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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “Directors” and the “Board” respectively) of Digital Domain Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020 (the “Review Period”) together with comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2020

		For the six months ended 30 June	
	Notes	2020 HK\$'000	2019 HK\$'000
Revenue	3	334,739	284,429
Cost of sales and services rendered		<u>(307,848)</u>	<u>(227,832)</u>
Gross profit		26,891	56,597
Other income and gains		90,218	73,237
Selling and distribution expenses		(2,549)	(10,238)
Administrative expenses and other net operating expenses		(242,089)	(245,659)
Finance costs	4	(14,985)	(42,117)
Fair value gains on investment properties		-	700
Gain on disposal of subsidiaries		-	99,293
Impairment loss on amounts due from associates		-	(93,289)
Share of losses of associates		(7,721)	(5,787)
Share of losses of joint ventures		<u>-</u>	<u>(1)</u>
Loss before taxation	5	(150,235)	(167,264)
Taxation	6	<u>3,793</u>	<u>1,552</u>
Loss for the period		<u>(146,442)</u>	<u>(165,712)</u>
Loss attributable to:			
- Owners of the Company		(127,224)	(161,625)
- Non-controlling interest		<u>(19,218)</u>	<u>(4,087)</u>
		<u>(146,442)</u>	<u>(165,712)</u>
Loss per share:	7		
Basic and diluted		HK cents (0.373)	HK cents (0.556)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	For the six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period	(146,442)	(165,712)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	(5,615)	6,897
Share of other comprehensive income of associates	92	82
Share of other comprehensive income of joint ventures	(4)	(1)
<i>Net other comprehensive income that may be reclassified subsequently to profit or loss</i>	(5,527)	6,978
<i>Item that will not be reclassified to profit or loss:</i>		
Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax	-	(57,382)
<i>Net other comprehensive income that will not be reclassified to profit or loss</i>	-	(57,382)
Other comprehensive income for the period, net of tax	(5,527)	(50,404)
Total comprehensive income for the period	(151,969)	(216,116)
Total comprehensive income attributable to:		
- Owners of the Company	(131,554)	(212,667)
- Non-controlling interest	(20,415)	(3,449)
	(151,969)	(216,116)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

		Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		79,997	72,002
Right-of-use assets		103,853	132,749
Intangible assets	8	1,304,989	1,346,042
Interests in associates		83,027	79,973
Interests in joint ventures		-	4
Financial asset measured at fair value through other comprehensive income	9	-	-
Deposits	10	12,557	12,857
Deferred tax assets		2,431	176
		<u>1,586,854</u>	<u>1,643,803</u>
Current assets			
Inventories		30,875	22,970
Trade receivables, other receivables and prepayments	10	214,078	169,674
Contract assets		3,795	13,170
Bank balances and cash		207,763	325,433
		<u>456,511</u>	<u>531,247</u>
Current liabilities			
Trade payables, other payables and accruals	11	138,774	108,821
Lease liabilities		40,121	49,672
Contract liabilities		52,536	66,873
Borrowings		74,106	54,870
Contingent consideration payable		13,379	14,259
Tax payable		4,902	5,073
		<u>323,818</u>	<u>299,568</u>
Net current assets		<u>132,693</u>	<u>231,679</u>
Total assets less current liabilities		<u>1,719,547</u>	<u>1,875,482</u>
Non-current liabilities			
Borrowings		234,817	219,515
Lease liabilities		93,414	114,977
Deferred tax liabilities		59,672	63,795
		<u>387,903</u>	<u>398,287</u>
NET ASSETS		<u>1,331,644</u>	<u>1,477,195</u>
Capital and reserves			
Share capital	12	340,737	340,737
Reserves		960,679	1,085,815
Equity attributable to owners of the Company		<u>1,301,416</u>	<u>1,426,552</u>
Non-controlling interest		<u>30,228</u>	<u>50,643</u>
TOTAL EQUITY		<u>1,331,644</u>	<u>1,477,195</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	For the six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Cash flows from operating activities		
Loss before taxation	(150,235)	(167,264)
Adjustments for:		
Depreciation of property, plant and equipment	15,108	22,712
Depreciation of right-of-use assets	25,306	16,545
Gain on disposal of intangible assets	-	(3,036)
Amortisation of intangible assets	52,792	49,871
Loss on disposal of property, plant and equipment	57	-
Gain on disposal of subsidiaries	-	(99,293)
Equity-settled share-based payment expenses	6,418	4,768
Net exchange losses	3,521	2,272
Fair value gains on investment properties	-	(700)
Share of losses of associates	7,721	5,787
Share of losses of joint ventures	-	1
(Reversal of)/provision for impairment loss on trade receivables and contract assets	(5,971)	1,233
Reversal of impairment loss on other receivables	(2,799)	-
Impairment loss on amounts due from associates	-	93,289
Change in fair value of contingent consideration payable	(887)	-
Interest income	(2,509)	(9,611)
Finance costs	14,985	42,117
Operating loss before working capital changes	(36,493)	(41,309)
Increase in trading merchandise goods	(7,905)	(1,463)
Increase in trade receivables, other receivables and prepayments	(33,972)	(129,795)
Decrease in contract assets	9,375	2,462
Increase/(decrease) in trade payables, other payables and accruals	28,578	(952)
(Decrease)/increase in contract liabilities	(14,337)	1,939
Cash used in operations	(54,754)	(169,118)
Income tax paid	(374)	(112)
Interest paid	(5,199)	(31,995)
Net cash used in operating activities	(60,327)	(201,225)

