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## DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board of directors (the “Directors” and the “Board” respectively) of Digital Domain Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021 together with the comparative figures for the previous year as follows:

#### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 HK\$ '000	2020 HK\$ '000
<b>Continuing operations</b>			
Revenue	4	864,214	601,301
Cost of sales and services rendered		<u>(740,249)</u>	<u>(536,571)</u>
Gross profit		123,965	64,730
Other income and gains	5	86,525	146,948
Selling and distribution expenses		(8,069)	(28,235)
Administrative expenses and other net operating expenses		(348,413)	(403,049)
Finance costs	7	(24,779)	(29,217)
Fair value loss on financial assets measured at fair value through profit or loss	11	(27,694)	-
Impairment loss on goodwill	10	(16,170)	(305,119)
Impairment loss on intangible assets	10	(216,302)	-
(Recognition)/reversal of impairment loss on trade receivables and contract assets		(6,357)	1,440
Impairment loss on other receivables		(81,674)	(1,687)
Impairment loss on investment in an associate	15	(163,626)	-
Impairment loss on amounts due from associates	15	(71,335)	(36,365)
Share of losses of associates		<u>(24,383)</u>	<u>(10,554)</u>
Loss before taxation		(778,312)	(601,108)
Taxation	8	<u>(2,234)</u>	<u>229</u>
Loss from continuing operations		<u><u>(780,546)</u></u>	<u><u>(600,879)</u></u>

	<i>Notes</i>	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Discontinued operation</b>			
Loss from discontinued operation	6	-	(25,624)
Loss for the year	6	<u>(780,546)</u>	<u>(626,503)</u>
<b>Loss attributable to:</b>			
Owners of the Company			
Loss for the year from continuing operations		(722,004)	(584,205)
Loss for the year from discontinued operation		<u>-</u>	<u>(14,322)</u>
		<u>(722,004)</u>	<u>(598,527)</u>
Non-controlling interest			
Loss for the year from continuing operations		(58,542)	(16,674)
Loss for the year from discontinued operation		<u>-</u>	<u>(11,302)</u>
		<u>(58,542)</u>	<u>(27,976)</u>
		<u>(780,546)</u>	<u>(626,503)</u>
<b>Loss per share from continuing operations attributable to the owners of the Company</b>			
			(Re-presented)
Basic and diluted	9	<u>HK cents (17.31)</u>	<u>HK cents (15.95)</u>
<b>Loss per share from discontinued operation attributable to the owners of the Company</b>			
Basic and diluted	9	<u>HK cents N/A</u>	<u>HK cents (0.39)</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Loss for the year</b>	<b>(780,546)</b>	<b>(626,503)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	<b>(17,576)</b>	733
Share of other comprehensive income of associates	<b>(1,384)</b>	(2,859)
Share of other comprehensive income of a joint venture	<u>25</u>	<u>42</u>
Net other comprehensive income that may be reclassified subsequently to profit or loss	<u><b>(18,935)</b></u>	<u>(2,084)</u>
<b>Other comprehensive income for the year, net of tax</b>	<u><b>(18,935)</b></u>	<u>(2,084)</u>
<b>Total comprehensive income for the year</b>	<u><b>(799,481)</b></u>	<u><b>(628,587)</b></u>
<b>Total comprehensive income attributable to:</b>		
- Owners of the Company		
Loss from continuing operations	<b>(739,015)</b>	(586,441)
Loss from discontinued operation	<u>-</u>	<u>(14,321)</u>
	<b>(739,015)</b>	<b>(600,762)</b>
- Non-controlling interest		
Loss from continuing operations	<b>(60,466)</b>	(16,256)
Loss from discontinued operation	<u>-</u>	<u>(11,569)</u>
	<b>(60,466)</b>	<b>(27,825)</b>
	<u><b>(799,481)</b></u>	<u><b>(628,587)</b></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2021**

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b>	<b>2020</b> <b>HK\$'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>83,791</b>	75,477
Right-of-use assets		<b>56,314</b>	88,415
Intangible assets	<i>10</i>	<b>533,994</b>	737,030
Interests in associates	<i>15</i>	<b>34,730</b>	265,104
Interest in a joint venture		<b>71</b>	46
Financial asset measured at fair value through other comprehensive income		-	-
Financial assets measured at fair value through profit or loss	<i>11</i>	<b>70,151</b>	-
Deposits and other receivables	<i>12</i>	<b>7,344</b>	44,375
Deferred tax assets		<b>681</b>	445
		<b>787,076</b>	1,210,892
<b>Current assets</b>			
Trade receivables, other receivables and prepayments	<i>12</i>	<b>140,710</b>	154,657
Contract assets		<b>24,558</b>	17,802
Bank balances and cash		<b>247,755</b>	113,899
		<b>413,023</b>	286,358
<b>Current liabilities</b>			
Trade payables, other payables and accruals	<i>13</i>	<b>170,845</b>	176,572
Lease liabilities		<b>26,567</b>	37,368
Contract liabilities		<b>86,707</b>	44,902
Borrowings		<b>49,646</b>	154,285
Tax payable		<b>7,604</b>	5,225
		<b>341,369</b>	418,352
<b>Net current assets/(liabilities)</b>		<b>71,654</b>	(131,994)
<b>Total assets less current liabilities</b>		<b>858,730</b>	1,078,898
<b>Non-current liabilities</b>			
Other payables	<i>13</i>	<b>10,304</b>	-
Borrowings		<b>238,758</b>	142,309
Lease liabilities		<b>52,352</b>	77,220
Deferred tax liabilities		<b>46,530</b>	46,498
		<b>347,944</b>	266,027
<b>NET ASSETS</b>		<b>510,786</b>	812,871
<b>Capital and reserves</b>			
Share capital		<b>43,290</b>	340,754
Reserves		<b>542,582</b>	500,677
<b>Equity attributable to owners of the Company</b>		<b>585,872</b>	841,431
<b>Non-controlling interest</b>		<b>(75,086)</b>	(28,560)
<b>TOTAL EQUITY</b>		<b>510,786</b>	812,871

## NOTES

### 1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and has its principal place of business at Suite 1201, 12F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Company’s principal subsidiaries are media entertainment business.

As at 31 December 2021, in the opinions of the Directors of the Company, the Company has no immediate and ultimate holding company or ultimate controlling party.

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

#### (a) Adoption of amended HKFRSs – effective on 1 January 2021

The Hong Kong Institute of Certified Public Accountants has issued a number of amended HKFRSs that are first effective for the current accounting period of the Company and its subsidiaries (collectively the “Group”)

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (early adoption)

None of these amended HKFRSs has a material impact on the Group’s results and financial position for the current or prior period. Except for the amendment to HKFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021, the Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period. Impact on the applications of these amended HKFRSs are summarised below.

#### *Amendment to HKFRS 16 – Covid-19-Related Rent Concessions beyond 30 June 2021*

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payment originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the Covid-19 pandemic. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$1,343,000 has been accounted for as a negative variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

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

Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>2</sup>
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use <sup>1</sup>
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract <sup>1</sup>
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>1</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>2</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>2</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

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

*Amendments to HKFRS 3 - Reference to the Conceptual Framework*

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company (the "Directors") do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

*Amendments to HKAS 1 - Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

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

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

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

*Amendments to HKAS 16 - Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors are currently assessing the impact that the application of the amendments will have on the financial statements.

*Amendments to HKAS 37 - Onerous Contracts - Cost of Fulfilling a Contract*

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Directors are currently assessing the impact that the application of the amendments will have on the financial statements.

*Annual Improvements to HKFRSs 2018-2020 - Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41*

The annual improvements amend a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to HKFRSs.
- HKFRS 9, Financial Instruments, which clarify the fees included in the ‘10 per cent’ test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other’s behalf are included.
- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

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

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

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

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

*Amendments to HKAS 8 - Definition of Accounting Estimates*

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

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

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

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

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

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

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

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

### **3. BASIS OF PREPARATION**

#### **Statement of compliance**

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").



#### 4. REVENUE AND SEGMENT REPORTING

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

	2021 HK\$'000	2020 HK\$'000
<b>Continuing operations</b>		
<b>Revenue from contracts with customer within the scope of HKFRS 15:</b>		
Provision of		
– visual effects production and post production services	800,750	544,599
– virtual human and virtual reality services and 360 degree digital capture technology application	56,142	49,140
– granting of licence for virtual reality contents	7,322	7,562
	<u>864,214</u>	<u>601,301</u>
<b>Discontinued operation</b>		
<b>Revenue from contracts with customer within the scope of HKFRS 15:</b>		
Provision of sales of hardware and solution services	<u>-</u>	<u>3,022</u>
<b>Disaggregation of revenue from contracts with customers</b>		
<b>Segment</b>	<b>Media entertainment</b>	
	2021 HK\$'000	2020 HK\$'000
<b>Types of goods or service</b>		
Provision of		
– visual effects production and post production services	800,750	544,599
– virtual human and virtual reality services and 360 degree digital capture technology application	56,142	49,140
– granting of licence for virtual reality contents	7,322	7,562
<b>Total revenue from contracts with customers (continuing operations)</b>	<u>864,214</u>	<u>601,301</u>
<b>Total revenue from contracts with customers (discontinued operation)</b>		
Provision of sales of hardware and solution services	<u>-</u>	<u>3,022</u>
<b>Geographical markets</b>		
Hong Kong (place of domicile)	4,030	2,907
The People's Republic of China (the "PRC")	74,676	66,267
The United States of America ("USA")	309,668	203,697
Canada	404,128	317,962
United Kingdom ("UK")	57,340	5,073
Europe other than UK	3,503	-
Other countries/regions	10,869	5,395
<b>Total revenue from contracts with customers (continuing operations)</b>	<u>864,214</u>	<u>601,301</u>
<b>Total revenue from contracts with customers (discontinued operation)</b>		
The PRC	<u>-</u>	<u>3,022</u>
<b>Timing of revenue recognition</b>		
A point in time	63,464	56,702
Over time	800,750	544,599
<b>Total revenue from contracts with customers (continuing operations)</b>	<u>864,214</u>	<u>601,301</u>
<b>Total revenue from contracts with customers (discontinued operation)</b>		
A point in time	<u>-</u>	<u>3,022</u>

**(a) Reportable segment**

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

In the prior year, the operation for sale of hardware and solution services was discontinued upon the partial disposal of Lead Turbo Limited and its subsidiaries (collectively the “Lead Turbo Group”). The partial disposal by the Group resulted in loss of control of the Lead Turbo Group by the Group. The Group accounts for the retained interests in the Lead Turbo Group as interests in associates. The following summary describes the operations in the Group’s only reportable segment, media entertainment:

**Continuing operations**

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

**Discontinued operation**

- provision of sales of hardware and solution services

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

Segment assets exclude unallocated bank balances and cash, other unallocated head office and corporate assets as these assets are managed on a group basis.

