and 2022 | Principal activity |
|---|----------------------------|--|---|---|---|
| Lead Turbo Limited | Incorporated | The British Virgin Islands | US\$10,356 | 46.50% (2022: 46.50%) | Investment holdings |
| VR Technology (HK) Limited | Incorporated | Hong Kong | HK\$10,000 | 46.50% (2022: 46.50%) | Investment holdings |
| VR Technology Holdings Limited (深圳市虛擬現實技術有限公司) ^{1,4} | Incorporated | The PRC | RMB158,814 | 41.86% (2022: 41.86%) | VR hardware and solution services |
| Shenzhen VR Technology Limited (深圳市虛擬現實科技有限公司) ^{1,4} | Incorporated | The PRC | RMB10,000,000 | 41.86% (2022: 41.86%) | VR hardware and solution services |
| Shenzhen Weier Information Technology Company Limited (深圳市維爾信息科技有限公司) ^{1,4} | Incorporated | The PRC | RMB20,000,000 | 41.86% (2022: 41.86%) | Online platform for VR solutions and services |
| Digital Domain Virtual Human Group Limited | Incorporated | The British Virgin Islands | US\$1 | 30% (2022: 30%) | Investment holdings |
| Digital Domain (Taiwan) Company Limited ² | Incorporated | The British Virgin Islands/ Hong Kong | US\$1 | 30% (2022: 30%) | Investment holdings |
| Digital Domain Media (AM) Company Limited ² | Incorporated | Hong Kong | HK\$1 | 30% (2022: 30%) | Virtual human business |
| Xugu Future Technology (Beijing) Company Limited (虛谷未來科技(北京)有限公司) ^{2,4} | Incorporated | The PRC | RMB4,074,000 | 30% (2022: 30%) | Virtual human business |
| DD & TT Company Limited ³ | Incorporated | Hong Kong | HK\$55,000,000 | 18% (2022: 18%) | Holding licence for intellectual property right of a well-known deceased singer |
| Digital Domain Space (Beijing) Media Technology Company Limited ("DD Speace (Beijing)") (數字王國空間(北京)傳媒科技有限公司) ⁴ | Incorporated | The PRC | RMB5,084,746 | 34.42% (2022: 34.42%) | VR Theatre |

¹ 90.03% equity interest in these associates are indirectly owned by Lead Turbo Limited and hence the Group's effective equity interest in the associates is 41.86%. Lead Turbo Limited, VR Technology (HK) Limited and these associates are collectively referred to as the Lead Turbo Group.

² These associates are wholly-owned subsidiaries of Digital Domain Virtual Human Group Limited (collectively the "Digital Domain Virtual Human Group").

³ 60% equity interest in this associate is held by Digital Domain Virtual Human Group Limited and hence the Group's effective equity interest in the associate is 18%.

⁴ The English names of certain companies referred herein represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

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FOR THE YEAR ENDED 31 DECEMBER 2023

17. INTERESTS IN ASSOCIATES (CONTINUED)

- (a) The summarised financial information in respect of the Group's material associates below represents amounts shown in the associates' financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes.

| | Lead Turbo Group | | Digital Domain Virtual Human Group | | DD Space (Beijing) | |
|--|------------------|------------------|------------------------------------|------------------|--------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 |
| As at 31 December | | | | | | |
| Non-current assets | 31,567 | 34,804 | 8,458 | 14,213 | - | - |
| Current assets | 2,877 | 5,598 | 3,971 | 4,433 | 27,783 | 27,783 |
| Non-current liabilities | - | - | - | - | - | - |
| Current liabilities | (61,707) | (64,273) | (135,005) | (135,622) | (95,653) | (95,653) |
| Net liabilities | (27,263) | (23,871) | (122,576) | (116,976) | (67,870) | (67,870) |
| Non-controlling interest | 2,466 | 2,140 | 1,813 | (558) | - | - |
| Net liabilities attributed to owners of the associates | (24,797) | (21,731) | (120,763) | (117,534) | (67,870) | (67,870) |
| Group's share of net assets, net of impairment | - | - | - | - | - | - |
| Amounts due from associates, net of impairment | - | - | 28,395 | 30,040 | - | - |
| | - | - | 28,395 | 30,040 | - | - |
| Included in the above amounts are: | | | | | | |
| Year ended 31 December | | | | | | |
| Revenue | - | 1,071 | 2,186 | 8,711 | - | 318 |
| Loss for the year | (3,392) | (22,268) | (5,600) | (4,795) | - | (7,393) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | (3,392) | (22,268) | (5,600) | (4,795) | - | (7,393) |
| Group's share of loss | - | - | - | - | - | - |
| Group's share of loss recognised as impairment on the Group's long-term interest in associates | - | (6,776) | (1,680) | (1,438) | (2,494) | (3,966) |
| Group's share of other comprehensive income | - | - | - | - | - | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

17. INTERESTS IN ASSOCIATES (CONTINUED)

- (b) The summarised financial information in respect of the Group' associate which is considered as immaterial below represents amounts shown in the associate's financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| As at 31 December | | |
| Aggregated carrying amount of individual immaterial associate in the consolidated financial statements | 11 | 8 |
| Year ended 31 December | | |
| Loss for the year | (5) | (7) |
| Other comprehensive income | 1 | 2 |
| Total comprehensive income | (4) | (5) |
| Group's share of loss | (2) | (2) |
| Group's share of other comprehensive income | - | 1 |

18. INTERESTS IN JOINT VENTURES

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------|------------------|------------------|
| Share of net assets | - | 8 |

Particulars of the unlisted joint ventures as at 31 December 2023 are as follows:

| Company | Place of incorporation/ registration and business | Form of business structure | Percentage of ownership interest attributable to the Group | Principal activity |
|--|--|-------------------------------|--|---|
| Digital Domain IPing (Beijing) Media Technology Company Limited | The PRC | Corporation | 50% (2022: 50%) | Visual effects production |
| Digital Eve Technology Limited ("Digital Eve") | The British Virgin Islands | Corporation | 10% (2022: 10%) | Investment holdings |
| Digital Eve Technology Limited | Hong Kong | Corporation | 10% (2022: 10%) | Production of audio-virtual content for blockchain or Web3 platforms |

The Group has joint control over the arrangements as unanimous consent is required from all parties to the arrangements for the relevant activities of the aforesaid companies. The contractual arrangement in relation to the aforesaid companies provide the Group with only the rights to the net assets of the joint arrangements, with the rights to the assets and obligation for the liabilities of the joint arrangements resting primarily with these companies.

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FOR THE YEAR ENDED 31 DECEMBER 2023

18. INTERESTS IN JOINT VENTURES (CONTINUED)

The Group has discontinued recognition of its share of losses of the joint ventures. The amounts of unrecognised share of the joint ventures, extracted from the relevant management accounts of the joint ventures, both for the year and cumulatively, are as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Accumulated unrecognised share of losses of the joint ventures in prior years | (56) | (56) |
| Unrecognised share of losses of the joint venture for the year | (94) | - |
| | (150) | (56) |

19. LOAN TO A JOINT VENTURE

During the year ended 31 December 2023, the Group granted a loan to Digital Eve, a joint venture of the Group amounting to US\$3,000,000 (equivalent to HK\$23,510,000). The loan to a joint venture is unsecured, interest bearing at 8% to 12% per annum and repayable in three years from grant of the loan. Details of the loan to a joint venture are per the Company's announcement dated 13 February 2023.

Digital Eve early repaid US\$2,883,000 (equivalent to HK\$22,518,000) to the Group during the year ended 31 December 2023. The outstanding principal amount of loan to a joint venture is US\$117,000 (equivalent to HK\$916,000) (2022: HK\$Nil) as at 31 December 2023.

20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

- (a) On 3 February 2021, the Group acquired 248,431 common shares of asknet Solutions AG ("asknet"), a publicly traded German ecommerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) at the consideration of approximately EUR3,709,000 (equivalent to approximately HK\$34,586,000). The 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 shares held by the Group was diluted which represented approximately 7.6% of the total issued common shares of asknet since then.

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 ended 31 December 2022.

As at 31 December 2023, asknet remains its delisted status. In the opinion of the Directors, the fair value of the Group's equity interests in asknet remains minimal and there is no changes on fair value of asknet.

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20. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

- (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 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 shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021.

As at 31 December 2022, the shares held by the Group represented approximately 2.8% of the total issued bearer shares of HLEE.

In November 2023, HLEE increased its capital from 9,460,000 shares to 12,960,000 shares. Since then and as at 31 December 2023, the shares held by the Group was diluted which represented approximately 2.04% 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.