	For the six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Cash flows from investing activities		
Interest received	831	9,521
Purchases of property, plant and equipment	(25,378)	(3,542)
Proceeds from disposal of property, plant and equipment	17	-
Additions to intangible assets	(22,355)	(34,158)
Proceeds from disposal of intangible assets	-	4,046
Advance to associates	(10,683)	(48,401)
Decrease in bank deposits with more than three months to maturity when placed or pledged	15,582	-
Settlement of contingent consideration payable	-	(45,614)
Net cash inflow from disposal of subsidiaries	-	233,412
Net cash (used in)/generated from investing activities	(41,986)	115,264
Cash flows from financing activities		
Proceeds from exercise of share options	-	64
Proceeds from issue of ordinary shares, net of issuing expenses	-	553,556
New borrowings	42,076	226,752
Repayment of borrowings	(5,338)	(468,044)
Repayment of principal portion of lease liabilities	(34,123)	(29,763)
Net cash generated from financing activities	2,615	282,565
Net (decrease)/increase in cash and cash equivalents	(99,698)	196,604
Effect of foreign exchange rate changes	(2,390)	(927)
Cash and cash equivalents at 1 January	309,851	75,926
Cash and cash equivalents at 30 June	207,763	271,603
Represented by:		
Bank balances and cash	207,763	271,603

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 – “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis and except for certain financial instruments which are measured at fair value.

These unaudited condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2019 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2020. The Group has early adopted the Amendment to Hong Kong Financial Reporting Standard 16 – Covid-19-Related Rent Concessions (“Amendment to HKFRS 16”). Details of any changes in accounting policies are set out in note 2. Except for the early adoption of Amendment to HKFRS 16, the adoption of the new and revised HKFRSs has no material effect on these unaudited condensed consolidated interim financial statements. The Group has not early adopted any other new and revised HKFRSs that has been issued but not yet effective in the current accounting period.

The preparation of these unaudited condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These unaudited condensed consolidated interim financial statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. These unaudited condensed consolidated interim financial statements contain unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. These unaudited condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) and should be read in conjunction with the 2019 consolidated financial statements.

2. CHANGES IN HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ¹ (early adoption)

¹ The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

The Group has adopted all the new or revised HKFRSs that are relevant to its operations and effective for the current accounting period of the Group. The impact of the early adoption of Amendment to HKFRS 16 have been summarised below. The adoption of other new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policy.

Amendment to HKFRS 16

This amendment provides a 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. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if

- (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (iii) there is no substantive change to other terms and conditions of the lease.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's buildings have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$428,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2020.

