

RESPONSE TO SIAS QUERIES IN RELATION TO THE COMPANY'S FY2022 ANNUAL REPORT

The Board of Directors of Vividthree Holdings Ltd. (the "Company" and together with its subsidiaries, the "Group") refers to the questions from the Securities Investors Association (Singapore) (the "SIAS") on 19 July 2022. The Company sets out its responses to the questions from the SIAS below.

The Company did not receive any questions from shareholders as at the deadline stated in the notice of AGM.

Q1. Would the board/management provide greater clarity on the following operational and strategic matters? Specifically:

- (i) **Content production: Does management see any silver lining in the content production segment? What is management's strategy to revitalise the segment? Is there any visibility on the demand for content production by its customers?**

No revenue was recognised in FY2022 while just \$41,640 was recorded in FY2021. The segment revenue was as high as \$3.52 million in FY2020.

Prior to the outbreak of COVID-19 or FY2021, the Group's content production segment consists of revenue generated mainly from the development and production of immersive location-based entertainment ("LBE") thematic shows. The segment has been affected over the last 2 years by governments' restrictions on outdoor entertainment in the countries in which the Group operates Singapore, Malaysia, and China. Consequently, there were no demands for new LBE from clients in the past 2 financial years. On a positive note, our bread-and-butter business, post-production segment revenue has increased by 43.7% to \$2.86 million.

With the authorities in our key markets like Singapore and Malaysia gradually allowing large-scale outdoor activities to resume, we are cautiously optimistic that the business of content production will start to recover and grow.

- (ii) **Blockchain gaming: The group expanded into blockchain gaming industry by investing in GammaR Pte Ltd during the financial year. What is the basis of the company venturing into blockchain technology space and its belief that blockchain technology will redefine the future of gaming? What is GammaR's competitive advantage? Is GammaR already profitable? If not, what is the expected gestation period?**

The investment in GammaR is part of the Group's long-term strategy to build up its library of intellectual properties ("IPs"), the Group has been exploring opportunities in the fast-growing gaming sector to increase revenue streams.

GammaR is founded by Jonathan Zhang and is supported by a team from varied backgrounds spanning digital business, blockchain technology and mobile gaming, which allows GammaR to have a very good understanding of the current trends among consumers. As a testament to their achievement, SkyArk Chronicles, one of the games co-developed by GammaR, has been selected as one of the 9 incubation projects in Binance's season 3 incubation program, which showcases the most promising blockchain projects, founders, and BUIDLers worldwide.

In addition, Blockchain Gaming also presents an opportunity for Vividthree to leverage its core expertise in visual effects expertise and provide an enlarged customer base for its post-production and content production segments. We estimate that the gestation period for our venture into the blockchain space would take approximately three years.

- (iii) **ComicVid:** On Google Play, ComicVid has 100+k downloads. The number of downloads is not shown on Apple's App Store although the app has a 5.0 score based on 3 ratings. **Can management share some of the milestones achieved by ComicVid, including the number of active users and the volume/pace of content creation?**

As at December 2021, ComicVid has amassed a total subscriber base of 155,000 users across 30 countries, with 80 webcomics uploaded. ComicVid has been gaining positive user traction. For instance, our active users have also jumped 50% to 14,000 from 3Q2021 to 4Q2021, with the number of new users doubling to 10,000 in 4Q2021. Since the launch of Silent Horror via Vividthree's ComicVid platform, the comic has garnered a total view of 4,473,528 through the app. Moving forward, we are constantly upgrading the user interface of the app to improve user experience.

- (iv) **Digital infrastructure:** How much capital is the group committing to the joint development partnership with JVS Management Holding Pte. Ltd for Filecoin mining? Has the board carried out a risk assessment of the mining of digital assets/cryptocurrency? Given the current turmoil in the crypto- related segment, is management reviewing its collaboration with JVS? Moving forward, what are the risks and how will management be mitigating the risks?