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Listed equity securities outside Hong Kong, at fair value | 31,719 | 41,349 |

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

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| As at 1 January | 41,349 | 70,151 |
| Additions of debt securities | 79,298 | - |
| Fair value loss recognised in profit or loss | (8,318) | (24,430) |
| Disposals of debt securities | (81,731) | - |
| Exchange realignment | 1,121 | (4,372) |
| As at 31 December | 31,719 | 41,349 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Non-current portion: | | |
| Consideration receivable (Notes (i) and (iv)) | 7,831 | - |
| Deposits (Note (i)) | 10,448 | 10,239 |
| | 18,279 | 10,239 |
| Current portion: | | |
| Trade receivables (Notes (i) and (ii)) | 37,397 | 45,140 |
| Consideration receivables (Notes (i) and (iv)) | 7,831 | - |
| Other receivables (Notes (i) and (iii)) | 17,627 | 34,476 |
| Deposits (Note (i)) | 670 | 678 |
| Prepayments | 13,433 | 27,376 |
| | 76,958 | 107,670 |
| Total trade receivables, other receivables and prepayments | 95,237 | 117,909 |

Notes:

- (i) The Directors consider that the carrying amounts of trade receivables, consideration receivables, other receivables, and deposits approximate their fair values as at 31 December 2023 and 2022.
- (ii) The Group normally allows an average credit period of 30 days (2022: 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:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|----------------|------------------|------------------|
| 0 to 30 days | 22,499 | 34,758 |
| 31 to 60 days | 933 | 813 |
| 61 to 90 days | 1,482 | 2,110 |
| 91 to 365 days | 9,894 | 2,408 |
| Over 365 days | 2,589 | 5,051 |
| | 37,397 | 45,140 |

No interest is charged on trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

Notes: (continued)

- (iii) Other receivables mainly represent advance to third parties, value-added tax recoverable and the following:

As at 31 December 2022, included in other receivables was a receivable from an independent third party with gross carrying amount of approximately HK\$29,127,000 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 were 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 was recognised as at 31 December 2022.

During the year ended 31 December 2023, the Group recovered the abovementioned other receivable of HK\$29,127,000. Accordingly, the accumulated impairment of the corresponding other receivable of HK\$8,050,000 is fully reversed during the year.

- (iv) Consideration receivables as at 31 December 2023 comprised:

- (a) The second to the fifth instalments of the deferred cash consideration due from an independent third party arising from the disposal of subsidiaries amounted to HK\$15,662,000 during the year ended 31 December 2023 (Note 37). The amounts are unsecured, interest-free and repayable as to HK\$7,831,000 in 2024 and as to HK\$7,831,000 in 2025.
- (b) The second and the third 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 the first and the second 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 (2022: HK\$68,000,000) has been made at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

22. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Contract assets arising from: | | |
| Visual effects production and post production services | 7,915 | 2,536 |

Typical payment terms which impact on the amount of contract assets are as follows:

Services of visual effects production and post production

The Group's visual effects production and post production includes payment schedules which require stage payments over the production period. These payment schedules prevent the build-up of significant contract assets.

The timing of recovery or settlement for contract assets as at 31 December 2023 and 2022 are expected to be within one year.

The movements in the loss allowance for impairment of contract assets are as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| At beginning of year | 11 | 112 |
| Recognition/(reversal) of impairment losses | 23 | (101) |
| At end of year | 34 | 11 |

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern. The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

22. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|-------------------|------------------|------------------|
| As at 31 December | 7,915 | 2,536 |
| ECL rate | 0.43% | 0.42% |

| | HK\$'000 | HK\$'000 |
|-----------------------|----------|----------|
| Gross carrying amount | 7,949 | 2,547 |
| ECLs | (34) | (11) |
| | 7,915 | 2,536 |

(b) Contract liabilities

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Contract liabilities arising from: | | |
| Visual effects production and post production services | 50,822 | 53,624 |
| Virtual human services | 846 | - |
| | 51,668 | 53,624 |

Typical payment terms which impact on the amount of contract liabilities are as follows:

Services of visual effects production and post production and virtual human services

The Group received non-cancellable payment in advance from customers for services to be provided. Where discrepancies arise between the payments and the Group's assessment on services performed under the contract, contract liabilities can arise.

Movements in contract liabilities

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Balance as at 1 January | 53,624 | 86,707 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (53,624) | (86,707) |
| Increase in contract liabilities as a result of billing in advance of visual effects production and post production services and virtual human services | 51,668 | 53,624 |
| Balance at 31 December | 51,668 | 53,624 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---------------------------|------------------|------------------|
| Cash and cash equivalents | 464,038 | 36,480 |
| Pledged bank deposits | 171,816 | 117,073 |
| | 635,854 | 153,553 |

As at 31 December 2023, included in the cash and cash equivalents of the Group was an amount of HK\$27,968,000 (2022: HK\$6,126,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Trade payables | 28,955 | 39,985 |
| Other payables | 83,420 | 64,866 |
| Interest payables | 34,038 | 32,182 |
| Accruals | 52,108 | 56,525 |
| Total trade payables, other payables and accruals | 198,521 | 193,558 |

Trade payables are non-interest bearing and are normally settled within 30-180 days (2022: 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 2023 and 2022.

The ageing analysis of the Group's trade payables based on invoice date as of the end of reporting period is as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|----------------|------------------|------------------|
| 0 to 30 days | 4,585 | 16,312 |
| 31 to 60 days | 3,144 | 7,226 |
| 61 to 90 days | 1,151 | 2,258 |
| 91 to 365 days | 12,925 | 8,643 |
| Over 365 days | 7,150 | 5,546 |
| | 28,955 | 39,985 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

25. BORROWINGS

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Current | | |
| Bank loans due for repayment within one year (<i>Notes (i)&(ii)</i>) | 56,072 | 105,081 |
| Other loans (<i>Notes (iii)&(v)</i>) | 48,647 | 43,935 |
| | 104,719 | 149,016 |
| Non-current | | |
| Bank loans (<i>Note (i)</i>) | 122,187 | 23,765 |
| Other loans (<i>Notes (iv)&(v)</i>) | 123,832 | 169,081 |
| | 246,019 | 192,846 |
| Total borrowings | 350,738 | 341,862 |
| Representing: | | |
| - Bank loans and bank overdrafts | 178,259 | 128,846 |
| - Other loans | 172,479 | 213,016 |
| | 350,738 | 341,862 |

The Group's borrowings consisted of the following:

- (i) As at 31 December 2023, bank loans with principal amount of US\$21,600,000 (equivalent to HK\$168,692,000) (2022: US\$14,997,000 (equivalent to HK\$117,073,000)) were secured by bank deposits amounted at HK\$171,816,000 (2022: HK\$117,073,000) placed in the banks. The balance of US\$6,000,000 (equivalent to HK\$46,859,000) (2022: US\$11,997,000 (equivalent to HK\$93,654,000)) is repayable within one year or on demand, while the maturity date for remaining balance of US\$10,000,000 (equivalent to HK\$78,098,000) (2022: US\$3,000,000 (equivalent to HK\$23,419,000)) in the second year and US\$5,600,000 (equivalent to HK\$43,735,000) within 2 to 3 years respectively.

As at 31 December 2023, there were utilised facility loans with the principal amount of CAD730,000 (equivalent to HK\$4,304,000) (2022: CAD1,131,000 (equivalent to HK\$6,518,000)) guaranteed by the subsidiaries of the Company. The balance is repayable within one year or on demand.

As at 31 December 2023, there was a loan amount of CAD60,000 (equivalent to HK\$354,000) (2022: CAD60,000 (equivalent to HK\$346,000)) granted under emergencies loan schemes from COVID-19. The loan is unsecured, interest bearing at 5% per annum and repayable on 31 December 2025. The loan was early repaid in January 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

25. BORROWINGS (CONTINUED)

- (ii) As at 31 December 2011, a bank loan has been granted to a then subsidiary of the Company (the "Subsidiary") under the Special Loan Guarantee Scheme (the "SME loan") of the Hong Kong Special Administrative Region Government (the "Government") to the extent of HK\$6,000,000. It represented a 5-year instalment loan which was 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary's immediate holding company which is also an indirect wholly-owned subsidiary of the Company since 2013.

According to the Company's announcement dated 20 December 2010, the Group decided not to continue to finance its entertainment media business, and the Subsidiary, as one of the Group companies engaged in the entertainment media business, ceased its operation before 31 December 2010, and ceased the instalment repayment of the SME loan which was due in December 2010. The aforesaid bank had issued a demand letter to the Subsidiary and stated that it might take any legal action against the Subsidiary in respect of the repayment of the SME loan.

During the year ended 31 December 2011, the Subsidiary and its immediate holding company further received a writ of summon from the Court of First Instance and the statement of claim from the legal representative of the plaintiff claiming for (i) outstanding principal amount and related overdue interest and (ii) cost of legal action in respect of the claim on a full indemnity basis to be taxed if not agreed and further or other relief (collectively the "Claim"). The entire outstanding SME loan as at 31 December 2011 was classified under the current liabilities of the Group in the consolidated financial statements.