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

	<b>Media entertainment</b>					
	<b>Continuing operations</b>		<b>Discontinued operation</b>		<b>Total</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>	<b>HK\$’000</b>
Revenue from external customers and reportable segment revenue	<b>864,214</b>	601,301	-	3,022	<b>864,214</b>	604,323
Reportable segment loss	<b>(398,994)</b>	(518,676)	-	(29,841)	<b>(398,994)</b>	(548,517)
Additions to non-current assets	<b>97,177</b>	152,036	-	7,488	<b>97,177</b>	159,524
Depreciation and amortisation	<b>(94,257)</b>	(86,454)	-	(30,371)	<b>(94,257)</b>	(116,825)
Impairment loss on goodwill	<b>(16,170)</b>	(305,119)	-	-	<b>(16,170)</b>	(305,119)
Impairment loss on intangible assets	<b>(216,302)</b>	-	-	-	<b>(216,302)</b>	-
Gain on disposal of property, plant and equipment	<b>1</b>	357	-	-	<b>1</b>	357
Taxation (charged)/credited	<b>(2,229)</b>	229	-	4,217	<b>(2,229)</b>	4,446
Reportable segment assets	<b>905,319</b>	1,077,263	-	-	<b>905,319</b>	1,077,263
Reportable segment liabilities	<b>581,029</b>	556,815	-	-	<b>581,029</b>	556,815

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

	2021 <i>HK\$ '000</i>	2020 <i>HK\$ '000</i>
<b>Loss before taxation</b>		
Segment loss from continuing operations	(398,994)	(518,676)
Segment loss from discontinued operation	-	(29,841)
	<u>(398,994)</u>	<u>(548,517)</u>
Reversal of impairment loss on trade receivables and contract assets	-	900
Impairment loss on other receivables	(81,252)	(1,687)
Impairment loss on investment in an associate	(163,626)	-
Impairment loss on amounts due from associates	(71,335)	(36,365)
Fair value loss on financial assets measured at FVTPL	(27,694)	-
Loss on disposal of unallocated property, plant and equipment	-	(83)
Share of losses of associates	(24,383)	(10,554)
Auditor's remuneration	(2,082)	(1,972)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(6,201)	(44,925)
Professional fees	(34,947)	(21,770)
Finance costs	(24,779)	(29,276)
Equity-settled share-based payment expenses	(1,856)	(7,943)
Unallocated short-term lease expenses	(150)	(466)
Unallocated other income and gains	83,485	132,327
Other unallocated corporate expenses*	(24,498)	(60,618)
	<u>(778,312)</u>	<u>(630,949)</u>
<b>Consolidated loss before taxation</b>		
	<u>(778,312)</u>	<u>(630,949)</u>
<b>Assets</b>		
Reportable segment assets	905,319	1,077,263
Unallocated bank balances and cash	213,758	74,682
Unallocated corporate assets	81,022	345,305
	<u>1,200,099</u>	<u>1,497,250</u>
<b>Consolidated total assets</b>		
	<u>1,200,099</u>	<u>1,497,250</u>
<b>Liabilities</b>		
Reportable segment liabilities	581,029	556,815
Tax payable	7,604	5,225
Deferred tax liabilities	46,530	46,498
Unallocated borrowings	4,909	4,909
Unallocated corporate liabilities	49,241	70,932
	<u>689,313</u>	<u>684,379</u>
<b>Consolidated total liabilities</b>		
	<u>689,313</u>	<u>684,379</u>

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

(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*

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Continuing operations</b>		
Hong Kong (place of domicile)	4,030	2,907
The PRC	74,676	66,267
USA	309,668	203,697
Canada	404,128	317,962
UK	57,340	5,073
Europe other than UK	3,503	-
Other countries/regions	10,869	5,395
	<u>864,214</u>	<u>601,301</u>
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Discontinued operation</b>		
The PRC	-	3,022

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

(ii) *Specified Non-current Assets*

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong (place of domicile)	40,537	12,830
The PRC	112,168	388,252
Other regions of Asia	4,709	10,103
USA and Canada	551,486	754,887
	<u>708,900</u>	<u>1,166,072</u>

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

**(d) Major customers**

The Group's customer base is diversified and there was no customer (2020: 2) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenue as follows:

	<b>2021</b> <b>HK\$'000</b>	<b>2020</b> <b>HK\$'000</b>
Customer A	N/A	116,390
Customer B	<u>N/A</u>	<u>67,931</u>

**(e) Revenue**

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

	<b>2021</b> <b>HK\$'000</b>	<b>2020</b> <b>HK\$'000</b>
Trade receivables	<b>65,000</b>	40,798
Contract assets	<b>24,558</b>	17,802
Contract liabilities	<u><b>86,707</b></u>	<u>44,902</u>

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provisions of visual effects production and post production service. 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 media entertainment services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for visual effects production and post production services that had an original expected duration of one year or less.

## 5. OTHER INCOME AND GAINS

	2021 HK\$'000	2020 HK\$'000
<b>Continuing operations</b>		
Income arising from broadcasting movies and TV dramas	3,039	62,393
Interest income	4,509	4,848
Imputed interest on consideration receivables	1,437	777
Covid-19-related rent concessions	1,343	813
Paycheck Protection Program loans forgiven	8,259	19,577
Government subsidies ( <i>Note</i> )	64,019	43,541
Service income from development of intellectual property	-	7,000
Sponsorship received for certain research and development projects	-	2,715
Effect of lease modification	-	431
Others	3,919	4,853
	<u>86,525</u>	<u>146,948</u>
	2021 HK\$'000	2020 HK\$'000
<b>Discontinued operation</b>		
Interest income	-	29
Government subsidies ( <i>Note</i> )	-	608
Others	-	1,353
	<u>-</u>	<u>1,990</u>

*Note:*

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

## 6. LOSS FOR THE YEAR

	2021 HK\$'000	2020 HK\$'000
<b>Continuing operations</b>		
This is arrived at after charging/(crediting):		
Cost of sales and services rendered ( <i>Note</i> )	740,249	536,571
Gain on disposal of property, plant and equipment	(1)	(274)
Exchange differences, net	(13,387)	(7,024)
Auditor's remuneration:		
– audit services	1,850	1,775
– non-audit services	232	197
Depreciation of property, plant and equipment ( <i>Note</i> )	32,228	28,850
Depreciation of right-of-use assets ( <i>Note</i> )	34,378	40,976
Amortisation of intangible assets ( <i>Note</i> )	33,852	61,553
Short-term lease expenses	370	552
Staff costs ( <i>Note</i> ):		
– Directors' remuneration	4,168	7,914
– Other staff costs:		
Salaries, wages and other benefits	751,711	602,666
Retirement benefit scheme contributions	11,504	5,999
Equity-settled share-based payment expenses	1,856	7,943
Total staff costs	769,239	624,522

*Note:*

Cost of sales and services rendered include HK\$638,813,000 (2020: HK\$468,354,000) 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.

### Discontinued operation

On 17 July 2020, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of 22.29% equity interest of the Lead Turbo Group. The disposal was completed on 31 July 2020, the date on which the control of the Lead Turbo Group was lost. Revenue, results and cash flows of the Lead Turbo Group were as follows:

	Period from 1 January 2020 to 31 July 2020 HK\$'000
Revenue	3,022
Expenses	<u>(41,963)</u>
Loss before gain on disposal of discontinued operation and taxation	(38,941)
Gain on disposal of discontinued operation	<u>9,100</u>
Loss before taxation from the discontinued operation	(29,841)
Taxation	<u>4,217</u>
Loss for the year from discontinued operation	<u><u>(25,624)</u></u>
Operating cash outflows	(13,612)
Investing cash outflows	(1,026)
Financing cash inflows	<u>-</u>
Total cash outflows	<u><u>(14,638)</u></u>

A profit of HK\$9,100,000 arose on disposal of the Lead Turbo Group, being the proceeds of disposal and the fair value of the Group's retained interests, less the carrying amount of the subsidiary's net assets attributable to the Group, foreign exchange reserve and attributable goodwill. No tax charge or credit arose from the disposal.



## 7. FINANCE COSTS

	2021 HK\$'000	2020 HK\$'000
<b>Continuing operations</b>		
Imputed interest on:		
Lease liabilities	10,141	14,362
Contingent consideration payable	-	158
Interest on:		
Bank and other loans	14,638	14,697
	<u>24,779</u>	<u>29,217</u>
	2021 HK\$'000	2020 HK\$'000
<b>Discontinued operation</b>		
Imputed interest on:		
Lease liabilities	-	59

## 8. TAXATION

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

	2021 HK\$'000	2020 HK\$'000
<b>Continuing operations</b>		
Current taxation - Hong Kong profits tax	-	-
Current taxation - Overseas tax - provision for the year	3,062	587
Deferred taxation	(828)	(816)
	<u>2,234</u>	<u>(229)</u>
	2021 HK\$'000	2020 HK\$'000
<b>Discontinued operation</b>		
Current taxation - Hong Kong profits tax	-	-
Current taxation - Overseas tax - provision for the year	-	-
- over-provision in respect of prior years	-	(85)
Deferred taxation	-	(4,132)
	<u>-</u>	<u>(4,217)</u>

No provision for Hong Kong profits tax was made for the year ended 31 December 2021 as the Group had estimated tax losses brought forward to offset against the estimated assessable profits. No provision for Hong Kong profits tax was made for the year ended 31 December 2020 as the Group had estimated tax losses brought forward to offset against the estimated assessable profits.

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

## 9. LOSS PER SHARE

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Continuing operations</b>		
Loss for the year attributable to owners of the Company from continuing operations for the purpose of basic loss per share	<u>(722,004)</u>	<u>(584,205)</u>
<b>Discontinued operation</b>		
Loss for the year attributable to owners of the Company from discontinued operation for the purpose of basic loss per share	<u>-</u>	<u>(14,322)</u>
	2021	2020 (Re-presented)
<u>Number of share</u>		
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted ( <i>Note</i> )	<u><u>4,171,108,547</u></u>	<u><u>3,662,937,245</u></u>

*Note:*

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for: i) bonus elements in the issue of shares through share subscription on 18 January 2021\*; and ii) consolidation of every ten existing shares into one consolidated share during the year as if effective since 1 January 2020.

\* There were no bonus elements in the issue of shares through share subscription on 30 July 2021.

For the years ended 31 December 2021 and 2020, 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 equal.

No dividend was paid or proposed for ordinary shareholders of the Company for the year ended 31 December 2021, nor has any dividend been proposed since the end of the reporting period (2020: Nil).

## 10. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Backlog contracts	Licences for intellectual property rights	Other licences	Film rights	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(Note (a))	(Note (b))	(Note (c))	(Note (d))	(Note (e))	(Note (f))	(Note (g))	(Note (h))	(Note (i))	
<b>COST</b>										
As at 1 January 2020	884,952	153,366	200,368	381,763	306,447	18,178	-	17,841	-	1,962,915
Additions	-	-	19,826	-	283	-	8,470	3,767	94,355	126,701
Disposal of subsidiaries	(195,193)	-	(14,320)	-	(200,256)	(18,178)	-	(21,486)	-	(449,433)
Exchange realignment	(174)	1,904	(31)	(1,283)	608	-	-	(122)	-	902
As at 31 December 2020 and 1 January 2021	689,585	155,270	205,843	380,480	107,082	-	8,470	-	94,355	1,641,085
Additions	-	-	21,471	-	-	-	2,447	-	33,639	57,557
Exchange realignment	-	1,899	1,437	1,460	836	-	-	-	634	6,266
As at 31 December 2021	689,585	157,169	228,751	381,940	107,918	-	10,917	-	128,628	1,704,908
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS</b>										
As at 1 January 2020	74,419	-	103,129	344,706	73,264	16,663	-	4,692	-	616,873
Amortisation for the year	-	-	13,103	37,057	24,859	1,514	7,809	4,792	-	89,134
Impairment for the year	305,119	-	-	-	-	-	-	-	-	305,119
Disposal of subsidiaries	-	-	(5,290)	-	(72,443)	(18,177)	-	(9,484)	-	(105,394)
Exchange realignment	-	-	(174)	(1,283)	(220)	-	-	-	-	(1,677)
As at 31 December 2020 and 1 January 2021	379,538	-	110,768	380,480	25,460	-	7,809	-	-	904,055
Amortisation for the year	-	-	27,091	-	5,474	-	1,287	-	-	33,852
Impairment for the year	16,170	138,633	-	-	77,669	-	-	-	-	232,472
Exchange realignment	-	(955)	715	1,460	(685)	-	-	-	-	535
As at 31 December 2021	395,708	137,678	138,574	381,940	107,918	-	9,096	-	-	1,170,914
<b>CARRYING AMOUNT</b>										
As at 31 December 2021	293,877	19,491	90,177	-	-	-	1,821	-	128,628	533,994
As at 31 December 2020	310,047	155,270	95,075	-	81,622	-	661	-	94,355	737,030

Notes:

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

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Visual effects production services	<b>208,691</b>	208,691
Post production services	<b>85,186</b>	85,186
360 degree digital capture technology application	<b>-</b>	16,170
	<b><u>293,877</u></b>	<u>310,047</u>

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 ("KF"), an independent firm of professionally qualified valuers.

The value-in-use calculations for CGUs used cash flows projections based on latest financial budgets approved by the Group's management covering a period of 5 years, which is consistent with the cash flows projections period in 2020.