The collaboration with JVS is an Exclusive Partnership Agreement for both parties to explore the business to secure third-party stakeholders to participate in mining projects. To date, Vividthree has yet to incur any significant costs pertaining to the partnership. In addition, Vividthree is not expected to make any major investment in the mining operations. Ongoing risk assessment of the collaboration is in progress and we are in constant dialogue with JVS on the development.

Qn 2 Amortisation of acquired rights increased substantially from \$943,972 in FY2021 to \$3,150,996 in FY2022, significantly contributing to the group's loss for the financial year. In addition, amortisation of intangible assets also nearly doubled from \$171,925 in FY2021 to \$321,037.

The segment information on the two operating segments is shown on page 114 and reproduced below:

The segment information provided to the CODM for the reportable segments are as follows:

	Content production		Post-production		Total	
	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$
Revenue						
– External parties	<u>–</u>	<u>41,640</u>	<u>2,861,015</u>	<u>1,985,573</u>	<u>2,861,015</u>	<u>2,027,213</u>
Other material non-cash expenses						
– Reversal of/(allowance for) expected credit loss on financial assets – net	<u>–</u>	<u>(1,169,500)</u>	<u>29,564</u>	<u>(135,218)</u>	<u>29,564</u>	<u>(1,304,718)</u>
Unallocated expenses						
– Loss on fair value changes in financial assets, at FVPL – net					<u>(1,341)</u>	<u>(80,550)</u>
Loss before interest, tax, depreciation and amortisation					<u>(1,755,690)</u>	<u>(2,626,126)</u>
Depreciation of plant and equipment					<u>(277,274)</u>	<u>(403,937)</u>
Depreciation of right-of-use assets					<u>(201,828)</u>	<u>(219,734)</u>
Amortisation of acquired rights					<u>(3,150,996)</u>	<u>(943,972)</u>
Amortisation of intangible assets					<u>(321,037)</u>	<u>(171,925)</u>
Interest expense					<u>(223,317)</u>	<u>(185,520)</u>
Loss before income tax					<u>(5,930,142)</u>	<u>(4,551,214)</u>
Income tax credit					<u>97,017</u>	<u>45,423</u>
Net loss for the financial year					<u>(5,833,125)</u>	<u>(4,505,791)</u>

(Source: company annual report; emphasis added)

(i) Would the audit committee (AC) consider how it could work with management to better allocate the amortisation costs to the relevant operating segments?

Yes, the AC will consider the above recommendation. Currently, the Group was organised into 2 operating segments, which is relating to post-production and content production. This is based on the Group's internal organisation and management structure and the primary way in which the Group's Chief operating decision-maker ("CODM") is provided with the financial information. As noted in the independent auditor's report (page 56; Key audit matters), the recoverable amount of acquired rights and intangible assets were determined based on the projected cash flows over the remaining useful life.

In Note 22 (page 98; Acquired rights), it can be seen that there were additions of \$2.62 million in FY2022 while the amortisation charge for the year was \$3.15 million.

	Group	
	2022	2021
	\$	\$
Cost		
Beginning of financial year	8,755,775	2,126,280
Additions	2,618,960	6,586,052
Currency translation differences	215,307	43,443
End of financial year	<u>11,590,042</u>	<u>8,755,775</u>
Accumulated amortisation		
Beginning of financial year	1,137,230	176,455
Amortisation charge for the year (Note 7)	3,150,996	943,972
Currency translation differences	70,264	16,803
End of financial year	<u>4,358,490</u>	<u>1,137,230</u>
Carrying amount		
End of financial year	<u>7,231,552</u>	<u>7,618,545</u>

(Source: company annual report)

(ii) What are the reasons for the large increase in amortisation charge for acquired rights? What is the amortisation schedule?

The Group's accounting policy is disclosed in Note 2.10 (Page 74 of Annual Report 2022) and extracted as below:

"Acquired rights comprised of intellectual property rights, film and merchandise rights and participation rights. The film and merchandise rights and participation rights entitle the Group to share a fixed percentage of income generated from these rights over the definitive period based on respective contractual agreements. These incomes are recognised at point of entitlement in profit or loss, within "other income" as "income arising from acquired rights". Acquired rights is stated at cost less accumulated amortisation and accumulated impairment losses. Acquired rights, less estimated residual value and accumulated impairment losses, are amortised over the useful lives."