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Company lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year ended 31 December 2013, two joint and several liquidators were appointed in July 2013. Nevertheless, the obligation under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly, the SME loan and the related accrued interest payable were recognised as current liabilities by the Group as at the end of the reporting periods.

As at 31 December 2023, the carrying amount of the SME loan and the related accrued interest payable were HK\$4,909,000 (2022: HK\$4,909,000) and HK\$27,944,000 (2022: HK\$21,534,000), respectively. The related accrued interest payable has been recognised and was included in the Group's trade payables, other payables and accruals as measured in accordance with the loan agreement and the Claim. In the opinion of the Directors, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 31 December 2023 and 2022. No further action has been taken against the Group during the current year.

Up to the date of approval of these consolidated financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the Directors are of the opinion that adequate provisions and disclosures have been made in the preparation of these consolidated financial statements, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

25. BORROWINGS (CONTINUED)

- (iii) As at 31 December 2023, one other loan with the principal amount of US\$429,000 (equivalent to HK\$3,350,000) (2022: US\$429,000 (equivalent to HK\$3,349,000)) is unsecured, interest-bearing at 5% per annum and repayable on demand.

As at 31 December 2022, two other loans with principal amounts of HK\$2,500,000 and HK\$5,300,000, respectively, were interest-bearing at 2% per month and repaid in May 2023.

- (iv) As at 31 December 2023, two other loans with principal amounts of US\$8,000,000 (equivalent to HK\$62,478,000) (2022: US\$8,000,000 (equivalent to HK\$62,449,000)) and HK\$34,290,000 (2022: HK\$34,290,000), respectively, are interest-bearing at interest rate from prime rate quoted by a bank in Hong Kong and not repayable ranging within 13 months from 31 December 2023.

As at 31 December 2023, one of other loans with a principal amount US\$3,500,000 (equivalent to HK\$27,064,000) (2022: US\$3,500,000 (equivalent to HK\$27,065,000)) is unsecured, interest-free and not repayable ranging within 13 months from 31 December 2023.

- (v) As at 31 December 2023, an other loan with principal amount of US\$5,800,000 (equivalent to HK\$45,297,000) (2022: US\$10,000,000 (equivalent to HK\$78,063,000)) is interest-bearing at 10% per annum and with HK\$45,297,000 repayable within one year (2022: HK\$32,786,000 repayable within one year and HK\$45,277,000 repayable in the next two years respectively). The loan was early repaid in January 2024.

As at 31 December 2023 and 2022, all the loans of the Group are denominated in either HK\$, Canadian dollar ("CAD") or United States dollar ("US\$").

The bank loans bear floating interest rates at effective rates ranging from 2.50% to 8.20% (2022: 1.15% to 7.45%) per annum. The other loans bear floating interest rates at effective rates ranging from 5.63% to 5.88% (2022: 5.00% to 5.63%) per annum.

The Directors consider that the carrying amounts of the Group's bank borrowings and other loan approximate their fair values as at 31 December 2023 and 2022.

At the end of the reporting period, total bank loans and overdrafts were scheduled to repay as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| On demand or within one year | 56,072 | 105,081 |
| More than one year, but not exceeding two years | 78,452 | 23,419 |
| More than two years, but not exceeding five years | 43,735 | 346 |
| | 178,259 | 128,846 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

25. BORROWINGS (CONTINUED)

At the end of the reporting period, total other loans were scheduled to repay as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| On demand or within one year | 48,647 | 43,935 |
| More than one year, but not exceeding two years | 123,832 | 169,081 |
| | 172,479 | 213,016 |

Note:

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

The Group regularly monitors the compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 41(b). As at 31 December 2023, none of the covenants relating to drawn down facilities had been breached.

26. SHARE CAPITAL

| | Number of ordinary shares | | Amount | |
|---|---------------------------|----------------|------------------|------------------|
| | 2023 | 2022 | 2023 HK\$'000 | 2022 HK\$'000 |
| Ordinary shares of HK\$0.01 each | | | | |
| Authorised: | | | | |
| As at 1 January 2022, 31 December 2022 and 31 December 2023 | 75,000,000,000 | 75,000,000,000 | 750,000 | 750,000 |
| Issued and fully paid ordinary shares: | | | | |
| As at 1 January | 4,329,027,625 | 4,329,027,625 | 43,290 | 43,290 |
| Issue of shares on subscriptions (Note (a)) | | | | |
| - on 2 February 2023 | 219,375,000 | - | 2,194 | - |
| - on 3 May 2023 | 646,430,000 | - | 6,464 | - |
| - on 20 June 2023 | 1,038,966,000 | - | 10,390 | - |
| - on 29 December 2023 | 1,145,450,000 | - | 11,454 | - |
| As at 31 December | 7,379,248,625 | 4,329,027,625 | 73,792 | 43,290 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

26. SHARE CAPITAL (CONTINUED)

Notes:

- (a) On 2 February 2023, 219,375,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.32 each to independent third parties of the Group at an aggregate consideration of approximately HK\$69,906,000 net of issuing expenses, of which approximately HK\$2,194,000 was credited to the share capital and the remaining balance of approximately HK\$67,712,000 was credited to the share premium account.

On 3 May 2023, 646,430,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.222 each to an independent third party of the Group at an aggregate consideration of approximately HK\$143,473,000 net of issuing expenses, of which approximately HK\$6,464,000 was credited to the share capital and the remaining balance of approximately HK\$137,009,000 was credited to the share premium account.

On 20 June 2023, 1,038,966,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.224 each to independent third parties of the Group at an aggregate consideration of approximately HK\$232,610,000 net of issuing expenses, of which approximately HK\$10,390,000 was credited to the share capital and the remaining balance of approximately HK\$222,220,000 was credited to the share premium account.

On 29 December 2023, 1,145,450,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.207 each to independent third parties of the Group at an aggregate consideration of approximately HK\$236,758,000 net of issuing expenses, of which approximately HK\$11,454,000 was credited to the share capital and the remaining balance of approximately HK\$225,304,000 was credited to the share premium account.

The proceeds are raised as its general working capital.

The new shares rank pari-passu with the existing shares in all respects.

- (b) No dividend was paid or proposed for ordinary shareholders of the Company for the year ended 31 December 2023, nor has any dividend been proposed since the end of the reporting year (2022: Nil).

27. RESERVES

Company

| | Note | Share premium HK\$'000 (Note (i)) | Contributed surplus HK\$'000 (Note (iii)) | Share options reserve HK\$'000 (Note (iv)) | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|-------|---|---|--|--------------------------------|-------------------|
| As at 1 January 2022 | | 131,996 | 984,302 | 183,805 | (1,151,659) | 148,444 |
| Recognition of equity-settled share-based payment expenses | | - | - | 49 | - | 49 |
| Loss and total comprehensive income for the year | | - | - | - | (59,980) | (59,980) |
| As at 31 December 2022 and 1 January 2023 | | 131,996 | 984,302 | 183,854 | (1,211,639) | 88,513 |
| Issue of shares on subscription, net of expenses | 26(a) | 652,245 | - | - | - | 652,245 |
| Loss and total comprehensive income for the year | | - | - | - | (476,229) | (476,229) |
| As at 31 December 2023 | | 784,241 | 984,302 | 183,854 | (1,687,868) | 264,529 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

27. RESERVES (CONTINUED)

Notes:

(i) Share premium

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act.

(ii) FVOCI reserve

The FVOCI reserve represents the cumulative net fair value change of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting year.

(iii) Contributed surplus

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the years ended 31 December 2009, 2017 and 2021 which was transferred to the contributed surplus account and; (ii) all amounts standing to the credit of the share premium account of the Company immediately after the capital reorganisation in 2009 and 2017 were cancelled and the credit arising therefrom was transferred to the contributed surplus.

In addition to the retained profits, under the Companies Act of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(iv) Share options reserve

This reserve represents cumulative expenses recognised on the granting of unexercised share options to the participants over the vesting period.

(v) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(vi) Other reserve

This reserve represents (i) the contributed surplus reserve of an associate established in the PRC, where the change in net assets attributable to the Group in relation to the change in ownership interests in the associate through cash injection by the Group and other investors of the associate; and (ii) the capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder, which was transferred to accumulated losses of the Group upon disposal of the non-wholly owned subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

28. SHARE-BASED PAYMENT TRANSACTIONS

(i) Share option scheme

On 27 April 2012, a 10-year share option scheme was adopted and amended on 3 April 2014 (the "2012 Option Scheme"). Pursuant to the 2012 Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards. The 2012 Option Scheme has been expired on 27 April 2022.

On 21 May 2020, 478,000,000 share options ("Options") were conditionally granted to employees of the Group under the 2012 Option Scheme. Out of which, 292,200,000 and 92,200,000 Options were vested on 21 May 2020 and 21 May 2021 respectively, the remaining 93,600,000 Options were vested on 21 May 2022. All Options are exercisable from their respective vesting dates until 20 May 2030. The exercise price of the Options is HK\$0.046 per share, being the closing price of the Company's ordinary shares on 21 May 2020.