The cash flow projections beyond the budget period are extrapolated using a growth rate of 2.0% to 2.5% (2020: 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:

	<b>Visual effects production services CGU</b>	<b>Post production services CGU</b>	<b>360 degree digital capture technology application CGU</b>
<b>2021</b>			
Average revenue growth rate within budget period	12.1%	16.4%	4.0%
Pre-tax discount rate	18.6%	17.4%	17.0%
Average gross margin	17.9%	56.2%	16.0%
Recoverable amount (HK\$'000)	<b><u>558,554</u></b>	<b><u>214,229</u></b>	<b><u>-</u></b>
<b>2020</b>	<b>Visual effects production services CGU</b>	<b>Post production services CGU</b>	<b>360 degree digital capture technology application CGU</b>
Average revenue growth rate within budget period	19.3%	22.2%	22.5%
Pre-tax discount rate	17.6%	20.6%	18.0%
Average gross margin	15.9%	48.9%	36.1%
Recoverable amount (HK\$'000)	<b><u>584,453</u></b>	<b><u>178,735</u></b>	<b><u>202,925</u></b>

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.

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

Contracts in the 360 degree digital capture technology application CGU are generally characterised by short period of time between contracts, a significant slowdown in demand of services in Mainland of China, North America and other parts of the world led to the reduction in delivery of projects and the prospects of growth in this CGU. This places intense pressure on the business of 360 degree digital capture technology application CGU and causes an adverse impact on the estimated value-in-use of the 360 degree digital capture technology application CGU.

The Group has undertaken a strategic review of the Group's operations. In the opinion of the Directors, the Group should strategically focus its resources towards its core virtual effects and virtual human capabilities and the development of markets for the Group's related offerings and develop plans appropriately to address its investments.

Accordingly, impairment losses on goodwill of HK\$16,170,000 and intangible assets of HK\$216,302,000 for 360 degree digital capture technology application CGU were recognised in profit or loss (2020: impairment loss on goodwill of HK\$305,119,000 for 360 degree digital capture technology application CGU was recognised in profit or loss).

The recoverable amounts for the visual effects production services CGU, post production services CGU and 360 degree digital capture technology application CGU are HK\$558,554,000, HK\$214,229,000 and HK\$ Nil respectively.

Except as described above, the recoverable amounts in relation to other CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill and other non-financial assets as at 31 December 2021 and 2020. The management was of the opinion that a reasonably possible change in key assumptions for other CGUs on which the management had based its determination of the CGUs' recoverable amount would not cause an impairment loss.

- (b) Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. Trademarks will expire between 2022 and 2023. The Directors are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. In the opinion of the Directors, the trademarks can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the trademarks by the Group with reference to the history of operations and considering that such trademarks could be managed efficiently by another management team; and (ii) the long product life cycles for the trademarks.

The trademarks are allocated to the Group's visual effects production services and 360 degree digital capture technology application CGUs for the purpose of impairment testing, which are outlined as follows:

	<b>2021</b> <b>HK\$'000</b>	2020 HK\$'000
Visual effects production services	<b>19,491</b>	19,382
360 degree digital capture technology application	<u>-</u>	<u>135,888</u>
	<b><u>19,491</u></b>	<b><u>155,270</u></b>

An impairment loss on intangible assets – trademark of HK\$138,633,000 (2020: HK\$ Nil) for 360 degree digital capture technology application CGU was recognised in profit or loss during the year. Please refer to note 10(a) for details.

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

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

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

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

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

Patents are allocated to the Group's 360 degree digital capture technology application CGU for the purpose of impairment testing. An impairment loss on intangible assets – patents of HK\$77,669,000 (2020: HK\$ Nil) for 360 degree digital capture technology application CGU was recognised in profit or loss during the year. Please refer to note 10(a) for details.

- (f) Backlog contracts represent revenue the Group expects to realise for sales of hardware and solution to be performed from existing signed contracts.

The backlog contracts are allocated to the Group's CGU in connection with sales of hardware and solution service which has been disposed of in the prior year.

- (g) 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 on asset level for a stand alone basis.

- (h) Other licences represented the technology licences leased from third parties, which are amortised over the terms of the relevant licensing agreements. Other licences were disposed of in the prior year.

- (i) Film rights represent films produced or films production in progress by the Group. As at 31 December 2021 and 2020, there is a film that was in production but no other produced film. Accordingly, no amortisation was recognised during both years. The film is internally produced by the Group, and the Group is subject to all retained profit generated from the film right, after shared by producers and other independent parties by certain percentage mentioned in the agreements between the Group and the other parties. The film is expected to be wide released in 2022, and upon the release, amortisation of the capitalised production costs will commence over the best estimate of its useful life.

## 11. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

On 3 February 2021, the Group acquired 248,431 common shares of asknet Solutions AG (“asknet”), a publicly traded German ecommerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) at the consideration of approximately EUR3,709,000 (equivalent to approximately HK\$34,586,000). The sales shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021.

On 24 November 2021, asknet proposed to increase its capital from 1,307,530 shares to 3,268,825 shares. Therefore the sales shares held by the Group was diluted which represented approximately 7.6% of the total issued common shares of asknet as at 31 December 2021.

On 26 February 2021 and 6 May 2021, the Group acquired 260,000 and 5,000, respectively, bearer shares of Highlight Event and Entertainment AG (“HLEE”), a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) at the consideration of approximately EUR7,064,000 (equivalent to approximately HK\$66,405,000) and EUR150,000 (equivalent to approximately HK\$1,403,000), respectively. The sales shares represented approximately 2.91% and 0.06% of the total issued bearer shares of HLEE on 26 February 2021 and 6 May 2021, respectively. Upon the completion of these two acquisitions, the total sales shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021.

As at 31 December 2021, the sales shares held by the Group represented approximately 2.8% of the total issued bearer shares of HLEE due to the increase of share capital of HLEE in 2021.

The fair value of the listed equity securities are determined based on the quoted market closing prices available on the relevant stock exchanges at the end of the reporting period.

	<b>2021</b> <b>HK\$'000</b>	2020 HK\$'000
Listed equity securities outside Hong Kong, at fair value	<b>70,151</b>	-

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

	<b>2021</b> <b>HK\$'000</b>	2020 HK\$'000
As at 1 January	-	-
Additions during the year	<b>102,394</b>	-
Fair value loss recognised in profit or loss	<b>(27,694)</b>	-
Exchange realignment	<b>(4,549)</b>	-
As at 31 December	<b>70,151</b>	-

## 12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<b>Non-current portion:</b>		
Deposits ( <i>Note (i)</i> )	7,344	12,004
Consideration receivable	-	32,371
	<u>7,344</u>	<u>44,375</u>
<b>Current portion:</b>		
Trade receivables ( <i>Notes (i) and (ii)</i> )	65,000	40,798
Consideration receivable	-	33,648
Other receivables ( <i>Note (i)</i> )	49,308	57,433
Deposits ( <i>Note (i)</i> )	5,355	2,750
Prepayments	21,047	20,028
	<u>140,710</u>	<u>154,657</u>
<b>Total trade receivables, other receivables and prepayments</b>	<u><u>148,054</u></u>	<u><u>199,032</u></u>

*Notes:*

- (i) The Directors consider that the carrying amounts of trade receivables, other receivables, and deposits approximate their fair values as at 31 December 2021 and 2020.
- (ii) The Group normally allows an average credit period of 30 days (2020: 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 30 days	20,259	17,031
31 to 60 days	8,023	5,702
61 to 90 days	15,669	4,815
91 to 365 days	17,543	10,913
Over 365 days	3,506	2,337
	<u>65,000</u>	<u>40,798</u>



### 13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2021 HK\$'000	2020 HK\$'000
<b>Non-current portion:</b>		
Other payables	<u>10,304</u>	<u>-</u>
<b>Current portion:</b>		
Trade payables	46,871	37,943
Other payables	49,347	66,654
Accruals	<u>74,627</u>	<u>71,975</u>
	<u>170,845</u>	<u>176,572</u>
<b>Total trade payables, other payables and accruals</b>	<u>181,149</u>	<u>176,572</u>

Trade payables are non-interest bearing and are normally settled within 30-180 days (2020:30-180 days).

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2021 and 2020.

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

	2021 HK\$'000	2020 HK\$'000
0 to 30 days	14,543	15,595
31 to 60 days	18,482	8,087
61 to 90 days	3,126	1,327
91 to 365 days	5,635	7,736
Over 365 days	<u>5,085</u>	<u>5,198</u>
	<u>46,871</u>	<u>37,943</u>

### 14. CONTINGENT LIABILITIES

A wholly-owned subsidiary of the Company based in the United States (the "US Subsidiary") has been acknowledged by several clients in the USA in connection with the possible indemnification of losses suffered by these clients as a result of their involvements in other lawsuits (the "Other Lawsuits") filed by a claimant (the "Claimant") against these clients. This Claimant had dispute over ownership of certain physical equipment and intellectual property (the "Disputed IP") with the original owner (the "Original Owner") and a court in the USA concluded that the Claimant owns the Disputed IP on 11 August 2017. The Group had used these Disputed IP under a licence from the Original Owner and completed certain visual effect projects for these clients.

The US Subsidiary submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company believed that coverage was no longer existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

No specific monetary amount has been identified in the indemnity requests by these clients. The insurance company and the US Subsidiary are continuing their discussion with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits.

No provision for the indemnity has been recognised for the year ended 31 December 2021 (2020: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

On 20 January 2022, Claimant, US Subsidiary's clients, US Subsidiary and its insurance company commenced a settlement process through a neutral third party mediator. The mediator has been having discussions separately with each of the parties as a way to aid the parties in reaching a settlement. The mediator's discussions with the parties are continuing.

# **15. INTERESTS IN ASSOCIATES**

	<b>2021</b> <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Share of net assets	<b>582</b>	173,300
Amounts due from associates (Note)	<b>219,616</b>	205,937
	<b>220,198</b>	379,237
Less: Accumulated impairment loss on amounts due from associates	<b>(185,468)</b>	(114,133)
	<b>34,730</b>	265,104

The Group's interests in associates are accounted for using the equity method in the consolidated financial statements.

## *Note:*

The amounts due from associates are unsecured, interest-free and repayable on demand. An associate entity face uncertainty on the commercial roll out of its new products and turnaround of its business in view of the pandemic related social distancing measures and travel restrictions together with the change in the Group's strategy as described in note 10(a). 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 expected credit loss of amounts due from associates at the reporting date. Impairment loss on investment in an associate and amounts due from associates of HK\$163,626,000 (2020: HK\$ Nil) and HK\$71,335,000 (2020: HK\$36,365,000), including share of losses of HK\$7,637,000 (2020: HK\$11,377,000) recognised in excess of investments in associates, were recognised for the year.

## **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

## **REVIEW AND OUTLOOK**

### ***FINANCIAL AND BUSINESS REVIEW***

During the year ended 31 December 2021, the Group achieved a revenue from continuing operations of HK\$864,214,000 (2020: HK\$601,301,000), showing an increase of approximately 44% compared to that of the previous year. The gross profit from continuing operations of the Group amounted to HK\$123,965,000 (2020: HK\$64,730,000) during the year under review, showing an increase of approximately 92%. The increase in revenue and gross profit were attributable to the media entertainment segment. As at 31 December 2021, the total assets of the Group amounted to HK\$1,200,099,000 (as at 31 December 2020: HK\$1,497,250,000). The loss attributable to the owners of the Company from continuing operations for the year was HK\$722,004,000 (2020: HK\$584,205,000). The loss for the year was approximately HK\$780,546,000 (2020: HK\$626,503,000). The loss for the year was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
  - (a) equity-settled share-based payments for the share options granted between 2014 and 2021 to the value of HK\$1,856,000 (2020: HK\$7,943,000);
  - (b) amortisation and depreciation expenses (besides the two items mentioned in (f) and (g) below but excluding depreciation related to Right-of-use Assets) to the value of HK\$66,080,000 (2020: HK\$53,346,000);
  - (c) impairment losses on goodwill and intangible assets attributable to a cash generating unit (CGU) of HK\$232,472,000 (2020: impairment loss on goodwill of HK\$305,119,000) and impairment losses attributable to associates of HK\$234,961,000 (2020: HK\$36,365,000);
  - (d) share of losses of associates of HK\$24,383,000 (2020: HK\$10,554,000);
  - (e) fair value loss on financial assets measured at fair value through profit or loss of HK\$27,694,000 (2020: HK\$ Nil);
  - (f) there was no amortisation and depreciation expenses from the acquisition of 3Glasses Group for the year (2020: HK\$28,664,000); and
  - (g) there was no amortisation expenses from the investment in TV drama series (grouped under “Participation Rights”) for the year (2020: HK\$37,057,000);
- (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 from continuing operations recorded a revenue of approximately HK\$864,214,000 (2020: HK\$601,301,000) and incurred a loss of approximately HK\$398,994,000 (2020: HK\$518,676,000). The loss included the impairment loss on goodwill and related intangible assets (if applicable) of HK\$232,472,000 (2020: HK\$305,119,000) and research and development costs incurred during the year under review relating to virtual human technology.