3. REVENUE AND SEGMENT REPORTING

Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions and to assess the performance.

The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Media entertainment (visual effects production service, post production service, 360 degree digital capture technology application and sales of hardware and solution services)
- Property investment

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segment's profit or loss that is used by the chief operating decision-makers for assessment of segment performance.

- (a) An analysis of the Group's revenue from its principal activities for the period is as follows:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of		
– visual effects production service	304,607	211,479
– post production service	5,299	11,506
– 360 degree digital capture technology application and sales of hardware and solution services	24,833	61,379
	334,739	284,364
Revenue from other source		
Rental income	-	65
	334,739	284,429

(b) Disaggregation of revenue from contracts with customers

	Media entertainment	
	For the six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Segments		
Types of goods or services		
Provision of		
– visual effects production service	304,607	211,479
– post production service	5,299	11,506
– 360 degree digital capture technology application and sales of hardware and solution services	24,833	61,379
Total	334,739	284,364
Geographical markets		
The People's Republic of China (the "PRC")	26,046	91,897
The United States of America (“USA”)	88,485	86,927
Canada	215,559	99,251
United Kingdom	2,671	2,964
Other countries/regions	1,978	3,325
Total	334,739	284,364
Timing of revenue recognition		
A point in time	24,840	59,990
Over time	309,899	224,374
Total	334,739	284,364

- (c) Analysis of the Group's revenue and results for the period and assets and liabilities by business segment are as follows:

	Media entertainment		Property investment		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue from external customers	<u>334,739</u>	<u>284,364</u>	<u>-</u>	<u>65</u>	<u>334,739</u>	<u>284,429</u>
Reportable segment loss	<u>(130,820)</u>	<u>(110,014)</u>	<u>-</u>	<u>(230)</u>	<u>(130,820)</u>	<u>(110,244)</u>
	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	<u>1,805,229</u>	<u>1,778,058</u>	<u>-</u>	<u>-</u>	<u>1,805,229</u>	<u>1,778,058</u>
Reportable segment liabilities	<u>(592,427)</u>	<u>(586,028)</u>	<u>-</u>	<u>-</u>	<u>(592,427)</u>	<u>(586,028)</u>

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

	For the six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Loss before taxation		
Reportable segment loss	(130,820)	(110,244)
Reversal of/(provision for) impairment loss on trade receivables and contract assets	5,971	(1,233)
Reversal of impairment loss on other receivables	2,799	-
Impairment loss on amounts due from associates	-	(93,289)
Losses on disposal of unallocated property, plant and equipment	(74)	-
Fair value gains on investment properties	-	700
Share of losses of associates	(7,721)	(5,787)
Share of losses of joint ventures	-	(1)
Auditor's remuneration	(882)	(428)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(26,511)	(21,187)
Professional fees	(12,348)	(15,986)
Finance costs	(14,985)	(42,117)
Equity-settled share-based payment expenses	(6,418)	(4,768)
Unallocated lease expenses	(74)	(74)
Unallocated other income and gains	80,845	72,726
Gain on disposal of subsidiaries	-	99,293
Other unallocated corporate expenses*	(40,017)	(44,869)
Consolidated loss before taxation	(150,235)	(167,264)

* 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.

	As at	
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	1,805,229	1,778,058
Unallocated bank balances and cash	105,611	212,906
Unallocated corporate assets	132,525	184,086
Consolidated total assets	2,043,365	2,175,050

	As at	
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Liabilities		
Reportable segment liabilities	592,427	586,028
Tax payable	4,902	5,073
Deferred tax liabilities	59,672	63,795
Unallocated borrowings	4,909	4,909
Unallocated corporate liabilities	49,811	38,050
Consolidated total liabilities	711,721	697,855

(e) Geographic information

An analysis of the Group's revenue from external customers by geographic location is as follows:

	For the six months ended	
	30 June	
	2020	2019
	HK\$'000	HK\$'000
Hong Kong (place of domicile)	-	65
The PRC	26,046	91,897
USA	88,485	86,927
Canada	215,559	99,251
United Kingdom	2,671	2,964
Other countries/regions	1,978	3,325
	334,739	284,429

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

(f) Revenue

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

	As at	
	30 June 2020 <i>HK\$'000</i>	31 December 2019 <i>HK\$'000</i>
Trade receivables	37,697	46,678
Contract assets	3,795	13,170
Contract liabilities	<u>52,536</u>	<u>66,873</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, post production service and solution services. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities are mainly related 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 media entertainment services that had an original expected duration of one year or less.