On 16 June 2022, a new share option scheme was adopted and was valid and effective for a period of 10 years (the "2022 Option Scheme"). Pursuant to the 2022 Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards.

During the year, no Options (2022: Nil) were forfeited and no Options (2022: Nil) were exercised, the average remaining contractual life is 2.69 years (2022: 3.69 years).

There were no market vesting conditions associated with the share options granted.

For the year ended 31 December 2023, there was no share option expenses recognised in connection to all share options granted (2022: HK\$49,000).

Following the Company's capital reorganisation on 11 October 2021, the exercise price and the number of adjusted shares to be issued upon exercise in full of the outstanding share options has been adjusted in accordance with the terms of the 2012 Option Scheme with effect from 11 October 2021 ("Option Adjustments"). Under the terms of the 2012 Option Scheme, the exercise prices per existing share of respective options granted were increased by 10 times while the number of existing shares to be issued upon exercise in full of the share options granted were reduced to one-tenth of the original number of existing shares. The exercise price was adjusted to HK\$0.46 per share with effective from 11 October 2021. The impact has been shown in the following table for the year 2021. Further details are disclosed in the Company's announcement dated on 12 October 2021.

The following tables disclose movements in the Company's share options during the years ended 31 December 2023 and 2022:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

28. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

2023

| Name and category of participants | As at 1 January 2023 | Grant/exercised during the year | Forfeited/lapsed during the year | As at 31 December 2023 | Date of grant | Exercise period | Exercise price per share (HK\$) |
|-----------------------------------|-------------------------|------------------------------------|-------------------------------------|---------------------------|---------------|----------------------------|------------------------------------|
| Director | | | | | | | |
| Seah Ang | 10,000,000 | - | - | 10,000,000 | 23 July 2014 | 28 May 2017 to 27 May 2024 | 0.98 |
| Employees, in aggregate | | | | | | | |
| - 2014 | 64,473,000 | - | - | 64,473,000 | 28 May 2014 | 28 May 2017 to 27 May 2024 | 0.98 |
| - 2015 | 2,099,000 | - | - | 2,099,000 | 6 May 2015 | 6 May 2015 to 5 May 2025 | 13.20 |
| | 2,000,000 | - | - | 2,000,000 | 6 May 2015 | 6 May 2016 to 5 May 2025 | 13.20 |
| | 1,900,000 | - | - | 1,900,000 | 6 May 2015 | 6 May 2017 to 5 May 2025 | 13.20 |
| - 2016 | 9,150,006 | - | - | 9,150,006 | 29 Jan 2016 | 29 Jan 2016 to 28 Jan 2026 | 4.13 |
| | 8,149,998 | - | - | 8,149,998 | 29 Jan 2016 | 29 Jan 2017 to 28 Jan 2026 | 4.13 |
| | 7,583,327 | - | - | 7,583,327 | 29 Jan 2016 | 29 Jan 2018 to 28 Jan 2026 | 4.13 |
| | 5,000,000 | - | - | 5,000,000 | 22 Jun 2016 | 22 Jun 2017 to 21 Jun 2026 | 4.95 |
| | 5,000,000 | - | - | 5,000,000 | 22 Jun 2016 | 22 Jun 2018 to 21 Jun 2026 | 4.95 |
| | 1,666,671 | - | - | 1,666,671 | 29 Jul 2016 | 29 Jul 2016 to 28 Jul 2026 | 5.66 |
| | 1,169,998 | - | - | 1,169,998 | 29 Jul 2016 | 29 Jul 2017 to 28 Jul 2026 | 5.66 |
| | 843,324 | - | - | 843,324 | 29 Jul 2016 | 29 Jul 2018 to 28 Jul 2026 | 5.66 |
| - 2019 | 10,999,999 | - | - | 10,999,999 | 24 Apr 2019 | 24 Apr 2019 to 23 Apr 2029 | 1.30 |
| | 666,667 | - | - | 666,667 | 24 Apr 2019 | 29 Feb 2020 to 23 Apr 2029 | 1.30 |
| | 333,333 | - | - | 333,333 | 24 Apr 2019 | 24 Apr 2020 to 23 Apr 2029 | 1.30 |
| | 666,667 | - | - | 666,667 | 24 Apr 2019 | 28 Feb 2021 to 23 Apr 2029 | 1.30 |
| | 333,334 | - | - | 333,334 | 24 Apr 2019 | 24 Apr 2021 to 23 Apr 2029 | 1.30 |
| - 2020 | 29,050,000 | - | - | 29,050,000 | 21 May 2020 | 21 May 2020 to 20 May 2030 | 0.46 |
| | 9,220,000 | - | - | 9,220,000 | 21 May 2020 | 21 May 2021 to 20 May 2030 | 0.46 |
| | 7,360,000 | - | - | 7,360,000 | 21 May 2020 | 21 May 2022 to 20 May 2030 | 0.46 |
| Others | | | | | | | |
| Wang Wei-Chung | 166,667 | - | - | 166,667 | 29 Jan 2016 | 29 Jan 2016 to 28 Jan 2026 | 4.13 |
| | 166,667 | - | - | 166,667 | 29 Jan 2016 | 29 Jan 2017 to 28 Jan 2026 | 4.13 |
| | 166,666 | - | - | 166,666 | 29 Jan 2016 | 29 Jan 2018 to 28 Jan 2026 | 4.13 |
| Amit Chopra | 4,800,000 | - | - | 4,800,000 | 28 May 2014 | 28 May 2017 to 27 May 2024 | 0.98 |
| | 500,000 | - | - | 500,000 | 6 May 2015 | 6 May 2015 to 5 May 2025 | 13.20 |
| | 500,000 | - | - | 500,000 | 6 May 2015 | 6 May 2016 to 5 May 2025 | 13.20 |
| | 500,000 | - | - | 500,000 | 6 May 2015 | 6 May 2017 to 5 May 2025 | 13.20 |
| | 3,333,334 | - | - | 3,333,334 | 7 Jun 2016 | 29 Jan 2016 to 28 Jan 2026 | 4.13 |
| | 3,333,333 | - | - | 3,333,333 | 7 Jun 2016 | 29 Jan 2017 to 28 Jan 2026 | 4.13 |
| | 3,333,333 | - | - | 3,333,333 | 7 Jun 2016 | 29 Jan 2018 to 28 Jan 2026 | 4.13 |
| Wei Ming | 30,000,000 | - | - | 30,000,000 | 1 Jun 2017 | 13 Feb 2017 to 12 Feb 2027 | 4.69 |
| | 224,465,324 | - | - | 224,465,324 | | | |
| Weighted average exercise price | HK\$2.547 | N/A | N/A | HK\$2.547 | | | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

28. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

2022

| Name and category of participants | As at 1 January 2022 | Grant/exercised during the year | Forfeited/lapsed during the year | As at 31 December 2022 | Date of grant | Exercise period | Exercise price per share (HK\$) |
|-----------------------------------|-------------------------|------------------------------------|-------------------------------------|---------------------------|---------------|----------------------------|------------------------------------|
| Director | | | | | | | |
| Seah Ang | 10,000,000 | - | - | 10,000,000 | 23 July 2014 | 28 May 2017 to 27 May 2024 | 0.98 |
| Employees, in aggregate | | | | | | | |
| - 2014 | 64,473,000 | - | - | 64,473,000 | 28 May 2014 | 28 May 2017 to 27 May 2024 | 0.98 |
| - 2015 | 2,099,000 | - | - | 2,099,000 | 6 May 2015 | 6 May 2015 to 5 May 2025 | 13.20 |
| | 2,000,000 | - | - | 2,000,000 | 6 May 2015 | 6 May 2016 to 5 May 2025 | 13.20 |
| | 1,900,000 | - | - | 1,900,000 | 6 May 2015 | 6 May 2017 to 5 May 2025 | 13.20 |
| - 2016 | 9,150,006 | - | - | 9,150,006 | 29 Jan 2016 | 29 Jan 2016 to 28 Jan 2026 | 4.13 |
| | 8,149,998 | - | - | 8,149,998 | 29 Jan 2016 | 29 Jan 2017 to 28 Jan 2026 | 4.13 |
| | 7,583,327 | - | - | 7,583,327 | 29 Jan 2016 | 29 Jan 2018 to 28 Jan 2026 | 4.13 |
| | 5,000,000 | - | - | 5,000,000 | 22 Jun 2016 | 22 Jun 2017 to 21 Jun 2026 | 4.95 |
| | 5,000,000 | - | - | 5,000,000 | 22 Jun 2016 | 22 Jun 2018 to 21 Jun 2026 | 4.95 |
| | 1,666,671 | - | - | 1,666,671 | 29 Jul 2016 | 29 Jul 2016 to 28 Jul 2026 | 5.66 |
| | 1,169,998 | - | - | 1,169,998 | 29 Jul 2016 | 29 Jul 2017 to 28 Jul 2026 | 5.66 |
| | 843,324 | - | - | 843,324 | 29 Jul 2016 | 29 Jul 2018 to 28 Jul 2026 | 5.66 |
| - 2019 | 10,999,999 | - | - | 10,999,999 | 24 Apr 2019 | 24 Apr 2019 to 23 Apr 2029 | 1.30 |
| | 666,667 | - | - | 666,667 | 24 Apr 2019 | 29 Feb 2020 to 23 Apr 2029 | 1.30 |
| | 333,333 | - | - | 333,333 | 24 Apr 2019 | 24 Apr 2020 to 23 Apr 2029 | 1.30 |
| | 666,667 | - | - | 666,667 | 24 Apr 2019 | 28 Feb 2021 to 23 Apr 2029 | 1.30 |
| | 333,334 | - | - | 333,334 | 24 Apr 2019 | 24 Apr 2021 to 23 Apr 2029 | 1.30 |
| - 2020 | 29,050,000 | - | - | 29,050,000 | 21 May 2020 | 21 May 2020 to 20 May 2030 | 0.46 |
| | 9,220,000 | - | - | 9,220,000 | 21 May 2020 | 21 May 2021 to 20 May 2030 | 0.46 |
| | 7,360,000 | - | - | 7,360,000 | 21 May 2020 | 21 May 2022 to 20 May 2030 | 0.46 |
| Others | | | | | | | |
| Wang Wei-Chung | 166,667 | - | - | 166,667 | 29 Jan 2016 | 29 Jan 2016 to 28 Jan 2026 | 4.13 |
| | 166,667 | - | - | 166,667 | 29 Jan 2016 | 29 Jan 2017 to 28 Jan 2026 | 4.13 |
| | 166,666 | - | - | 166,666 | 29 Jan 2016 | 29 Jan 2018 to 28 Jan 2026 | 4.13 |
| Amit Chopra | 4,800,000 | - | - | 4,800,000 | 28 May 2014 | 28 May 2017 to 27 May 2024 | 0.98 |
| | 500,000 | - | - | 500,000 | 6 May 2015 | 6 May 2015 to 5 May 2025 | 13.20 |
| | 500,000 | - | - | 500,000 | 6 May 2015 | 6 May 2016 to 5 May 2025 | 13.20 |
| | 500,000 | - | - | 500,000 | 6 May 2015 | 6 May 2017 to 5 May 2025 | 13.20 |
| | 3,333,334 | - | - | 3,333,334 | 7 Jun 2016 | 29 Jan 2016 to 28 Jan 2026 | 4.13 |
| | 3,333,333 | - | - | 3,333,333 | 7 Jun 2016 | 29 Jan 2017 to 28 Jan 2026 | 4.13 |
| | 3,333,333 | - | - | 3,333,333 | 7 Jun 2016 | 29 Jan 2018 to 28 Jan 2026 | 4.13 |
| Wei Ming | 30,000,000 | - | - | 30,000,000 | 1 Jun 2017 | 13 Feb 2017 to 12 Feb 2027 | 4.69 |
| | 224,465,324 | - | - | 224,465,324 | | | |
| Weighted average exercise price | HK\$2.547 | N/A | N/A | HK\$2.547 | | | |

(ii) Option granted under general mandate

No option was granted under general mandate during the year (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2023

| <i>Notes</i> | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Non-current assets | | |
| Interests in subsidiaries | 117,332 | 212,534 |
| Current assets | | |
| Other receivables and prepayments | 1,849 | 1,192 |
| Bank balances and cash | 277,297 | 12,685 |
| | 279,146 | 13,877 |
| Current liabilities | | |
| Other payables and accruals | 12,860 | 8,745 |
| Borrowings | 45,297 | 40,586 |
| | 58,157 | 49,331 |
| Net current assets/(liabilities) | 220,989 | (35,454) |
| Total assets less current liabilities | 338,321 | 177,080 |
| Non-current liability | | |
| Borrowings | - | 45,277 |
| NET ASSETS | 338,321 | 131,803 |
| Capital and reserves | | |
| Share capital | 26 | 73,792 |
| Reserves | 27 | 264,529 |
| TOTAL EQUITY | 338,321 | 131,803 |

On behalf of the Board

On behalf of the Board

Seah Ang
Director

Duan Xiongfei
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

30. SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2023 and 2022 are as follows:

| Company | Country or place of incorporation and establishment/operation | Issued share capital/paid up capital | Effective equity interest attributable to the Company as at 31 December 2023 and 2022 | | Nature of business |
|---|---|--------------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Choice Excel Holdings Limited | The British Virgin Islands | US\$100 | - | 85% | Investment holdings |
| Chosen Elite Holdings Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Cosmos Glory Limited | Hong Kong | HK\$27,392,698 | - | 85% | Investment holdings |
| COTC Productions, Inc. | USA | US\$10 | - | 51% | Film investment and production |
| DD Asset Management (BVI) Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| DD Fengshu Media Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| DD Holdings US, LLC | USA | US\$35,000,000 | - | 100% | Investment holdings |
| DD Licensing (HK) Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| DD Licensing Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| DD Micoy, Inc. | USA | US\$1 | - | 100% | Holding assets |
| DDH Assets Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| DDHU Management Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| DDI Visuals Private Limited | India | INR1,000 | - | 100% | Visual effects production |
| DDPO (BVI) Company Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| DDVR, Inc. | USA | US\$1 | - | 100% | Investment holdings and virtual reality businesses |
| Digital Domain (International) Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| Digital Domain 3.0, Inc. | USA | US\$50 | - | 100% | Visual effects production |
| Digital Domain Assets Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| Digital Domain Broadcasting (Hong Kong) Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| Digital Domain Broadcasting Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Capital Partners S.à r.l. | Luxembourg | EUR12,000 | - | 100% | Development of and investment in media entertainment business in Europe |
| Digital Domain Consultancy Limited | Hong Kong | HK\$1 | - | 100% | Provision of management services |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

30. SUBSIDIARIES (CONTINUED)

| Company | Country or place of incorporation and establishment/operation | Issued share capital/paid up capital | Effective equity interest attributable to the Company as at 31 December 2023 and 2022 | | Nature of business |
|---|---|--------------------------------------|---|----------|----------------------------------|
| | | | Direct | Indirect | |
| Digital Domain Content (Hong Kong) Limited | Hong Kong | HK\$1 | - | 100% | Virtual reality content business |
| Digital Domain Content Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Content Studio, Inc. | USA | US\$1 | - | 100% | Investment holdings |
| Digital Domain Development Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Digital Domain Development Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| Digital Domain Distribution (Hong Kong) Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Distribution Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Education (HK) Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Education Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Enterprise Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Digital Domain Enterprises Group (BVI) Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Digital Domain Enterprises Group Limited | Hong Kong | HK\$1 | - | 100% | Virtual human business |
| Digital Domain Entertainment (HK) Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| Digital Domain Entertainment Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain International Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Digital Domain Investments (BVI) Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Digital Domain Investments Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Management Limited | Hong Kong | HK\$100 | - | 100% | Dormant |
| Digital Domain Music (HK) Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Music Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Network Technology Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Pictures (HK) Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Pictures Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Production (HK) Limited | Hong Kong | HK\$1 | - | 100% | TV drama investment |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

30. SUBSIDIARIES (CONTINUED)

| Company | Country or place of incorporation and establishment/operation | Issued share capital/paid up capital | Effective equity interest attributable to the Company as at 31 December 2023 and 2022 | | Nature of business |
|---|---|--------------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Digital Domain Production Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Productions 3.0 (BC), Ltd. | Canada | CAD1 | - | 100% | Visual effects production |
| Digital Domain Productions Québec, Ltd. | Canada | CAD100 | - | 100% | Visual effects production |
| Digital Domain Resources Limited | Hong Kong | HK\$2 | - | 100% | Provision of management services |
| Digital Domain Studio (HK) Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Studio Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Digital Domain Technology (US), Inc. | USA | US\$1 | - | 100% | Virtual reality business |
| Digital Domain Technology Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| Digital Domain Trading Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain Virtual Human (HK) Limited | Hong Kong | HK\$1 | - | 80% | Investment holdings |
| Digital Domain Virtual Human (US), Inc. | USA | US\$1 | - | 80% | Software development and research |
| Digital Domain Virtual Human Holdings Limited | The British Virgin Islands | US\$2,000,160 | - | 80% | Investment holdings |
| Digital Domain Virtual Human Productions (BC), Ltd. | Canada | CAD1 | - | 80% | Software development and research |
| Digital Domain YK (HK) Company Limited | Hong Kong | HK\$1 | - | 100% | Dormant |
| Digital Domain YK Company Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Driven Global Holdings Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Ever Champ Management Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Ever Ultra Limited | The British Virgin Islands | US\$100 | - | 100% | Investment holdings |
| Ever Union Medical Services Group Limited | Hong Kong | HK\$100 | - | 100% | Investment holdings |
| Ever Union Services Development Limited | Hong Kong | HK\$100 | - | 100% | Investment holdings and provision of consultancy services |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