The large increase in amortisation charges for acquired rights was due to:

- (i) a change in estimated future cashflow after due consideration to the impact of COVID-19 pandemic particularly projects in China that are currently affected by the government's restrictions; and
- (ii) certain projects have been launched and released during FY2022 and its relevant amortisation expenses are recognised in profit or loss accordingly.

(iii) What are the useful lives (years) of the acquired rights? Was there a change in the length of useful lives?

As discussed in above, the Group's majority of the amortisation charges are amortised over the definitive period based on the respective contractual agreements. There is no change in the length of the useful lives as at 31 March 2022.

Q3. On 31 May 2022, the company announced the appointment of Mr Zhang Weiquan, Jonathan as the deputy chief executive officer of the company with effect from 1 Jun 2022.

As noted in the announcement of the appointment¹, Mr Zhang Weiquan, Jonathan has other principal commitments in SkyArk Chronicles Pte Ltd (as co-founder and CEO) and GammaR Pte Ltd (as director). It was also disclosed that Mr Zhang Weiquan, Jonathan has a conflict of interests as SkyArk Chronicles and GammaR are customers of the company.

Based on his biography (page 18), Mr Zhang Weiquan, Jonathan, following his appointment as deputy CEO on 1 June 2022, is responsible for overseeing the strategic direction and operational goals of the company.

- (i) Can the board/nominating committee (NC) help the stakeholders better understand if there is a potential conflict of interests in view of Mr Zhang Weiquan, Jonathan's commitment in SkyArk and his director role in GammaR? What are the governance structures put in place to mitigate the risks?**

The Board/nominating committee has specifically stated that Mr Jonathan Zhang will report directly to Mr Charles Yeo, CEO for all matters of the Group. In addition, Mr Jonathan Zhang will abstain from any discussions, decision-making, voting, and payment instructions of matters pertaining to GammaR and SkyArk. Mr Charles Yeo will handle all matters relating to GammaR & SkyArk.

With the governance structure put in place, we, therefore, do not see a potential conflict of interests.

- (ii) Is the appointment of Mr Zhang Weiquan, Jonathan as deputy CEO on a part-time basis? How much time does Mr Zhang Weiquan, Jonathan spend outside of the business of the group?**

The appointment of Mr Jonathan Zhang as deputy CEO is on a full-time basis with his full commitment. He is responsible for overseeing the strategic direction and operations of Vividthree. This will be an extension of his existing responsibility as the CEO of GammaR and SkyArk. Since Vividthree has invested in GammaR in the financial year, his time spent on ensuring the workflow and operations of GammaR will also fall under his responsibilities of serving the Group as a deputy CEO of Vividthree.

- (iii) Are SkyArk and GammaR still customers of the company?**

Yes. GammaR and SkyArk Chronicles are customers of the Group. The Group has completed the projects for GammaR and SkyArk for an aggregated value of less than 3% of the Group's revenue in FY2022.

- (iv) With the group subscribing for convertible loans of up to \$4.08 million in GammaR, would transactions with GammaR/Mr Zhang Weiquan, Jonathan fall within the scope of Chapter 9 (Interested person transactions) of the Catalist Rules?**

¹ <https://links.sgx.com/1.0.0/corporate-announcements/KBNX3X5AOQACHACK/569a70e26332cfc4cf601baa7e1d98c7d4698b16d6153199074b1d05a4133489>

With Mr Jonathan Zhang coming aboard as a Deputy Chief Executive Officer of Vividthree, transactions with GammaR will fall within the scope of Chapter 9 (Interested person transactions) of the Catalist Rules. The Group will comply all the requirements and monitor all transactions between the Group and GammaR/Mr. Jonathan Zhang.

By Order of the Board

Yeo Eng Pu, Charles
Chief Executive Officer
27 July 2022

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. ("Sponsor") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST").

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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