“The earnings before interest, tax, depreciation and amortisation (EBITDA)” of the media entertainment segment from continuing operations (including the impairment loss on goodwill and related intangible assets (if applicable) of HK\$232,472,000 (2020: HK\$305,119,000)) for the year ended 31 December 2021 was a loss of HK\$304,737,000 (2020: HK\$432,222,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company’s operating performance. EBITDA should not be considered in isolation or be construed as an alternative to cash flows, net income or any other measure of performance, or as an indicator of the Group’s operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA for the media entertainment segment is calculated based on the loss of the segment for the period but does not account for taxes, interest expenses, depreciation (of the segment’s property, plant and equipment) and amortisation charges (on the segment’s intangible assets).

### A. Visual Effects Production and Post-Production Business

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

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

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

##### The Telly Awards

VFX Supervisor Mr. Matt DOUGAN, Director Mr. Aladino DEBERT, CG Supervisor Mr. David LIU, Executive Producer Ms. Nicole FINA and Senior Producer Ms. Rachel MARISCAL CREASEY were awarded a Gold Telly Award for Visual Effects on **Ghost of Tsushima – “A Storm is Coming”**.

VFX Supervisor Mr. Piotr KARWAS, Executive Creative Director Mr. Kevin LAU, CG Supervisor Mr. David LIU, Executive Producer Ms. Nicole FINA and Senior Producer Ms. Rachel MARISCAL CREASEY were awarded a Silver Telly Award for Visual Effects on **Perfect Dark**’s official game announcement trailer.

VFX Supervisor Mr. Dan BARTOLUCCI, Executive Creative Director Mr. Kevin LAU, Executive Producer Ms. Nicole FINA, Executive Producer Mr. John CANNING and Senior Producer Ms. Alexandra MICHAEL were awarded a Silver Telly Award for Immersive & Mixed Reality on the **NFL** (The National Football League)’s **Super Bowl LV Commercial “AS ONE”**.

### **The Emmy Awards**

Supervised by Mr. Marion SPATES, Marvel Studios' *"WandaVision"* was nominated for "Outstanding Special Visual Effects in a Season or Movie".

### **Hollywood Professional Association ("HPA")**

VFX Supervisor Mr. David HODGINS and his team were awarded an HPA award for Outstanding Visual Effects – Theatrical Feature for *"Black Widow"*.

For the Marvel series *"WandaVision"*, Mr. Marion SPATES and his team were nominated and named as finalists for an HPA Award in the Outstanding Visual Effects – Episode (13 Episodes and Fewer) or Non-Theatrical Feature category.

### **The Visual Effects Society Awards**

Mr. Aladino DEBERT, Mr. Matt DOUGAN, Mr. Eric BEAVER and Mr. David LIU received a nomination for Outstanding Virtual Cinematography in a CG Project for their work on *Ghost of Tsushima "A Storm is Coming"*.

Mr. Aruna INVERSIN, Mr. Peter NELSON, Mr. Kevin WILLIAMS and Mr. Sean KEALEY received a nomination for Outstanding Visual Effects in a Special Venue Project for their work on *"The March"*.

### **The Lumiere Awards**

Virtual Human Group's Mr. Lucio MOSER, Mr. Dimitry KACHKOVSKI, Mr. Darren HENDLER and Mr. Doug ROBLE were awarded the Technical Achievement Award at the 11th Annual Entertainment Technology Lumiere Awards.

### **Clio Awards**

Digital Domain project and NFL Superbowl LV, *"AS ONE"*, commercial received a silver Clio Award and *Ghost of Tsushima – "A Storm is Coming"* trailer received a bronze award.

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

- *"Morbius"* - VFX Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their team worked on this highly anticipated Sony Pictures film directed by Daniel ESPINOSA, scheduled for release in 2022.
- *"Free Guy"* - VFX Supervisor Mr. Nikos KALAITZIDIS and his team worked on Shawn Levy's action-comedy following a bank teller who discovers that he's actually an NPC inside a brutal, open world video game. The film released in 2021.
- *"Black Widow"* - VFX Supervisor Mr. Dave HODGINS and his team worked on Marvel Studios' film following Natasha Romanoff on her quests between the films *"Captain America: Civil War"* and *"Avengers: Infinity War"*. The film released in 2021.

- ***“Chaos Walking”*** - VFX Supervisor Mr. Mitch DRAIN and his team worked on director Doug LIMAN’s film about a dystopian world where there are no women and all living creatures can hear each other’s thoughts in a stream of images, words, and sounds called Noise. The film released in 2021.
- ***“Shang-Chi and the Legend of the Ten Rings”*** - VFX Supervisor Mr. Hanzhi TANG and his team worked on the Marvel Studios film released in 2021.
- ***“Doctor Strange in the Multiverse of Madness”*** - VFX Supervisor Mr. Joel BEHRENS and his team began work on the next installation in the Doctor Strange series. The film is scheduled for release in 2022.
- ***“Fantastic Beasts and Where to Find Them 3”*** - VFX Supervisor Mr. Jay BARTON and his team began work on Warner Bros.’ third installation in the “Fantastic Beasts” series expected for release in July 2022.
- ***“Spider-Man: No Way Home”*** - VFX Supervisors Mr. Kelly PORT, Mr. Scott EDELSTEIN and their team worked on the third instalment of the Spider-Man franchise released in December 2021
- ***“Ant-Man and the Wasp: Quantumania”*** - VFX Supervisor Mr. David HODGINS and his team is working on the film that follows the adventures of Ant-Man and the Wasp due for release in 2023.
- ***“Black Adam”*** - VFX Supervisor Mr. Nikos KALAITZIDIS and his team are working on the “Shazam!” spin off starring Dwayne “The Rock” Johnson. The film is due out July 2022.
- ***“Chupa”*** - VFX Supervisor Mr. Mitch DRAIN is working with Netflix Studios client side on the film, which is set to release in 2022.
- ***“Children of the Corn”*** - VFX Supervisor Mr. Mitch DRAIN and his team delivered visual work on the upcoming horror film to be released in 2022.
- ***“Black Panther: Wakanda Forever”*** - VFX Supervisor Mr. Hanzhi TANG and his team worked on the sequel to the Marvel film, which is set to release in November 2022.

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

- ***“WandaVision”*** – VFX Supervisor Mr. Marion SPATES and his team delivered 350 shots for the Marvel Studios series released in January 2021.
- ***“Loki”*** – VFX Supervisor Mr. Jean-Luc DINSDALE and his team created almost 500 shots over two episodes for the series released in June 2021.

- **“Lost in Space”, Season 3** – VFX Supervisor Mr. Marion SPATES and his team delivered work for the final season of the Netflix series.
- **“Ms. Marvel”** – VFX Supervisor Mr. Aladino DEBERT and his team began work on the new Marvel Studios series, scheduled for release in 2022.
- **“She-Hulk”** – VFX Supervisor Mr. Phil CRAMER is leading a team of artists to create the visual effects for the Marvel Studios series, which is due to release in 2022.
- VFX Supervisor Mr. Aladino DEBERT and Digital Domain artists worked on season 2 of an undisclosed **Amazon series**.
- VFX Supervisor Mr. Manolo MANTERO and DD artists worked on season 4 of an undisclosed **Netflix series**.

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

- Marvel Studios’ **“Spider-Man: No Way Home”**
- Warner Bros.’ **“Fantastic Beasts and Where to Find Them 3”**
- Marvel Studios’ **“Black Panther: Wakanda Forever”**
- 20th Century Studios’ **“Free Guy”**
- Marvel Studios’ **“She-Hulk”**
- Marvel Studios’ **“Ant-Man and the Wasp: Quantumania”**
- Marvel Studios’ **“Doctor Strange in the Multiverse of Madness”**
- An upcoming Universal Pictures film

Additionally, the visualisation team provided previsualisation services for the following commercials: **eToro’s** :30+ Super Bowl LVI commercial, a :30+ **Wendy’s** spot, and a game trailer for **“Perfect World”** that was featured at E3.

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

- An undisclosed **AAA video game** to be released in 2022.
- An upcoming **theme park project**.
- Stage 11, **The David Guetta Project**.
- Machine Games, **“Relic”**.
- Two weeks of shooting for Marvel Studios’ **“Spider-Man: No Way Home”**.
- Marvel Studios’ **“She-Hulk”**.
- An undisclosed **Netflix series**.



**We provided VFX services for advertisements, special venue projects and games. Work completed in 2021 includes:**

- For **WENDY'S**, the advertising/games team delivered :30 and :15 spots, as well as four social posts for the company's Jalapeno Poppers campaign, in addition to creating a CG hamburger for the reveal and finished multiple spots including, Breakfast, Bunception, Bobble, Announcement, Keynote, Bourbon Bacon, May Breakfast, Any Drink, BOGO, Chuck, 2 for \$4, The Breakoning, Spicy Nuggets, Sampling, College, Cheddar, Beef.
- For **APPLE's "NBA 2K21"**, the studio produced a :30 spot complete with cutdowns and also handled the shoot.
- Digital Domain teamed up with 72andSunny to complete the CG shoots for a live-action spot of **Activision Blizzard's "World of Warcraft"**, as well as all tagging and finishing for 150 deliverables.
- Also, for **Activision Blizzard**, the team completed the finishing for 121 deliverables for the popular **"Call of Duty"** franchise.
- For **New Line**, the team led Flame deliverables for New Line Cinema's **"The Conjuring 3"**.
- For **NBC/Universal**, Digital Domain completed four VFX shots for destruction series for NBC **"La Brea"** Promo, including one full CG and 3 live action/VFX integrations.
- For **EA/Respawn**, VFX Supervisor Mr. Piotr KARWAS and team completed an eight-minute short for **"APEX Legends"** involving a blend of design, CG, 2.5D and cell animation.
- For **Activision Blizzard**, the team completed VFX and finishing for four :30 spots for **"Diablo 2: Resurrected"**.
- Partnering with 72andSunny and the NFL, the advertising/games team recreated **Vince Lombardi** for **"AS ONE"** at **Super Bowl LV**. The project involved recreating the American football legend and utilising our proprietary Charlatan software along with 2D Flame manipulation. The day of the event, the team showcased the hologram on the field as well as delivering a pre-rendered :90 commercial. All traditional VFX (matte painting, sky replacement and cleanup) and finishing was done by Digital Domain. The project debuted in February 2021.
- For **Arc Games "Perfect World"**, Digital Domain provided mocap direction and animation direction of trailer.
- Partnering with **Facebook/Oculus** Digital Domain produced a mixed reality shoot and composited live action footage over game footage for Beatsabor.



- For **Apple's "NBA 2K22"**, the studio produced a :30 spot, :15 spot and :06 spot.
- For **Barkley/AMC**, the team regionalised spots by replacing signage and comped screen footage into the movie screens.
- Digital Domain began delivering work for an **eToro 2022 Super Bowl** spot creating crowd simulations of people flying through the sky.

### **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 ("Other Lawsuits"). The US Subsidiary's clients filed two separate motions to dismiss the lawsuits brought against them. In response to these motions, the court dismissed a significant portion of the claims, but allowed the Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. The Claimant later voluntarily dismissed several of its claims.

The US Subsidiary's clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court granted that motion with respect to certain feature film projects that were the subject of the lawsuit, but denied it as to other feature film projects. Thus, the claims against US Subsidiary's clients have been narrowed. The litigation of the Other Lawsuits is continuing. Discovery is now taking place and counsel for US Subsidiary is assisting counsel for the clients to defend the Other Lawsuits.

In its production services agreements for the projects 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 insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits. 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 mediator has been having discussions separately with each of the parties as a way to aid the parties in reaching a settlement. The mediator's discussions with the parties are continuing.