30. SUBSIDIARIES (CONTINUED)

| Company | Country or place of incorporation and establishment/operation | Issued share capital/paid up capital | Effective equity interest attributable to the Company as at 31 December 2023 and 2022 | | Nature of business |
|--|---|--------------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Four Pillars Entertainment, Inc. | USA | US\$1 | - | 51% | Film investment and production |
| Four Pillars Media Development, Inc. | USA | US\$1 | - | 51% | Film investment and production |
| Golden Stream Global Limited | The British Virgin Islands | US\$1 | - (2022: 100%) | 100% | Investment holdings |
| IM360 Entertainment Inc. | Canada | CAD7,307,647 | - | 91.71% | Interactive media technology through 360 degree video |
| Immersive Licensing, Inc. | USA | US\$1,000 | - | 83.10% | Manage intellectual property licences and trademarks |
| Immersive Media Company | USA | US\$15 | - | 83.10% | Interactive media technology through 360 degree video |
| Immersive Ventures Inc. | Canada | CAD11,108,656 | - | 83.10% | Interactive media technology through 360 degree video |
| Impala 2020 Pty Ltd | Australia | AUD12 | - | 51% | Film investment and production |
| Lucrative Skill Holdings Limited | The British Virgin Islands | US\$100 | - | 85% | Investment holdings |
| Mothership Media, Inc. | USA | US\$0.01 | - | 100% | Visual effects production |
| Post Production Office Limited | Hong Kong | HK\$16,993,446 | - | 85% | Investment holdings |
| Praya Star Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Rise Honour Development Limited | Hong Kong | HK\$1 | - | 100% | Investment holdings |
| S. I. Travel Group Limited | The British Virgin Islands/ Hong Kong | US\$1 | 100% | - | Trading |
| Sun Innovation International Group Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Sun Innovation Management Services Limited | Hong Kong | HK\$2 | 100% | - | Provision of management services |
| Tower Talent Holdings Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| Treasure Well Development Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |
| Upfield Sky Limited | The British Virgin Islands | US\$10,000 | - | 100% | Investment holdings |
| Vibrant Global Group Limited | The British Virgin Islands | US\$1 | 100% | - | Investment holdings |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

30. SUBSIDIARIES (CONTINUED)

| Company | Country or place of incorporation and establishment/operation | Issued share capital/paid up capital | Effective equity interest attributable to the Company as at 31 December 2023 and 2022 | | Nature of business |
|--------------------------------|---|--------------------------------------|---|----------|---|
| | | | Direct | Indirect | |
| Virtue Global Holdings Limited | The British Virgin Islands | US\$1 | - | 100% | Investment holdings |
| 長和技術發展(深圳)有限公司 | The PRC | RMB5,493,649 | - | 100% | Provision of consultancy services |
| 數字王國文羣(北京)文化傳媒有限公司 | The PRC | RMB69,700,942 | - | 85% | Visual effects production and post production |
| 數字王國朝羣(上海)文化傳媒有限公司 | The PRC | RMB47,200,307 | - | 85% | Visual effects production and post production |
| 數字王國(深圳)科技發展有限公司* | The PRC | HK\$10,960,000 | - | 100% | Visual effects production |

Note:

- The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HK\$16,100,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.

All the above are limited liability companies.

Unless otherwise stated, the above subsidiaries' places of operations are the same as their respective places of incorporation/establishment.

None of the subsidiaries had issued any debt securities during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

31. NON-CONTROLLING INTERESTS

The following table lists out the information relating to Immersive Ventures Inc., IM360 Entertainment Inc., Four Pillars Entertainment, Inc., Digital Domain Virtual Human Holdings Limited, COTC Productions, Inc. and Lucrative Skill Holdings Limited, subsidiaries of the Company which have material NCI. The summarised financial information presented below represents the amounts before any inter-company elimination.

| | Immersive Ventures Inc. | | IM360 Entertainment Inc. | | Four Pillars Entertainment, Inc. | | Digital Domain Virtual Human Holdings Limited | | COTC Productions, Inc. | | Lucrative Skill Holdings Limited | |
|---|-------------------------|------------------|--------------------------|------------------|----------------------------------|------------------|---|------------------|------------------------|------------------|----------------------------------|------------------|
| | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 | 2023 HK\$'000 | 2022 HK\$'000 |
| As at 31 December: | | | | | | | | | | | | |
| NCI percentage | 16.9% | 16.9% | 8.281% | 8.281% | 49% | 49% | 20% | 20% | 51.55% | 51.55% | 15% | 15% |
| Non-current assets | 20,009 | 20,009 | - | - | 151 | 325 | 50,820 | 58,131 | - | - | 15,111 | 27,896 |
| Current assets | 263 | 261 | 30,585 | 29,938 | 122,887 | 125,912 | 674 | 692 | 6,696 | 127,544 | 130,174 | 82,728 |
| Non-current liabilities | (44,478) | (43,450) | - | - | - | - | - | - | - | - | (2,143) | (9,613) |
| Current liabilities | (95,235) | (94,623) | (41,786) | (40,714) | (148,801) | (149,660) | (167,120) | (138,249) | (119,236) | (120,466) | (471,565) | (355,831) |
| Net (liabilities)/assets | (119,441) | (117,803) | (11,201) | (10,776) | (25,763) | (23,423) | (115,626) | (79,426) | (112,540) | 7,078 | (328,423) | (254,820) |
| Accumulated NCI (Note) | (20,186) | (19,909) | (928) | (892) | (12,624) | (11,477) | (23,125) | (15,885) | (58,014) | 3,648 | (49,263) | (38,223) |
| Year ended 31 December: | | | | | | | | | | | | |
| Revenue | - | - | - | - | - | - | - | - | - | - | 58,214 | 74,247 |
| (Loss)/profit for the year | (306) | (1,022) | (167) | (4,827) | (2,335) | (675) | (35,301) | (33,225) | (119,886) | 13,433 | (74,223) | (55,475) |
| Total comprehensive income | (1,638) | 4,557 | (425) | (4,182) | (2,340) | (703) | (36,200) | (31,838) | (119,618) | 13,354 | (73,603) | (54,982) |
| (Loss)/profit allocated to NCI (Note) | (52) | (173) | (14) | (400) | (1,144) | (331) | (7,060) | (6,645) | (61,801) | 6,925 | (11,134) | (8,321) |
| Total comprehensive income allocated to NCI (Note) | (277) | 770 | (35) | (346) | (1,147) | (344) | (7,240) | (6,368) | (61,663) | 6,883 | (11,040) | (8,247) |
| Dividend paid to NCI | - | - | - | - | - | - | - | - | - | - | - | - |
| Net cash (outflows)/inflows from operating activities | - | (6) | - | (1) | (69) | (26) | 21,822 | 20,251 | 13,278 | 13,332 | 17,100 | 11,156 |
| Net cash outflows from investing activities | - | - | - | - | - | (40) | (21,840) | (20,272) | - | - | (2,355) | (7,134) |
| Net cash (outflows)/inflows from financing activities | - | - | - | - | - | - | - | - | (14,147) | (14,147) | 23,429 | - |

Note: The aggregate NCI as at 31 December 2023 amounted to debit balance of approximately HK\$164,140,000 (2022: debit balance of approximately HK\$82,738,000) and the aggregate net losses and total comprehensive income allocated to NCI for the year then ended amounted to approximately HK\$81,205,000 (2022: HK\$8,945,000) and HK\$81,402,000 (2022: HK\$7,652,000), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

32. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

| | Bank borrowings (Note 25) HK\$'000 | Other loans (Note 25) HK\$'000 | Lease liabilities (Note 15) HK\$'000 | Total HK\$'000 |
|---|--|--------------------------------------|--|-------------------|
| As at 1 January 2022 | 147,276 | 141,128 | 78,919 | 367,323 |
| Changes from financing cash flows: | | | | |
| - New bank borrowings | 22,561 | - | - | 22,561 |
| - Repayment of bank borrowings | (39,801) | - | - | (39,801) |
| - Repayment of principal portion of lease liabilities | - | - | (32,688) | (32,688) |
| - Repayment of interest portion of lease liabilities | - | - | (9,890) | (9,890) |
| - New inception of other loans | - | 86,302 | - | 86,302 |
| - Repayment of other loans | - | (14,147) | - | (14,147) |
| Total changes from financing cash flows | (17,240) | 72,155 | (42,578) | 12,337 |
| Other changes: | | | | |
| - Additions | - | - | 59,869 | 59,869 |
| - Interest expenses on lease liabilities | - | - | 9,890 | 9,890 |
| - COVID-19-Related rent concessions | - | - | (1,703) | (1,703) |
| - Effect of lease modification | - | - | (200) | (200) |
| Exchange realignment | (1,190) | (267) | (3,628) | (5,085) |
| Total other changes | (1,190) | (267) | 64,228 | 62,771 |
| As at 31 December 2022 and 1 January 2023 | 128,846 | 213,016 | 100,569 | 442,431 |
| Changes from financing cash flows: | | | | |
| - New bank borrowings | 70,542 | - | - | 70,542 |
| - Repayment of bank borrowings | (21,329) | - | - | (21,329) |
| - Repayment of principal portion of lease liabilities | - | - | (40,295) | (40,295) |
| - Repayment of interest portion of lease liabilities | - | - | (11,818) | (11,818) |
| - Repayment of other loans | - | (40,705) | - | (40,705) |
| Total changes from financing cash flows | 49,213 | (40,705) | (52,113) | (43,605) |
| Other changes: | | | | |
| - Additions | - | - | 38,635 | 38,635 |
| - Interest expenses on lease liabilities | - | - | 11,818 | 11,818 |
| - Effect of lease modification | - | - | (2,042) | (2,042) |
| Exchange realignment | 200 | 168 | 89 | 457 |
| Total other changes | 200 | 168 | 48,500 | 48,868 |
| As at 31 December 2023 | 178,259 | 172,479 | 96,956 | 447,694 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

33. RETIREMENT BENEFIT SCHEME

(a) Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme")

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the MPF Scheme, which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK\$1,500 (2022: HK\$1,500) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the MPF Scheme was HK\$456,000 (2022: HK\$517,000).

(b) State-managed retirement benefit schemes operated by the local governments in the PRC

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK\$10,170,000 (2022: HK\$13,972,000).

34. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

(a) As at 31 December 2023, the Group had aggregate banking facilities of HK\$212,497,000 (2022: HK\$164,642,000) from banks for guarantees and loans. The banking facilities are mainly secured by:

(i) As at 31 December 2023, the Group's bank loan with a carrying amount of approximately HK\$168,692,000 (2022: HK\$117,073,000) is secured by pledged bank deposits of amounted at HK\$171,816,000 (2022: HK\$117,073,000) in subsidiaries' bank accounts.

(ii) As at 31 December 2022, two investment properties of a wholly-owned subsidiary of the Company are pledged to secure the borrowings of the Group. This banking facility has not been utilised as at 31 December 2022.

(b) As at 31 December 2023, there are term loan facilities of US\$10,000,000 (2022: US\$10,000,000) and HK\$80,000,000 (2022: HK\$80,000,000) from a shareholder of the Company, Wise Sun Holdings Limited. The facilities were granted to a subsidiary of the Company. As at 31 December 2023, the balance of utilised facilities are US\$8,000,000 (approximately HK\$62,478,000) (2022: US\$8,000,000 (approximately HK\$62,449,000)) and HK\$34,290,000 (2022: HK\$34,290,000), respectively. The Company acts as a guarantor of these term loans.

35. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment as at 31 December 2023 and 2022.

36. RELATED PARTY TRANSACTIONS

The significant transactions with related parties were disclosed elsewhere in these consolidated financial statements.

Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in note 10.

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FOR THE YEAR ENDED 31 DECEMBER 2023

37. DISPOSAL OF SUBSIDIARIES

Disposal of subsidiaries during the year ended 31 December 2023

Disposal of City Trend International Limited and its subsidiary ("City Trend")

On 20 November 2023, pursuant to the sales and purchase agreement dated 23 October 2023 entered into between a subsidiary of the Company and an independent third party, the Group agreed to disposed of its entire equity interest in City Trend at a consideration of US\$3,000,000 (equivalent to HK\$23,432,000).

The net assets of City Trend at the date of disposal were as follows:

| | 20 November 2023 HK\$'000 |
|--|---------------------------------|
| Investment properties (<i>Note 14</i>) | 20,884 |
| Cash and cash equivalents | 118 |
| Other payables and accruals | (26) |
| Amount due to the Group | (18,093) |
| Net assets disposed of | 2,883 |

The gain arising from the disposal recognised in the consolidated income statement is calculated as follows:

| | 20 November 2023 HK\$'000 |
|---|---------------------------------|
| Cash consideration | 23,432 |
| Less: Amount due to the Group | (18,093) |
| Adjusted consideration | 5,339 |
| Less: Net assets disposed of | (2,883) |
| Gain on disposal of subsidiaries | 2,456 |

Net cash inflow arising on disposal

| | 20 November 2023 HK\$'000 |
|---|---------------------------------|
| Total cash consideration | 23,432 |
| Less: Consideration receivable (<i>Note 21</i>) | (15,662) |
| Less: Cash and cash equivalents disposed of | (118) |
| | 7,652 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

38. 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.

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.

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.

As at 31 December 2023, the litigation of Other Lawsuits is continuing.

No provision for the indemnity has been recognised for the year ended 31 December 2023 (2022: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

- (b) On 21 April 2022, the Claimant filed a 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 pleaded, in the lawsuit did not give rise to legally-actionable claims. The court has given the Claimant three opportunities to file amendments that rectify the legal defects that the court identified with respect to the New Lawsuit and each subsequent amended complaint. The US Subsidiary's clients filed a motion to dismiss the latest amended complaint which the court heard on 5 October 2023. The court has not yet issued its decision on whether it will dismiss all or portions of the latest amended complaint.

No provision for the indemnity has been recognised for the year ended 31 December 2023 (2022: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

39. EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in the consolidated financial statements, the following event took place subsequently to 31 December 2023:

On 24 January 2024, 600,000,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.207 each to an independent party of the Group at an aggregate consideration of approximately HK\$124,162,000 net of issuing expenses.

40. CAPITAL RISK MANAGEMENT

The Group's objectives of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of net debt (including the borrowings disclosed in note 25, lease liabilities disclosed in note 15, less cash and cash equivalents and pledged bank deposits disclosed in note 23) and total equity.

The Group's risk management reviews the capital structure on a semi-annual basis. The Group will consider both debt financing and equity financing for its capital requirements. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. The gearing ratio at the end of reporting period was as follows:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| Debts | 447,694 | 442,431 |
| Cash and cash equivalents and pledged bank deposits | (635,854) | (153,553) |
| Net debt | N/A | 288,878 |
| Total equity | 507,333 | 293,019 |
| Net debt to equity ratio | N/A | 99% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

41. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk.

(a) Credit risk

The credit risk of the Group's financial assets (which comprise gross trade receivables, other receivables, loan to a joint venture, amounts due from associates, amount due from a joint venture, cash and cash equivalents and pledged bank deposits and contract assets) arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group's credit risk is primarily attributable to its trade and other receivables, amount due from a joint venture and contract assets. The credit risk for bank balances is limited because the counter-parties are banks, with high credit rating.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Trade receivables and contract assets

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

Trade receivables are due within 30 days (2022: 30 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

As at 31 December 2023, the Group has a concentration of credit risk as 39% and 72% (2022: 23% and 61%) respectively of the total gross trade receivables were due from the Group's largest customer and the five (2022: five) largest customers respectively.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases which is based on days past due for groupings of various customer segments that have similar loss patterns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2023 and 2022:

| As at 31 December 2023 | Expected loss rate % | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 |
|---------------------------|-------------------------|-----------------------------------|----------------------------|
| Current (not past due) | 0.42 | 10,198 | 43 |
| 1 to 3 months past due | 1.45 | 22,666 | 329 |
| 3 to 6 months past due | 7.99 | 5,982 | 478 |
| 6 to 12 months past due | 12.86 | 3,912 | 503 |
| More than 1 year past due | 65.29 | 11,255 | 7,348 |
| | | 54,013 | 8,701 |

| As at 31 December 2022 | Expected loss rate % | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 |
|---------------------------|-------------------------|-----------------------------------|----------------------------|
| Current (not past due) | 0.42 | 28,523 | 119 |
| 1 to 3 months past due | 1.93 | 11,877 | 229 |
| 3 to 6 months past due | 6.04 | 1,852 | 112 |
| 6 to 12 months past due | 13.52 | 554 | 75 |
| More than 1 year past due | 55.25 | 12,079 | 6,674 |
| | | 54,885 | 7,209 |

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The adjustment factors are based on the GDP forecast in each geographical region.

The following table reconciles the loss allowance account in respect of trade receivables and contract assets for the years ended 31 December 2023 and 2022:

| | 2023 HK\$'000 | 2022 HK\$'000 |
|---|------------------|------------------|
| As at 1 January | 7,209 | 9,195 |
| Amounts written off during the year | (929) | - |
| Impairment loss recognised/(reversed) during the year | 2,422 | (936) |
| Exchange realignment | (1) | (1,050) |
| As at 31 December | 8,701 | 7,209 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Amounts due from associates and other receivables

As for amounts due from associates and other receivables, impairment loss is recognised as 12-month ECL since initial recognition. Subsequently the Group assesses whether there was a significant increase in credit risk. In determining the ECL, the Directors have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these other receivables occurring within their respective loss assessment time horizon, as well as the loss given default.