4. FINANCE COSTS

	For the six months ended	
	30 June 2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Imputed interest on:		
Contingent consideration payable	158	1,817
Lease liabilities	8,253	8,447
Interest on:		
Bank and other loans	6,574	31,164
Secured note	-	689
	<u>14,985</u>	<u>42,117</u>

5. LOSS BEFORE TAXATION

	For the six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
This is arrived at after crediting/charging:		
<i>Crediting:</i>		
Interest income	2,509	9,611
Reversal of impairment loss on trade receivables and contract assets	5,971	-
Reversal of impairment loss on other receivables	2,799	-
<i>Charging:</i>		
Staff cost (including directors' remuneration)	351,828	268,742
Depreciation of property, plant and equipment	15,108	22,712
Depreciation of right-of-use assets	25,306	16,545
Amortisation of intangible assets	52,792	49,871
Impairment loss on trade receivables and contract assets	-	1,233
Short-term lease expenses	215	367

6. TAXATION

Taxation credited to the unaudited condensed consolidated income statement represents:

	For the six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Current taxation - Hong Kong profits tax	-	-
Current taxation - Overseas tax		
- provision for the period	458	1,758
- over-provision in respect of prior years	(84)	-
Deferred taxation	(4,167)	(3,310)
	<u>(3,793)</u>	<u>(1,552)</u>

Hong Kong profits tax is calculated at applicable tax rate on the estimated assessable profits for both periods. No provision for Hong Kong profits tax has been made for both periods as the Group has 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 period at the rates of taxation prevailing in the countries in which the Group operates.

7. LOSS PER SHARE

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

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	<u>(127,224)</u>	<u>(161,625)</u>

	For the six months ended 30 June	
	2020	2019
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>34,073,816,258</u>	<u>29,068,472,612</u>

Diluted loss per share

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 share during the current and prior periods. Therefore, the basic and diluted loss per share in the current and prior periods are equal.

8. INTANGIBLE ASSETS

							Licenses for intellectual property rights	Other licenses	Total
	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Backlog contracts			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST									
As at 1 January 2020	884,952	153,366	200,368	381,763	306,447	18,178	-	17,841	1,962,915
Additions	-	-	16,280	-	279	-	2,075	3,721	22,355
Exchange realignment	235	(6,548)	(2,958)	-	(3,966)	-	-	(347)	(13,584)
As at 30 June 2020	885,187	146,818	213,690	381,763	302,760	18,178	2,075	21,215	1,971,686
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS									
As at 1 January 2020	74,419	-	103,129	344,706	73,264	16,663	-	4,692	616,873
Amortisation for the period	-	-	5,465	21,657	19,533	1,515	519	4,103	52,792
Exchange realignment	-	-	(1,104)	-	(1,750)	-	-	(114)	(2,968)
As at 30 June 2020	74,419	-	107,490	366,363	91,047	18,178	519	8,681	666,697
CARRYING AMOUNT									
As at 30 June 2020	810,768	146,818	106,200	15,400	211,713	-	1,556	12,534	1,304,989
As at 31 December 2019	810,533	153,366	97,239	37,057	233,183	1,515	-	13,149	1,346,042

9. FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at	
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Unlisted equity investment, at fair value	-	-

In 2018, the Group acquired the unlisted equity instrument at the consideration of US\$25,000,000 (equivalent to approximately HK\$196,213,000). Accumulated fair value adjustment (downside) of HK\$196,213,000 has been recognised in other comprehensive income as at 31 December 2019.