***Digital Domain China:***

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

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

Visual effects and colour grading services delivered for the released as well as the upcoming feature films and episodic include "*National Interest: Absolute Loyalty*", "*WandaVision*", "*Hi, Mom*" (Dolby Vision), "*Cliff Walkers*" (Dolby Vision), "*Liu Qing*", "*Loki Season 1*", "*Realm of Terracotta*", "*The Day We Lit Up The Sky*", "*Top Of The City*", "*Cloudy Mountain*" (Dolby Vision), "*My Country, My Parents*", "*Water Boys*", "*Lost in Space Season 3*", "*Spider-Man: No Way Home*", "*Too Cool To Kill*", "*Don't Forget I Love You*", "*Doctor Strange in the Multiverse of Madness*", "*Black Adam*", "*Ali's Dream Castle*", "*Stranger Things Season 4*", "*Ms. Marvel*", "*Carnival Row Season 2*", "*Lao Ba Shi Wang Cai*", "*She-Hulk*", and "*Wang Dao*".

In 2021, Digital Domain China continued to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile clients, including: 361 Degrees, adidas, Alibaba, AliExpress, Atelier Cologne, BMW, BOSCH, BYHEALTH, Coca-Cola, Colgate, Dettol, Dicos, Estée Lauder, FORD, Häagen-Dazs, Hoegaarden, Hong Qi, HONOR, HUAWEI, INFINITI, IKEA, IM Motors, JD.com, JUNLEBAO, Keep, Kjeldsens, Kuaishou, LEXUS, Lilith Games, Maybelline New York, Mead Johnson, Mengniu Chunzhen, Mercedes-Benz, MI, MIND NOVA, Nestlé, OnePlus, OPPO, PEACEBIRD, Peking Opera Protection and Inheritance Center of Hunan & Hunan Museum - “Yi Nian Xin Zhui Meng”, Porsche, Red Bull, RIO, Samsung, SATINE, SHISEIDO, Shuijingfang, Starbucks, TCL, Tencent Games - “Game For Peace”, Tencent Games - “Honor of Kings”, Tencent Video - “Hi Directors”, The North Face, TRULIVA, Under Armour, Universal Beijing Resort - Kung Fu Panda Land of Awesomeness - “Kung Fu Panda Journey of the Dragon Warrior”, vivo, Volvo Cars, WINONA, WULIN, and Xpeng Motors.

**Digital Domain professionals based in the locations of Beijing and Shanghai participated in several publicity activities:**

- In September 2021 - Mr. David Rivero MARTIN, Director of Digital Intermediate (D.I.), Ms. QIAO Shuyi, VFX Supervisor, and Mr. KONG Dazhong, Lighting Supervisor, were invited to present at **FIRST Fantastic Film Festival 2021** where they shared the insights on filmmaking.
- In December 2021 - The travelling exhibition **BEFORE LIGHT IN MOTION** held by eyepetizer roared into Hangzhou Powerlong Art Center, with the virtual reality experience “*Micro Giants*” featured at the venue of Rabbit Hole. The exhibition continues until March, 2022.
- In December 2021 - Ms. QIAO Shuyi, VFX Supervisor, revealed her journey as a VFX artist through **Huxiu’s documentary series “To Be, Or Not to Be”**.
- In December 2021 - **In Tencent News’ reality show “Brand New Future”**, Mr. PANG Bo and Mr. WANG Yuheng visited the Beijing studio of Digital Domain to gain a deeper understanding of how cutting-edge technologies transform the visual creations, especially virtual humans. This variety show successfully generated more than 21.532 million views throughout Tencent Video.

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

- In December 2021 - The **Under Armour** advertising that Digital Domain created received a **silver DAwards under Craft - Production Innovation**.
- In December 2021 - Digital Domain honoured as **Pioneer of the Year 2021** in Visual Effects and Production category, by New Studio.

***Digital Domain India:***

Stepping into its fifth year since being operational, Digital Domain India (“DD India”) has achieved some important milestones laid out at the time of inception. The facility continues to grow both in terms of headcount and revenue and has successfully shown positive margins for two straight years.

In 2021, DD India came back to work from the studio in its full capacity and delivered high quality work while continuing to deal with the ongoing global COVID-19 challenges. Along the way, the facility saw an increase in the volume of work from both Insourcing and Direct Clients that continues to go deep into second half of 2022. There has been a significant improvement in nature or complexity of work producing out of DD India facility as a step towards achieving the goal of doing more end to end shot production for both features and over-the-top (“OTT”) platforms. Thus, enabling and contributing to Digital Domain’s overall global strategy of improving the margins for VFX services in the coming years.

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

**B. Virtual Human Business (North America and Greater China regions)**

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.

**The Virtual Human Group (“VHG”) of the North America region participated in several events this year, including:**

- Mr. Lucio MOSER presented at **VFXRio** sharing his insights on machine learning in VFX and how it urges us to rethink the typical approaches to old problems and allows us to solve problems that seemed impossible.
- In March 2021, Mr. Matthias WITTMAN and Mr. Doug ROBLE performed a live demo of Douglas and discussed ***“The Challenges In Creating An Autonomous Digital Human”*** at **NVIDIA’s Design and Visualizations AI Webinar**. The two were also featured on the **Augmented City Podcast** in an episode titled, ***“Crossing Multiple Uncanny Valleys: How Digital Domain Does It With Virtual Humans”***.
- Mr. Matthias WITTMAN was invited to present at the **Real Time Conference** where he discussed the challenges of building an autonomous human and presented Douglas live in front of a virtual audience. He also participated in a panel discussion on digital humans.

- Mr. Doug ROBLE participated in a **VFX AI symposium** discussing how artificial intelligence (“AI”) will be used in VFX going forward.
- Mr. Doug ROBLE and Mr. Darren HENDLER were interviewed for two separate episodes of the **Immersive X Podcast**. The episodes released in July and September 2021.
- For **IBC365**, Mr. Darren HENDLER participated in a webinar which discussed the current role of AI in post-production and how its adoption will evolve.
- Mr. Matthias WITTMAN and Mr. John CANNING performed a live demo of Douglas at the **Cannes Film Festival**.
- Mr. Lucio MOSER and Mr. Jason SELFE provided a pre-recorded talk for **SIGGRAPH 2021**.
- Mr. Matthias WITTMAN participated in a virtual presentation of autonomous humans for **Schweizer Digitaltage**.
- Mr. Lucio MOSER participated in two virtual live Q&A sessions for **SIGGRAPH Asia 2021** for the technical papers “*Dynamic Neural Face Morphing for Visual Effects*” and “*Semi-supervised video-driven facial animation transfer for production*”.

**Digital Domain’s VHG’s research and development aided multiple projects (including those from other business units of the Group) and resulted in new developments in 2021:**

- In collaboration with the advertising/games and New Media team, VHG’s “Charlatan” was applied to help add 30 years to **David Beckham**’s face for a powerful new campaign from client **Malaria No More**, supervised by Mr. Dan BARTELUCCI, VFX Supervisor.
- VHG worked with the New Media team to create the digital human version of **Vince Lombardi** for use in ads during the **Super Bowl Game “AS ONE”** commercial.
- For “**Spider-Man: No Way Home**”, VHG ran tests using Charlatan to replace masks while shooting *during* COVID-19.
- VHG worked with the New Media team to utilise Charlatan to uprez the **Martin Luther King, Jr.** asset for a project with **TIME** and **Epic**.
- VHG has partnered with the episodics team to use **Masquerade 2.0** on an **upcoming Marvel series**.
- VHG utilised **Masquerade 2.0** on an upcoming undisclosed **AAA game** in partnership with the New Media Team.

- VHG's body deformations took a huge leap forward with the continued development to their machine learning cloth systems. The technology was used for an upcoming **Amazon** and also a **Marvel series**.
- VHG is testing Charlatan Geo, a research project for capturing geometry of a performance from a single camera, on an upcoming **Marvel series**.
- Digital Domain is working with a **large theme park** client to create digital real-time humans based on a long running movie franchise. The attractions will go live in 2024.
- Digital Domain has partnered with **ITEC Entertainment Corporation** to create a Pepper's Ghost type experience at the **Billy Graham Library** in North Carolina. This will serve as an homage to the late Reverend Graham. In addition to a body double, we are employing VHG's Charlatan.
- For Studio Wildcard, Digital Domain delivered content for a real-time cinematic for the video game "**ARK 2**" that included creating a photo real likeness of **Vin Diesel** playing Santiago, the main character, as well as the main female child character. Digital Domain was responsible for asset look development and talent acquisition. This project's teaser trailer was released to public audiences.

In addition to Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (such as famous singers, movie stars or corporations) in the Greater China region. Since 2018, the Group has created a range of its own virtual human characters/IPs including Sandra, EVE, Irene, Sabrina and M.E., etc. The Group also deployed resources towards research and development to improve the interaction between virtual human characters and their audiences.

**The Group produced or launched virtual human related projects (including those cooperated with business partners) in 2021, including:**

- In February 2021, **Foxlink Group** held an online employee recognition conference and online lottery party at its Taipei headquarters. Employees of Foxlink Group in the Greater China region, Myanmar, India, the United States, and other regions participated in the event through their mobile phones. The use of virtual host designed by Digital Domain combining with real-world environment had add a lot of fun and highlights to the live broadcast. This was a successful attempt by using a virtual human as the host of internal events.
- In March 2021, **BMW Taiwan** invited Digital Domain CEO Daniel Seah to co-star with our **Virtual Human Elbor** in "**THE NEW 5**" commercial. The advertisement strives for a new definition of technology and the changes that technology has brought to the world, therefore Digital Domain uses real-time capture and real-time rendering technology which allows both of them to interact in the same frame. During the shoot, the director can review **Elbor's** wonderful performance on the monitoring screen in real-time.



- In April 2021, **Virtual Human M.E.** became the main character of the **Drifter 360° online game** on **JJ Paradise** website <https://www.jjparadise.com/>. The use of 360-degree video has brought the audience to the Drifter's world. The participants can share the rewards they gained in the game on the internet.
- From September 2021, **Virtual Human Tellers "Ms. Rose" and "Mr. Sunny"** jointly created by **Taishin Bank** and Digital Domain officially began to serve customers at Taishin Bank's designated branch(es). With "Multifunctional Virtual Teller Machine (VTM)" customers can experience "contactless" service when opening a bank account.
- In November 2021, on the official opening day of "**AMBI SPACE ONE**", Taishin Bank's Virtual Human Tellers "**Ms. Rose**" and "**Mr. Sunny**" served as opening hosts and announced the Taishin Bank (financial industry) also entered into the Metaverse.
- In December 2021, Digital Domain collaborated with **Noitom**, allowing **Virtual Human Rochelle** to appear at the **International Broadcasting Convention ("IBC")** as co-host for **5G LBXR** (Location-Based Extended Reality) **HADO E-sport Tournament**.
- Digital Domain Virtual Human team in the Greater China region successfully applied "**ANIMATION GENERATION METHOD FOR TRACKING FACIAL EXPRESSIONS AND NEURAL NETWORK TRAINING METHOD**" for U.S. Provisional Patent Application. The contribution and innovation of this patent will help maintain the Digital Domain's competitive advantage in virtual human technology and continue to provide better services and products.

### C. **Virtual Reality, Augmented Reality, New Media and Experiential**

This segment includes augmented reality ("AR"), immersive and virtual reality ("VR") technology services using 360 degree digital capture technology and CG.

**Digital Domain's VR, AR, New Media and Experiential team executed several livestream broadcasts, experiences and installations in 2021:**

- Digital Domain and an **undisclosed AAA Game Company** partnered up in 2019 to embark on their biggest, highest quality video game featuring over 30 hours of captured facial and body performance capture. The project leverages Masquerade 2.0, Digital Domain's proprietary facial capture process throughout all talent capture on this truly massive new game project. Supervised by Mr. Aruna INVERLIN, VFX Supervisor and Creative Director of New Media, this undisclosed AAA game title is currently in production and scheduled for release in 2022.
- Digital Domain joined forces with Las Vegas powerhouse agency **R&R Partners** and **Blockchains LLC** to produce five 2-minute explainer films.

- Digital Domain joined director Lina RASSBAKKEN and the **Norwegian Film Institute** to create 11 unique real-time characters and assets, from human apparitions to fantastical animals that resemble a water bear, for use in the interactive VR experience titled “*NORN vol. 1: The 9 Daughters of RAN*” which went on to acquire two **VRINN** awards.
- The team also worked on Digital Domain’s other projects, including the theme park project, Billy Graham Library, Vince Lombardi, “ARK 2”, and “*Malaria Must Die*”.