The movements in the impairment allowance of amounts due from associates were as follows:

| | 12-month ECL (Stage 1) HK\$'000 | Lifetime ECL not credit-impaired (Stage 2) HK\$'000 | Lifetime ECL credit-impaired (Stage 3) HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|--|--|-------------------|
| As at 1 January 2022 | - | - | 185,468 | 185,468 |
| Impairment loss recognised during the year | - | - | 12,180 | 12,180 |
| As at 31 December 2022 and 1 January 2023 | - | - | 197,648 | 197,648 |
| Impairment loss recognised during the year | - | - | 4,174 | 4,174 |
| Impairment loss reversed during the year | - | - | (926) | (926) |
| Exchange realignment | - | - | (1,703) | (1,703) |
| As at 31 December 2023 | - | - | 199,193 | 199,193 |

The movements in the impairment allowance of other receivables were as follows:

| | 12-month ECL (Stage 1) HK\$'000 | Lifetime ECL not credit-impaired (Stage 2) HK\$'000 | Lifetime ECL credit-impaired (Stage 3) HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|--|--|-------------------|
| As at 1 January 2022 | - | - | 87,795 | 87,795 |
| Impairment loss recognised during the year | - | - | 3,963 | 3,963 |
| As at 31 December 2022 and 1 January 2023 | - | - | 91,758 | 91,758 |
| Impairment loss recognised during the year | - | - | 1,226 | 1,226 |
| Impairment loss reversed during the year | - | - | (8,050) | (8,050) |
| Written off during the year | - | - | (1,226) | (1,226) |
| As at 31 December 2023 | - | - | 83,708 | 83,708 |

Note: Included in the above allowances for ECL in respect of other receivables is provisions for individually impaired other receivables of HK\$Nil and HK\$68,000,000 (2022: HK\$8,050,000 and HK\$68,000,000) respectively with details as set out in notes 21 (iii) and (iv)(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for borrowings is prepared based on the scheduled repayment dates:

| Group | Carrying amount HK\$'000 | Total contractual undiscounted cash flow HK\$'000 | Within 1 year or on demand HK\$'000 | More than 1 year but less than 2 years HK\$'000 | More than 2 years but less than 5 years HK\$'000 | More than 5 years HK\$'000 |
|---|-----------------------------|--|---|--|---|----------------------------------|
| 2023 | | | | | | |
| SME loan | 4,909 | 4,909 | 4,909 | - | - | - |
| Other bank loans | 173,350 | 181,728 | 57,479 | 80,422 | 43,827 | - |
| Other loans | 172,479 | 179,534 | 55,220 | 124,314 | - | - |
| Trade payables, other payables and accruals | 195,078 | 195,078 | 195,078 | - | - | - |
| Lease liabilities | 96,956 | 109,969 | 46,161 | 36,924 | 25,827 | 1,057 |
| | 642,772 | 671,218 | 358,847 | 241,660 | 69,654 | 1,057 |
| 2022 | | | | | | |
| SME loan | 4,909 | 4,909 | 4,909 | - | - | - |
| Other bank loans | 123,937 | 127,124 | 102,549 | 24,212 | 363 | - |
| Other loans | 213,016 | 228,376 | 57,053 | 171,323 | - | - |
| Trade payables, other payables and accruals | 190,115 | 190,115 | 190,115 | - | - | - |
| Lease liabilities | 100,569 | 121,022 | 33,860 | 33,192 | 51,699 | 2,271 |
| | 632,546 | 671,546 | 388,486 | 228,727 | 52,062 | 2,271 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table below summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were different from that disclosed in the “on demand” time band in the maturity analysis contained in above table. Taking into account the Group’s financial position, the Directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The Directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

| | Carrying amount HK\$'000 | Total contractual undiscounted cash flows HK\$'000 | Within 1 year or on demand HK\$'000 | More than 1 year but less than 2 years HK\$'000 | More than 2 years but less than 5 years HK\$'000 | More than 5 years HK\$'000 |
|------------------|-----------------------------|---|---|--|---|----------------------------------|
| 31 December 2023 | 4,304 | 4,304 | 4,304 | - | - | - |
| 31 December 2022 | 2,765 | 2,765 | 2,765 | - | - | - |

(c) Interest rate risk

The Group’s interest rate risk arises primarily from bank loans and other loans. Seven (2022: seven) of bank borrowings and one (2022: one) of the other loans were issued at variable rates which exposed the Group to cash flow interest rate risk. The Group’s interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group’s net borrowings at the end of reporting period:

| | 2023 | | 2022 | |
|---------------------------------|---------------------------------|----------|---------------------------------|----------|
| | Effective interest rate % | HK\$'000 | Effective interest rate % | HK\$'000 |
| Variable-rate borrowings | | | | |
| Bank loans | 2.50-8.20 | 177,905 | 1.15-7.45 | 124,747 |
| Other loans | 5.63-5.88 | 96,768 | 5.00-5.63 | 96,739 |
| | | 274,673 | | 221,486 |
| Fixed-rate borrowings | | | | |
| Bank loans | 5.00 | 354 | 3.00-5.00 | 4,099 |
| Other loans | 5.00-10.00 | 48,647 | 5.00-24.00 | 89,212 |
| | | 49,001 | | 93,311 |

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FOR THE YEAR ENDED 31 DECEMBER 2023

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Interest rate risk (continued)

The interest rates and terms of repayment of the Group's borrowings are disclosed in note 25.

Sensitivity analysis

As at 31 December 2023, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase (2022: increase/decrease) the loss after taxation and decrease/increase (2022: increase/decrease) accumulated losses of the Group by HK\$3,394,000/HK\$3,394,000 (2022: HK\$679,000/HK\$679,000) respectively. Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2022.

(d) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in HK\$ which is different from the functional currency of the Group entities, i.e. RMB, US\$, CAD, Indian Rupees ("INR") and Euro ("EUR") which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manage its foreign currency risk by monitoring the movements of the foreign currency rates and will consider hedging significant foreign currency exposures should the need arise.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity instruments classified as financial assets at FVTPL. All of these investments are listed.

Sensitivity analysis

The sensitivity analysis on equity price risk includes the Group's financial instruments, which fair value or future cash flows will fluctuate because of changes in their corresponding or underlying asset's equity price. If the prices of the respective listed equity instruments had been 5% higher/lower, loss (2022: loss) for the year would decrease/increase (2022: decrease/increase) by HK\$1,586,000 (2022: HK\$2,067,000) and accumulated losses of the Group would decrease/increase (2022: decrease/increase) by HK\$1,586,000 (2022: HK\$2,067,000) respectively.

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42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2023 and 2022 may be categorised as follows:

(a) Categories of financial assets and financial liabilities

| | 2023 HK\$'000 | 2022 HK\$'000 |
|--|------------------|------------------|
| Financial assets | | |
| Financial assets at amortised cost (including cash and cash equivalents) | 746,980 | 274,028 |
| Financial assets at FVTPL | 31,719 | 41,349 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | 545,816 | 531,977 |
| Lease liabilities | 96,956 | 100,569 |

(b) Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets which are traded on active markets are determined with reference to quoted market bid prices; and
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their fair values.

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Financial assets at FVTPL – Listed equity investments | | | Total HK\$'000 |
|------------------------|--|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | |
| As at 31 December 2023 | 31,719 | - | - | 31,719 |
| As at 31 December 2022 | 41,349 | - | - | 41,349 |

During the year, there was no transfer of fair value measurements between level 1 and level 2 and no transfer into or out of level 3 for both financial assets and financial liabilities.

FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group are summarised below:

| | 2023 HK\$'000 | 2022 HK\$'000 | 2021 HK\$'000 | 2020 HK\$'000 | 2019 HK\$'000 |
|--|------------------|------------------|------------------|------------------|------------------|
| Results | | | | | |
| Revenue | 736,501 | 958,651 | 864,214 | 604,323 | 625,446 |
| Loss attributable to owners of the Company | (394,571) | (206,320) | (722,004) | (598,527) | (400,813) |
| Assets and Liabilities | | | | | |
| Total assets | 1,253,923 | 1,029,703 | 1,200,099 | 1,497,250 | 2,175,050 |
| Total liabilities | (746,590) | (736,684) | (689,313) | (684,379) | (697,855) |
| | 507,333 | 293,019 | 510,786 | 812,871 | 1,477,195 |
| Non-controlling interests | 164,140 | 82,738 | 75,086 | 28,560 | (50,643) |
| Equity attributable to owners of the Company | 671,473 | 375,757 | 585,872 | 841,431 | 1,426,552 |