The above investment represents an unlisted equity instrument which is held for medium or long-term strategic purpose. The Group irrevocably designated the investment in equity instrument as at fair value through other comprehensive income on its initial recognition as the directors believed that this provided a more meaningful presentation for medium or long-term strategic investment, than reflecting changes in fair value immediately in profit or loss.

10. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 days (as at 31 December 2019: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for impairment losses, based on invoice dates, is as follows:

	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Current portion		
Trade receivables by ageing		
0 to 30 days	17,855	26,347
31 to 60 days	3,303	2,415
61 to 90 days	1,622	5,428
91 to 365 days	9,333	5,159
Over 365 days	5,584	7,329
Total trade receivables	37,697	46,678
Other receivables	60,565	66,003
Deposits	5,148	5,307
Prepayments	110,668	51,686
Sub-total current portion	214,078	169,674
Non-current portion		
Deposits	12,557	12,857
Total trade receivables, other receivables and prepayments	226,635	182,531

11. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The ageing analysis of the Group's trade payables, based on invoice dates, is as follows:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Trade payables by ageing		
0 to 30 days	5,400	7,407
31 to 60 days	1,505	4,248
61 to 90 days	288	1,263
91 to 365 days	9,355	4,373
Over 365 days	4,555	10,057
Total trade payables	21,103	27,348
Other payables	49,226	25,347
Accruals	68,445	56,126
Total trade payables, other payables and accruals	138,774	108,821

12. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2019 and 30 June 2020	<u>75,000,000,000</u>	<u>750,000</u>
Issued and fully paid:		
As at 31 December 2019 and 30 June 2020	<u>34,073,816,258</u>	<u>340,737</u>

13. SHARE-BASED PAYMENT TRANSACTIONS

On 21 May 2020, 478,000,000 share options ("Options") were conditionally granted to employees of the Group, 292,200,000 Options have immediately vested on 21 May 2020, while 92,200,000 Options and 93,600,000 Options will be vested on 21 May 2021 and 21 May 2022 respectively. All Options are/will be exercisable from their respective vesting dates until 20 May 2030. The exercise price of the Options is HK\$0.046 per share, being the closing price as stated in the daily quotations sheet issued by the Stock Exchange on 21 May 2020.

During the six months ended 30 June 2020, no share options (six months ended 30 June 2019: nil) were forfeited and no share options (six months ended 30 June 2019: 1,000,000) were exercised.

As at 30 June 2020, the weighted average exercise price of share options outstanding was HK\$0.253 per share (as at 31 December 2019: HK\$0.308 per share), and their average remaining contractual life is 6.23 years (as at 31 December 2019: 5.75 years).

The fair value of services received in return for the grant on the grant date is measured by reference to the fair value of share options granted. The fair value of the share options granted on 21 May 2020 is determined based on binomial option pricing model. The weighted average fair value of each option granted during the six months ended 30 June 2020 was HK\$0.021. The key valuation parameters are as follows:

Share price at grant date	HK\$0.046
Exercise price	HK\$0.046
Expected volatility	50%
Life of the share options	10 years
Expected dividend yield	0%
Risk-free rate	0.58%
Forfeiture rate	5.5%
Suboptimal exercise behaviour multiple	2.5

Expected volatility is determined by considering the historical share price movement of the Company. Expected dividend yield is determined from the Company's historical payment of dividends. Risk-free rate is the average forecast rate obtained from Hong Kong Government Bonds. Forfeiture rate is determined from the Group's historical employee share options exit rate. Suboptimal exercise behaviour multiple is based on the Company's historical employee share options early exercise multiples.

The fair value of equity-settled share options is estimated through the use of option valuation models which require various inputs and assumptions. The value of options is subjective and may be uncertain as it is affected by assumptions applied and with regard to the limitation of the valuation model. Some of the inputs are based on estimates derived from historical information of the Group, such as suboptimal exercise behavior. In this regard, using different input estimates could produce different option values, which would result in the recognition of a higher or lower expense.