**D. Digital Domain staff from the global studio participated in several events this year:**

- Ms. Wendy MASHBURN participated on a panel for **LA ACM SIGGRAPH** where she discussed the outlook for careers in Digital Media.
- Ms. Weri SIN participated in a live panel for **Spark CG Society’s Spark FX Conference 2021** titled “Our Future Masters”.
- Mr. Stuart AINSLEY participated in a virtual event for **Foundry** on “**Creative Procedural Workflows in Mari**”.
- Mr. Phil CRAMER was interviewed on the **Cup of Joe podcast** to discuss his career in visual effects.
- Mr. John FRAGOMENI participated on the judging panel for the **Perth Art Directors Club (“PADC”) Skulls Awards 2021**.
- Mr. Ryan DUHAIME participated in an alumni presentation for the **Savannah College of Art and Design** to discuss his career and background.
- Mr. Daniel SEAH gave a presentation at the **Wedbush Winter Games** where he provided an overview of Digital Domain’s history in the industry and its future.

**E. Co-Productions**

**Feature Films:**

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



The Group partnered with **Mr. Lucas FOSTER** (a producer of famous films such as “*Ford v Ferrari*”, “*Mr. & Mrs. Smith*”, “*Man on Fire*”, etc.) to produce a film “*Children of the Corn*”, based on a novel from **Mr. Stephen KING**. Shooting of the film took place in Australia during the pandemic in 2020 and is expected to be released globally within 2022.

#### **Episodes Series:**

Digital Domain entered a collaboration with Talent Television and Film and Cenic Media to produce “*Ten Years Late*”, an episode which tells an inspiring workplace story set across multiple cities. Digital Domain provided VFX and VR solutions for the drama, to give viewers a high-quality immersive experience. At the same time, Digital Domain also invested in and provided the VFX works for “*The Legends of Monkey King*” from Cenic Media.

During the year under review, there was no income recognised from broadcasting movies and episodes (2020: HK\$55,324,000 from *The Legends of Monkey King*) under “Other income and gains” in the Group’s consolidated income statement. There was no amortisation expenses from investment in the TV drama series mentioned above (grouped under “Participation Rights”) (2020: HK\$37,057,000).

#### **F. Investment in “handy”**

In 2018, the Group made a US\$25,000,000 (approximately HK\$196,213,000) equity investment in Mango International Group Limited (“Mango”), and its flagship product “**handy**” which leverages millions of hotel rooms globally to create a comprehensive travel ecosystem encompassing a traveller’s end-to-end journey, from pre-trip to in-destination to post-travel. As at 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021, the investment was classified as a financial asset measured at fair value through other comprehensive income. For the preparation of the annual audit for 2018 and 2019, the Group engaged an independent professional valuer to estimate the fair value of Mango at year end and fair value adjustments (downward) have been made for these two financial years. The fair value adjustment was reflected in the consolidated statement of other comprehensive income with items that will not be reclassified to profit or loss. As at 31 December 2019, 31 December 2020 and 31 December 2021, the value of the financial asset measured at fair value through other comprehensive income is nil.

#### **G. Formation of DDCP and investments in Europe**

##### **Formation of DDCP**

The Company’s indirectly wholly-owned subsidiary, Digital Domain Broadcasting (Hong Kong) Limited (“DDBL”), formed Digital Domain Capital Partners S.à r.l. (“DDCP”), a company incorporated in the Grand Duchy of Luxembourg on 18 January 2021 with a joint venture partner, a wholly-owned company, Digital Knight Finance S.à r.l. (“DKF”), of Mr. Clive NG Cheang Neng (“Mr. Ng”), pursuant to the agreement that was the subject of the Company’s announcements dated 11 December 2020 and 27 December 2020. Pursuant to the joint venture formation agreement, DDBL and DKF subscribed approximately HK\$187,800,000 (equivalent to EUR20,000,000) and approximately HK\$125,200,000 (equivalent to EUR13,333,000) in cash respectively for, and holds, 60% and 40% shareholding interest in DDCP.

**Discloseable and connected transaction in relation to acquisition of 40% equity interest in DDCP**

On 16 August 2021, DDBL (“Purchaser”) and DKF (“Vendor”) entered into a sale and purchase agreement (“SPA”), pursuant to which the Purchaser agreed to purchase, and the Vendor agreed to sell, 4,800 common shares of DDCP, representing 40% of the total equity interest in DDCP, for an aggregate cash consideration of approximately EUR13,333,000 (equivalent to approximately HK\$123,648,000). The transaction was completed on 15 October 2021, following which DDCP became an indirect wholly-owned subsidiary of the Company.

As Mr. Ng (who indirectly wholly-owned the Vendor) was then a substantial shareholder of the Company holding, through his wholly-owned corporations, approximately 15.74% of the total issued share capital of the Company, the SPA constituted a connected transaction of the Company that was subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Independent shareholders’ approval was obtained at a special general meeting (“SGM”) was held on 6 October 2021.

For details, please refer to the Company’s announcements dated 16 August 2021, 6 September 2021 and 6 October 2021 and the circular dated 13 September 2021 (which contained particulars of the acquisition, advice from an independent board committee (“IBC”) comprising all the independent non-executive Directors and from Octal Capital Limited, the independent financial adviser appointed to advise the IBC and the independent shareholders and the notice convening the SGM).

**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, a publicly traded German e-commerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) (“asknet”) 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. As at 31 December 2021, the asknet Sale Shares represented 7.6% of the total issued common shares of asknet due to a share capital increase of asknet proposed in November 2021.

Founded in 1995, asknet is an established procurement, e-commerce and payment specialist with a strong position in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors. Areas of collaboration between the Group and asknet under consideration include the deployment of the Group’s virtual human technology in the form of a virtual teaching assistant for the education and lifelong learning sectors in the European market, the development of learning solutions that leverage mixed reality content and the distribution of the Group’s software and hardware products to the education market in Europe. Considering the COVID-19 pandemic situation, the Group expects that the demand in education technology services is likely to increase.

For details, please refer to the Company’s announcement dated 3 February 2021.

### **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, a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) (“HLEE”) for an aggregate consideration of EUR7,214,000 (approximately HK\$67,808,000), i.e. amounting to approximately EUR27.22 (approximately HK\$255.88) per HLEE Sale Share. The HLEE Sale Shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021. As at 31 December 2021, the HLEE Sale Shares represented 2.8% of the total issued bearer shares of HLEE due to the increase of share capital of HLEE in 2021. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

### **INTERESTS IN ASSOCIATES**

#### **Virtual Human Teresa Teng Business and 虛谷未來科技(北京)有限公司 (“Beijing Xu Gu”)**

In order to speed up business development in the field of virtual humans, the Group continues to seek opportunities for financing and collaboration with strategic partners.

#### **Virtual Human Teresa Teng**

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

- The Digital Domain Group’s virtual human team keep on developing the latest virtual human technology, combining deep learning and real time rendering technology. With the new virtual human technology from Digital Domain Group, a new version of the Virtual Human Teresa Teng was developed and “she” can be controlled live by the **Mystique Live System** and perform in various types of show, such as live streaming concert, hologram show etc.
- For 2021, the **Hongyadong Teresa Teng Holographic Concert “Looking for Teresa Teng”** in **Chongqing Hongyadong** has been showing continuously since its launch in 2020, bringing a holographic experience to the audience in the Hongyadong scenic spot.
- April 2021, Digital Domain and Cancer Care Foundation and Media Chain responder to public welfare, jointly organised **“Yueqing Chen x Teresa Teng – Chinese Valentine’s Day” online charity concert**.

- April 2021, **Virtual Human Teresa Teng's Holographic Concert** officially launched in **Haikou Cyberpunk Digital Theme Park**. With holographic immersive performances and interactive sessions, it provided Haikou people and tourists with a brand new experience of visual, hearing, and senses.
- June 2021, Virtual Human Teresa Teng attended the **China (Chongqing) Home Appliances Distribution Channel TOP Summit** via video conference system, and brought wonderful performances at the event.
- June 2021, Virtual Human Teresa Teng participated in the shooting of the **COVID-19 prevention advertisement**, which started to go on air in July 2021.
- September 2021, organised by Singapore Ding Yi Music Company, collaboration with Tailin and Voice of Singapore, Virtual Human Teresa Teng was invited to **perform at the National Library Board of Singapore Auditorium**.
- November 2021, through 5G technology, Virtual Human Teresa Teng interacted with the host and the audience on the opening day of **"AMBI SPACE ONE"**.
- November 2021, Tencent News **"Brave New Future"** program interviewed Digital Domain, and had a conversation with Virtual Human Teresa Teng.
- December 2021, Digital Domain's CEO Daniel Seah was invited by **YPO (Young President's Organisation)** to give an online speech, Virtual Human Teresa Teng was also invited to perform and interact with the audience at the event.
- December 2021, on **Jiangsu Television New Year's Eve Concert**, Virtual Human Teresa Teng sang 3 songs with singer Charlie Zhou, causing a huge sensation on the internet.

### Beijing Xu Gu

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.

- January 2021, **Nonoka, Alice x Wang Lo Kat 2021 Virtual E-Commerce Live Broadcast**: the virtual IP Nonoka and children's virtual IP Alice cooperated with Wong Lo Kat to carry out the "Chinese New Year Special" live broadcast for the launch of new products and blind box products, with fun interaction and charming enthusiasm for the brand's live broadcast. The time brought huge traffic, which boosts the sales of Wong Lo Kat's new products.

- January 2021, **Nonoka, Alice x CELSIUS New Year Gift Box Marketing Campaign**: the virtual IP Nonoka and children's virtual IP Alice collaborated with CELSIUS to produce a series of promotional videos for the New Year gift box, from *"Microcosmic New Year Celebration"*, *"What's Going on with Zero Sugar Drinks"*, and *"How to Choose Your Energy Drink"* and other aspects to help the brand to increase its exposure through a creative way.
- February 2021, **8th China Youth Network Spring Festival Gala**: the children's virtual IP Alice, as the first virtual host of the Chinese Communist Youth League's 8th China Youth Network Spring Festival Gala in 2021, and served as the host of the entire show. During the event, Alice, on-site hosts, and guests interacted with each other in real time. As her interactions were exactly like a real human, everyone was amazed and she became the new highlight to the whole party.
- March 2021, **Chinese New Year Customised Red Envelope**: Alice released 6 customised red envelope covers during the Chinese New Year Festival, with a total of 1,180 purchased and issued, with over 700,000 exposures, and over 260,000 red envelopes, which brought a lot of exposure to the IP.
- From March 2021 to August 2021, we cooperated with **Alibaba Damo Academy** on the *"Intelligent Virtual Live Streamer"* project, leveraging the extensive experiences of 3D modeling and live controlled virtual human of Digital Domain, combined with the Artificial Intelligent System developed by Alibaba Damo Academy, a new generation virtual live streamer service was launched in June 2021, which can carry out 24-hours Live Streaming Ecommerce. At the same time, Digital Domain is ahead of competitors, and became the first team to successfully integrate into the Damo Academy Intelligent Virtual Live Streamer Platform in Mainland of China.
- April 2021, the ninth episode of the sixth season of China Central Television ("CCTV")'s classic poetry program **"Chinese Poetry Conference"**, which Alice participated in, was broadcasted in prime time on CCTV's integrated channel. She served as the first **"virtual title maker"** of the "Chinese Poetry Conference". As soon as she appeared, she took everyone on a magical transformation and journey through and interacted with the on-site contestants and tutors. The perfect integration of traditional Chinese poetry culture and virtual technology presented the audience with a refreshing cross-dimensional poetic moment. In addition to the official "Chinese Poetry Conference", this project also attracted the attention of well-known media in the industry, with a cumulative exposure of over 15 million.
- April 2021, Alice appeared multiple times on **CCTV Children's Channel "Whimsical"**, with a cumulative exposure of over 9 million audiences. In the program, Alice explained the scientific experiments to the audience as a "CCTV Children's Science Explainer", which not only bring the highlights to the program, but also gave a new visual experience to the audiences.



- June 2021, Digital Domain cooperated with **Alibaba Damo Academy** on the “**Sign Language Motion Capture (Mocap)**” Project, after a variety of technical evaluations, the Digital Domain Group combined optical motion capture system with the cutting-edge mocap gloves to initially capture hundreds of sign language motion, and the plan is to extend to thousands in the future. The goal is to “Make a Visual Dictionary” and contribute to the diverse communication of human society.
- July 2021 the virtual human characters of Beijing Xu Gu appeared at **ChinaJoy 2021** and celebrated the grand ceremony with thousands of players on the spot and in the live broadcast rooms.
- August 2021, **Alice** cooperated with **CCTV Channel 10** experiential cultural and educational program “**Follow Books to Travel**” and served as a “virtual team leader” in the program to lead students from primary and secondary schools to “travel thousands of miles” while “reading thousands of books”. Approaching cultural relics, telling stories on the spot, immersing in education, history, and perceiving culture.
- **Alice** continues to produce original **children’s science content** on platforms such as **Wechat Channels, live.qq.com, TikTok, Kuaishou, Bilibili, Xigua Video, Weibo, CCTV**, etc., which includes common knowledge of common sense of life, animal world, plants encyclopedia, human body, historical anecdotes, universe exploration, human geography, festival customs, culture and technology, safety protection, health education, etc., as well as social hot spots, emotion ties between parents and children. As of 31 December 2021, Alice’s video account has released a total of 392 videos, with a total exposure of up to 21.96 million, ranking 14th on the “maternal and infant parenting chart”.
- **Alice** cooperated with Aimu children’s wear, Xiaoye Education, Children’s Education, Relay Publishing, Dangdang.com, CITIC Press Group, children’s publishing house, etc., with the identities of “**children’s book recommendation officer**” and “**fine goods promotion officer**”. With the official identities, Alice assisted these brands/companies to promote their products and attract new customers.
- September 2021, **The One Belt and One Road Cultural and Creative Competition Awards Ceremony** (hosted by the China Association for Trade in Services, organised by Cultural Tourism Branch of the China Association for Trade in Services, and Beijing Cultural and Creative Board Development Co., Ltd.) in Beijing of **2021 China International Fair for Trade in Services**: Beijing Xu Gu won the “**Most Potential Award of 2021 One Belt and One Road Cultural and Creative Competition**” for its explorations and contributions to the educational field by the first virtual idol in the field of children, children's reading promoter, and children’s knowledge sharing officer “Alice”.
- September 2021, **Alice** was invited to participate in the “**Dream of Feather**” **2022 China International Fashion Show** and gave an opening performance as a “**specially invited National Style Promotor**”. Alice in a pink Chinese style skirt, conveyed the beauty of traditional Chinese culture to the public across dimensions on the show.

- September 2021, the **“Science Technology Towards North” music festival**, as one of the series of activities in the **Zhongguancun Software Park**, kicked off under the “Big Flying Saucer”, the landmark building of the Zhongguancun Software Park. This year, in addition to well-known musicians and bands, the virtual IP Alice and the shimmering girl Lydia appeared on the stage as the biggest highlights of the music festival, bringing you the cutting-edge technology of the virtual human industry in the form of real-time interaction experience.
- October 2021, **Alice** participated in the recording of the **CCTV Channel 14** youth cultural inspirational large-scale program **“Chinese Youth Talk”** as a special guest, entered the studio with virtual human technology, sharing life and learning experiences with young people, and expressed patriotism and family, self-improvement, with the courage to explore and create a sense of growth for the future.
- October 2021, **Alibaba Tmall Genie V10** new product launched, Beijing Xu Gu produced an artificial intelligence virtual concert **“The Wonderful Night of AI”** for it, leading the audience to experience an immersive carnival of the metaverse.
- December 2021, the **Digital Culture Zhongguancun 2021**, hosted by the Publicity Department of the Beijing’s Haidian District Party Committee, had made a grand debut, striving to create a digital economy **“Haidian Model”** that is led by innovation, digital transformation, and face to the outside world. As a virtual human pioneer enterprise, Beijing Xu Gu debuted at the event, bringing a brand new virtual human experience to the event.
- 26 December 2021, on the 40-day countdown to the **Beijing 2022 Winter Olympics** and the fourth anniversary of China Unicom’s signing as the official partner of the Beijing Winter Olympics, the virtual IP **Xiaomeng** appeared in Hainan Province with **China Unicom’s “Smart Winter Olympics Tour”**, bringing “Winter Olympics” to Haikou (a summer city with a nick name called as “a coconut city”), bringing a warm and snowy carnival to the public.
- In the **60th anniversary commemorative exhibition of MEI Lanfang** in the **National Museum** in China, **Alice** explained MEI’s art as a “little messenger of promoting traditional culture”, praising his contributions to arts, commemorating his extraordinary artistic life, and promoting his noble arts. The artistic spirit attracts more young people’s attention to the traditional culture of opera.

### 3Glasses Group

3Glasses Group is principally engaged in the research, development and sale of VR hardware, smart wearable devices, VR software development kit and other related products, under the brand name of “3Glasses”.

The 3Glasses Group management team has extensive experiences in VR business. On 14 April 2021, the latest generation of its self-developed VR headset (being a head-mounted display device that provides a VR experience for wearers), 3Glasses X1S smart glasses, won the “German iF Design Award”, one of the world’s top industrial design awards, and became the only iF award-winning product in China for split VR, demonstrating 3Glasses’ innovative design capabilities and profound R&D capabilities. In addition, 3Glasses has independently created an open technology system – 3Link, and completed the direct

connection of X1S with 15 5G mobile phones, opening up the connection between multiple terminals and multiple systems. Despite these encouraging technological developments, the 3Glasses Group faces uncertainties on the commercial roll out of these new products in view of the COVID-19 pandemic related social distancing measures and travel restrictions which have an adverse impact on sales through physical stores and on delivery logistics that are crucial to successful launch and marketing of those products.

Since early 2021, 3Glasses also deployed its technology to produce and publish panoramic short videos through the Chinese short video platform Kuaishou. 3Glasses have delivered impressive results, having accumulated in less than one year more than 700,000 followers, 10 hot videos with over 10 million views and cumulative total views over 450 million on that platform as at 31 December 2021, with one of its videos ranking first on Kuaishou's hot video ranking list in October 2021. Given the positive results, 3Glasses Group is looking to monetise these capabilities with a new panoramic video editor (全景視頻編輯器) application (called as "Paina / 拍呐") under development and through collaboration with corporate players in the metaverse / Non-Fungible Token ("NFT") space with or without complementary offline facilities in which its VR capabilities can be deployed.

### **Digital Domain Space**

In 2017, Digital Domain established 數字王國空間(北京)傳媒科技有限公司 ("Digital Domain Space") with several strategic partners. Digital Domain Space's aim is to develop and execute an innovative VR experience with VR theatres in China. Digital Domain Space also built and officially launched in December 2020 a "DD Land" with a business partner in Haikou, Hainan province. Currently, one VR theatre and DD Land are in operation and continue to face challenges that slow consumer traffic in light of the fluid development of the pandemic and related government measures.

### **IMPAIRMENTS RELATED TO INVESTMENTS IN ASSOCIATES**

The Company determined following the end of the financial year ended 31 December 2021 that the Group should strategically focus its resources towards its core VFX and VH capabilities and develop appropriate plans to address its investments in 3Glasses Group and Digital Domain Space given the uncertainties of a turnaround of their businesses amid the uncertainties brought by the evolution of COVID-19. The lacklustre performance of both investments and the continuing business uncertainties they face as described below (under the sections named "Goodwill and intangible assets of the Group" and "Prospect") together with the change in the Company's strategy led to impairments of the relevant investments for carrying value and amount due from 3Glasses Group in the amount of approximately HK\$163,600,000 and HK\$31,100,000 respectively, and amount due from Digital Domain Space at approximately HK\$37,000,000. These impairments do not have any corresponding cash outflow. In addition, the Group recognised an expected credit loss (in the amount of HK\$64,100,000) of the consideration receivable for the partial disposal in 2020 of 22.29% shares in Lead Turbo Limited the holding company of the 3Glasses Group. Such impairment comprised aggregate of the second and third instalment consideration payments due July 2021 and 2022 respectively of HK\$34,000,000 each, given the non-payment of the second instalment despite its efforts in negotiations and recovery of the same and the lack of evidence of current creditability of the purchaser.



## **GOODWILL AND INTANGIBLE ASSETS OF THE GROUP**

As at 31 December 2021, the Group had intangible assets of approximately HK\$533,994,000 (being approximately 44% of the Group's total assets as at the same date). Such intangible assets comprised goodwill of approximately HK\$293,877,000 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") and trademarks of approximately HK\$19,491,000 allocated to the Group's VE 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 2021 are set out in Note 10 to the financial statements included in this announcement.

The pre-tax discount rate, corporate income tax rate, post-tax weighted average cost of capital, market rate of return and levered equity beta and terminal rates adopted in the valuations as at 31 December 2021 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 2020, with the absolute values of each rate varying by reference to the market data of the jurisdiction(s) in which the relevant CGU operates.

Except for the 360 degree digital capture technology applications ("360 CGU"), the average growth rate of each CGU was determined based on the projected revenue for the financial year ending 31 December 2022 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 Company, having taken into account prevailing market competition and uncertainties in Asia, North America and Europe, was more conservative in preparing the CGU projections such as using a higher Success Discount and lowering projection of cash inflow from Likely Work and Possible Work compared to last year.

Unlike contracts in other CGUs, contracts in the 360 CGU are generally characterised by short period of time between contracts and delivery of projects. Further, the prospects of growth in this CGU are highly dependent on the revival of demand for 360 digital capture and live streaming services from the travel, sports, concerts and other mass events sectors that have continued to be impacted significantly by diverse pandemic related social distancing requirements and travel restriction measures in most territories and the slow recovery of cross border travel generally, in addition to uncertainties of the timing of recovery in light of the outbreak and spread of the Omicron variant in different territories since late November 2021. The growth rate(s) adopted is/are based on historical growth rate, referenced against industry average(s) obtained from market research.

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 2021, the goodwill allocated to the VE CGU was approximately HK\$208,691,000 (2020: HK\$208,691,000) with headroom of approximately HK\$107,731,000 (2020: HK\$168,196,000) based on the value-in-use ascribed to this CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 12.1% (2020: 19.3%) and a pre-tax discount rate of 18.6% (2020: 17.6%). Based on a sensitivity analysis carried out by the independent valuer, the headroom attributable to the VE CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

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

#### **PP CGU**

As at 31 December 2021, the goodwill allocated to the PP CGU was approximately HK\$85,186,000 (2020: HK\$85,186,000) with headroom of approximately HK\$48,874,000 (2020: HK\$15,325,000) 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 16.4% (2020: 22.2%) and a pre-tax discount rate of 17.4% (2020: 20.6%). 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.

### **360 CGU AND RELATED INTANGIBLE ASSETS**

As at 31 December 2021, the goodwill allocated to the 360 CGU was HK\$ Nil (2020: HK\$16,170,000) based on the value-in-use ascribed to this CGU. In addition, the 360 CGU had intangible assets (including trademarks, patents and other types of intangible assets) in the aggregate amount of approximately HK\$216,302,000 (before impairment) as at 31 December 2021. An impairment loss of approximately HK\$16,170,000 (2020: HK\$305,119,000) was made against the goodwill allocated this CGU and an impairment provision in amount of HK\$216,302,000 (2020: HK\$ Nil) was also made for the intangible assets of this CGU, both as at 31 December 2021. Accordingly, impairment loss in connection with this CGU totalled HK\$232,472,000 (2020: HK\$305,119,000). The technologies owned by the Group in respect of the 360 CGU will continue to be deployed where relevant to enhance the Group’s VFX and VH segments capabilities. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years (2020: 5 years) budget period of 4% (2020: 22.5%) and a pre-tax discount rate of 17% (2020: 18%). The low valuation of this CGU is mainly due to (i) the low revenue generated in the financial year ended 31 December 2021 that formed the basis of projection; and (ii) more conservative revenue growth (which resulted in the lower average growth rate) projected in the budget period due to lower average historical growth rate for the preceding three financial years and the uncertainties, in particular for 2022 and the years following, over when mass participation events (such as travel, sports events, concerts) served by the 360 CGU would meaningfully resume in conjunction with its markets in Asia, US and Europe to generate a sustainable demand for the services of the 360 CGU.

Please see the sections titled “Virtual Reality, Augmented Reality, New Media and Experiential” and “Prospect” for a further discussion of the projects and prospects for this CGU.