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

In aggregate, the Group had recognised an equity-settled share-based payment expenses of HK\$6,418,000 (six months ended 30 June 2019: HK\$4,768,000) during the six months ended 30 June 2020.

14. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2020, the Group had the following material related party transaction:

Related party relationship	Type of transaction	For the six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Associate	Advertising and promotion expenses	-	1,090

15. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment as at 30 June 2020 and 31 December 2019.

16. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

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 in a group of subsidiaries of the Company of which principal activities are sales of hardware and solution services (the “Disposal Group”). Further details were set out in the Company’s announcement dated 17 July 2020. The transaction has been completed on 31 July 2020. Upon the completion of the transaction, the Company lost control over the Disposal Group but retained significant influence over the Disposal Group. Accordingly, the Group will account for its retained interest in the Disposal Group as its interests in associates.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (2019: nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group achieved a revenue of HK\$334,739,000 (2019: HK\$284,429,000), showing an increase of approximately 18% compared to that of the previous corresponding period. The gross profit of the Group amounted to HK\$26,891,000 (2019: HK\$56,597,000) during the Review Period, showing a decrease of approximately 52%. As at 30 June 2020, the total assets of the Group amounted to HK\$2,043,365,000 (as at 31 December 2019: HK\$2,175,050,000). The loss attributable to the owners of the Company for the Review Period was HK\$127,224,000 (2019: HK\$161,625,000), showing a decrease of 21%. The loss for the Review Period was approximately HK\$146,442,000 (2019: HK\$165,712,000), showing a decrease of 12%. The loss of total comprehensive income for the period has been reduced from HK\$216,116,000 to HK\$151,969,000, showing a decrease of 30%. The loss for the Review Period was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
 - (a) equity-settled share-based payments for the share options granted between 2014 and 2020 to the value of HK\$6,418,000 (2019: HK\$4,768,000);
 - (b) amortisation and depreciation expenses from 3Glasses Group of HK\$26,135,000 (2019: HK\$26,453,000);
 - (c) amortisation expenses from the investment in TV drama series (grouped under “Participation Rights”) of HK\$21,657,000 (2019: HK\$20,256,000); and
 - (d) other amortisation and depreciation expenses (besides the two items mentioned above) to the value of HK\$45,414,000 (2019: HK\$42,419,000);
- (ii) administrative and other project expenses, comprising mainly legal and professional fees (including those incurred in relation to the acquisitions, collaborations and business development in the Greater China region, business development in Montreal, Canada, and investor and public relations); and
- (iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the Review Period, this segment recorded a revenue of approximately HK\$334,739,000 (2019: HK\$284,364,000). This segment incurred a loss of approximately HK\$130,820,000 (2019: HK\$110,014,000). The loss included the content development and research and development costs incurred relating to virtual reality content and games, 360° and interactive virtual human functionality.

“The earnings before interests, tax, depreciation and amortization (EBITDA)” of the media entertainment segment for the six months ended 30 June 2020 was a loss of HK\$64,125,000 (2019: HK\$44,792,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is also a widely used financial indicator of a company’s operating performance. EBITDA should not be considered in isolation or be construed as alternatives to cash flows, net income or any other measure of performance or as indicators 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 amortization 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 includes visualisation, previsualisation, postvisualisation, visual effects, computer graphics (“CG”), animation, motion capture, virtual production and design for major motion picture studios, networks, streaming services, advertisers, brands and games.

Digital Domain North America (USA and Canada):

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

TELLYS

For the Telly Awards, Director of Virtual Human Group, Mr. Darren HENDLER, Senior Director of Software R&D, Dr. Doug ROBLE, and their team won a silver craft award for “Digital Humans that Look Just Like Us.”

Director Mr. Pierre MICHEL-ESTIVAL, Visual Effects Supervisor Mr. Matt DOUGAN, Producer Ms. Alexandra MICHAEL, and their team won a bronze craft award for the online commercial spot for “Tom Clancy’s The Division 2.”