## **CAPITAL**

### **Shares**

#### **Subscription of New Shares under General Mandate**

On 11 December 2020, the Company entered into a subscription agreement with HLEE Finance S.à r.l. (the “Subscriber”) of Mr. Ng in relation to the subscription. Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 6,814,760,000 shares to the Subscriber at the subscription price of HK\$0.05 per Subscription share (the “Subscription”). The Subscription was completed on 18 January 2021 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. The Subscription shares represent approximately 20% of the issued share capital of the Company of 34,073,816,258 shares as at the date of announcement of the Subscription and approximately 16.67% of the issued share capital of the Company of 40,888,576,258 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are HK\$340,738,000 and approximately HK\$340,538,000 respectively, and are intended to be applied towards the formation of the joint venture company, media entertainment segment and general working capital of the Group. For details, please refer to the Company's announcements dated 11 December 2020, 27 December 2020 and 18 January 2021.

On 21 July 2021, the Company entered into a subscription agreement with Le Nouveau Holdings Inc. (the "Subscriber 2") of Mr. Norman Paul Hansen in relation to the subscription. Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 2,400,000,000 shares to the Subscriber 2 at the subscription price of HK\$0.065 per subscription share (the "Subscription 2"). The Subscription 2 was completed on 30 July 2021 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. The subscription shares represent approximately 5.87% of the issued share capital of the Company of 40,890,276,258 shares as at the date of announcement of the Subscription 2 and approximately 5.54% of the issued share capital of the Company of 43,290,276,258 shares as enlarged by the Subscription 2.

The gross proceeds and net proceeds from the Subscription 2 are HK\$156,000,000 and approximately HK\$155,500,000 respectively, and are intended to be applied to as general working capital of the Group and towards the potential restructuring of the Group's business in Europe. For details, please refer to the Company's announcements dated 21 July 2021 and 30 July 2021.

### **Capital Reorganisation and Change in Board Lot Size**

On 21 July 2021, the Board proposed to implement the capital reorganisation and change in board lot size as follows:

- (1) Capital Reorganisation – share consolidation of every ten (10) issued existing shares into one (1) consolidated share whereby increasing the par value of all the then issued consolidated shares from HK\$0.01 to HK\$0.10 each ("Share Consolidation"); and following the Share Consolidation, reduction of the issued share capital whereby (i) the fractional consolidated share in the issued share capital of the Company resulting from the Share Consolidation would be cancelled in order to round down the total number of consolidated shares to a whole number, (ii) the par value of each issued consolidated share would be reduced from HK\$0.10 to HK\$0.01 each by cancelling HK\$0.09 of the paid-up capital on each issued consolidated share; and (iii) the transfer of the credit arising from the capital reduction to the contributed surplus account of the Company; and
- (2) Change in board lot size –conditional upon the Capital Reorganisation becoming effective, the change in board lot size of the Company for trading on the Stock Exchange from the current 10,000 issued existing shares to 5,000 adjusted shares.

Capital Reorganisation and change in board lot size were approved by the shareholders of the Company at a special general meeting held on 6 October 2021 and became effective on 11 October 2021 and 26 October 2021 respectively.

For details, 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.

As at 31 December 2021, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 4,329,027,625 Shares.

### **Share Options**

On 28 May 2014, a total of 980,060,000 share options were granted under the Company’s share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new shares at an exercise price of HK\$0.098 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 and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$0.98 was exercised, cancelled or has lapsed. 4,657,000 adjusted share options were exercised and 14,076,000 adjusted share options were cancelled or have lapsed since the grant-date (28 May 2014).

On 6 May 2015, a total of 78,000,000 share options were granted under the Company’s share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 78,000,000 new shares at an exercise price of HK\$1.32 per share. For details, please refer to the Company’s announcement dated 6 May 2015. During the year under review and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$13.20 was exercised, cancelled or has lapsed. 1,000 adjusted share options were exercised and 300,000 adjusted share options were cancelled or have lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 379,500,000 share options were granted under the Company’s share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new shares at an exercise price of HK\$0.413 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 and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$4.13 was exercised, cancelled or has lapsed. No adjusted share options were exercised and 2,566,669 adjusted share options were cancelled or have lapsed since the grant-date (29 January 2016).

On 22 June 2016, a total of 100,000,000 share options were granted under the Company’s share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 100,000,000 new shares at an exercise price of HK\$0.495 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) and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$4.95 was exercised, cancelled or has lapsed.



On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new shares at an exercise price of HK\$0.566 per share. For details, please refer to the Company's announcement dated 29 July 2016. During the year under review and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$5.66 was exercised, cancelled or has lapsed. No adjusted share options were exercised and 1,320,007 adjusted share options were cancelled or have lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 300,000,000 share options were granted under the Company's share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 300,000,000 new shares at an exercise price of HK\$0.469 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) and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$4.69 was exercised, cancelled or has lapsed.

On 24 April 2019, a total of 130,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 130,000,000 new shares at an exercise price of HK\$0.130 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) and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$1.30 was exercised, cancelled or has lapsed.

On 21 May 2020, a total of 478,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 478,000,000 new shares at an exercise price of HK\$0.046 per share. For details, please refer to the Company's announcement dated 21 May 2020. During the year under review and following the Capital Reorganisation became effective, no adjusted share option at the adjusted exercise price of HK\$0.46 was exercised and 2,000,000 adjusted share options were cancelled or have lapsed. 170,000 adjusted share options were exercised and 2,000,000 adjusted share options were cancelled or have lapsed since the grant-date (21 May 2020).

## **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 2021, the Company had banking facilities from two banks in the United States amounting to US\$15,000,000 (approximately HK\$116,948,000) and the utilised portion of these banking facilities were US\$14,858,000 (approximately HK\$115,841,000). These banking facilities were secured by time deposits of the Group. The Group had banking facilities from a bank in Canada in amount of CAD6,900,000 (approximately HK\$42,558,000) and the utilised portion of these banking facilities were CAD4,506,000 (approximately HK\$27,792,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

As at 31 December 2021, the loan granted under emergencies loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$370,000). This loan is unsecured and not repayable within 12 months from 31 December 2021.

During the year under review, the loan granted under emergencies loan schemes for COVID-19 in amount of US\$1,064,000 (approximately HK\$8,259,000) has been forgiven by United States Authorities.

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 Years 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 2021, the Group also had lease liabilities of HK\$78,919,000, which were determined at the present value of the lease payments that are payable at that date. The amount included in lease liabilities consist of HK\$32,000 related to office equipment, RMB833,000 (approximately HK\$1,022,000) and CAD265,000 (approximately HK\$1,636,000) related to computer equipment and software (leased assets) secured by the lessor’s charge over the leased assets. Among these leased assets, the terms of payments were 34 months and 60 months respectively. Payments were on a fixed payment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK\$141,128,000 as at 31 December 2021. One indirect wholly-owned subsidiary has a loan in amount of US\$3,500,000 (approximately HK\$27,065,000) which is unsecured, interest-free and is not repayable within 13 months from 31 December 2021. One indirect wholly-owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,345,000), 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\$77,965,000) 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 2021 were US\$8,000,000 (approximately HK\$62,372,000) 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 2021. There is an other loan in amount of US\$1,803,000 (approximately HK\$14,056,000) provided in relation to the production of a film with interest-bearing and secured by security interest in all right, title and interest in a film investment. During the year under review, the Company repaid two other loans in amount of HK\$10,020,000.

The total cash and bank balance as at 31 December 2021 was approximately HK\$247,755,000. As at 31 December 2021, the Group had banking facilities of approximately HK\$159,505,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$115,841,000 are denominated in United States dollars and loans amounting to approximately HK\$26,526,000 are denominated in Canadian dollars. During the year under review, all of the Group's bank loans were classified as either current liabilities and repayable on demand 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 (except the Five Years Loan) as at 31 December 2021 was spread over a period of five years, with approximately 19% repayable within one year, 64% repayable between one to two years and 17% repayable between two and five years.

The Group's current assets were approximately HK\$413,023,000 while the current liabilities were approximately HK\$341,369,000 as at 31 December 2021. As at 31 December 2021, the Group's current ratio was 1.2 (as at 31 December 2020: 0.7).

As at 31 December 2021, 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 63% (as at 31 December 2020: 49%)

## **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 or 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 2021, the Group did not have any material contingent liabilities.

### **EMPLOYEES OF THE GROUP AND REMUNERATION POLICY**

As at 31 December 2021, the total headcount of the Group was 1,248. 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**

Following the close of the financial year ended 31 December 2021, the Board of the Company had undertaken a strategic review of the Group’s operations. The Board has determined that the Group should strategically focus its resources towards its core VFX and VH businesses.

The global economy has been adversely affected by the outbreak of the new coronavirus (COVID-19) and associated government epidemic prevention and control measures since 2020. While the first half of 2021 saw the gradual relaxation of many government measures in different parts of the world, the outbreak and spread of the more infectious Delta and Omicron variants in second half of 2021 and to date in 2022 have drawn a diverse range of responses from countries which are our key markets and have made it considerably more challenging to predict demand trends in our different business segments, plan effectively for the deployment of our resources (both due to less predictable acceleration and/or deferral of projects by clients and/or health impact on our staff) and our growth and deployment of our resources. Geopolitical developments (including Sino/US relationships and/or the Russian/Ukraine conflict) and associated economic measures that have been and/or may in the future be implemented and which impact or is perceived to impact costs of operations and/or consumer demand adds to the uncertainties that the Group expects to confront in 2022. Demand for and the pricing of our products and services are ultimately driven by our clients’ perception of consumer demands for their products. For example, the roll out of feature films can be adversely impacted by government imposed social distancing measures and travel restrictions) while perceived reduction in consumer spending powers can also affect our clients’ product advertising budgets and campaign schedules. Given that the overall situation remains unstable, we are adopting a prudent approach in our business strategies (including for example, cost control, business direction and products mix).

The Group continues to leverage its extensive experience in the VFX industry and proactively seeks new projects and business opportunities in the feature film, online game, television/ OTT episodes and commercials despite the highly competitive market environment in the US and China. At the same time, the Group will continue to evaluate the cost structure, function and operation performance of each studio in North America and Asia to enhance the effectiveness and efficiency of our working capacity while reducing production costs in the long run.

The Group will continue to explore new virtual human business opportunities and products (such as AI function with multi-languages, NFT, other products related to metaverse, etc.) with strategic business partners and/or investors. We will also continue to develop new technologies which will enhance the interactivity between virtual humans and the audience in social-networking platforms, the entertainment businesses and other environments such as customer services, education.

The Group's ability to develop its VR business directly or through its associates has been curtailed over the last two years in the face of the reduction in the number and/or size of projects and/or investment budgets in target markets and logistics challenges for product delivery due to the impact of COVID-19 pandemic related social and travel restrictions measures. In view of the lack of visibility of when the situation can normalise to support a turnaround of the VR business in light of the different waves of COVID-19 variants and geopolitical developments, the Board has determined after the 2021 financial year end the Group to focus its resources towards its core VFX and VH capabilities and to develop appropriate plans to address its investments in the 3Glasses Group and Digital Domain Space. The technologies owned by the Group in respect of the 360 CGU will continue to be deployed where relevant to enhance the Group's VFX and VH segments capabilities.

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

Last but not least, we will continue to build on our strengths and strive to provide quality services and products to our valued clients, especially during these challenging years, while we work towards maximising benefits for our important stakeholders (strategic partners, shareholders, staff and management) in the coming years.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

## **CORPORATE GOVERNANCE**

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules.

During the financial year of 2021, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

1. 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 Mr. Peter Chou as the chairman of the Board and the executive Director 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;
2. 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 six 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;
3. 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;
4. The non-executive Directors and independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the non-executive Directors and independent non-executive Directors have a termination notice requirement of at least one month; and
5. During the year, the Company held the annual general meeting and a special general meeting on 3 June 2021 and 6 October 2021 respectively. Due to other pre-arranged business commitments, Mr. Jiang Yingchun and Mr. Cui Hao, the non-executive Directors, were not present at the above annual general meeting and special general meeting. Mr. Wang Wei-Chung, the non-executive Director, was not present at the above annual general meeting while Mr. Sergei Skatershchikov, the non-executive Director, was not present at the above special general meeting.

## **REVIEW BY AUDIT COMMITTEE**

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2021.

## **REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY AUDITOR**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

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

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

Hong Kong, 30 March 2022

*As of the date of this announcement, Mr. Seah Ang and Dr. Chang San-Cheng are the executive Directors; Mr. Jiang Yingchun, Mr. Cui Hao, Mr. Sergei Skatershchikov and Mr. Brian Thomas McConville are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Dr. Elizabeth Monk Daley and Mr. Woo King Hang are the independent non-executive Directors.*