Association of Independent Commercial Producers (AICP)

Visual Effects Supervisor Mr. Matt DOUGAN and his team were shortlisted for an AICP Post Award for the CGI category for their work on “Tom Clancy’s The Division 2.”

Lead Composer Mr. John BRENNICK and the team were shortlisted for an AICP Post Award for the Compositing and Visual Effects category for their work on P!NK’s “Walk Me Home (Official Music Video).”

Since 1 January 2020, the artists of Digital Domain 3.0, Inc. (“DD3I”, a subsidiary of the Company) have provided VFX services for work including:

- “*Morbius*” - Visual Effects Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their team worked on the highly anticipated film Sony Pictures film directed by Daniel Espinosa expected to release in March 2021.
- “*Free Guy*” - Visual Effects Supervisor Mr. Nikos KALAITZIDIS and his team worked on Shawn Levy’s action-comedy following a bank teller discovers that he’s actually an NPC inside a brutal, open world video game. The film is expected to release in December 2020.
- “*Black Widow*” - Visual Effects Supervisor Mr. Dave HODGINS and his team worked on Marvel Studios’ film following Natasha Romanoff in her quests between the films “Captain America: Civil War” and “Avengers: Infinity War.” The film is expected to release in November 2020.
- “*Chaos Walking*” - Visual Effects Supervisor Mr. Mitch DRAIN and his team continue work on director Doug Liman’s film about 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 is expected to be released in 2021.
- “*Shang-Chi and the Legend of the Ten Rings*” – Visual Effects Supervisor Mr. Hanzhi TANG and his team began work on the Marvel Studios’ film expected to release in May 2021.
- “*Doctor Strange in the Multiverse of Madness*” – Work will begin shortly on the next installation in the Doctor Strange series. The film is expected to release in March 2022.

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

- CBS’s “*Twilight Zone*” – Visual Effects Supervisor Mr. Mitchell S. DRAIN led a team of artists in creating the visual effects for five episodes of Netflix’s second season of “*The Twilight Zone*.” Digital Domain’s artists produced a total of 140 shots across the season which included the creation of a very complex creature.
- “*Perry Mason*” – Visual Effects Supervisor Mr. Mitchell S. DRAIN led artists based in Los Angeles to complete nearly 140 shots for the HBO miniseries that included historically accurate environment work reconstructing 1930s LA surrounding the “Angel’s Flight” railway.
- “*WandaVision*” – Visual Effects Supervisor Mr. Marion SPATES and his team continues work on the new Marvel Studios episodic due to deliver in October 2020.
- “*Carnival Row*” season 2 – Visual Effects Supervisor Mr. Aladino DEBERT and his team continues work on the second season of Amazon Studios’ fantasy series delivering in January 2021.

- **“Loki”** – Visual Effects Supervisor Mr. Jean-Luc DINSDALE have begun work on the new Marvel Studios episodic delivering in February 2021.

Digital Domain’s visualization studio provided previz services for features shows such as:

- **Marvel Studios’ “Dr. Strange 2”**
- **FOX’s “The Orville”**
- **Fox Studios’ “Free Guy”**
- **Sony Pictures’ “Morbius”**
- **Marvel Studios’ yet-to-be-titled third “Spider-Man” installment**
- **Legendary Entertainment’s “Dune”**

Additionally, Mr. Scott MEADOWS’ team provided previz for the following commercials spots: **“Cross X,”** a :40 game trailer, and a :60 trailer for the game known as **“Game for Peace/PUBG.”**

The team also provided mocap services for an undisclosed Google project as well as an AAA video game for Supermassive Games set to release on Google Stadia.

For commercials, we provided VFX services for advertisements, special venue projects and games. Work completed in 2020 includes:

- Led by Director Mr. Aladino DEBERT and Visual Effects Supervisor, Mr. Matt DOUGAN, Digital Domain partnered with agency AKQA, to create a :60 game cinematic with additional cutdowns for the game **“Ghost of Tsushima.”**
- For Tencent, Director Mr. Pierre MICHEL-ESTIVAL and the team partnered with Digital Domain China to direct and provide Mocap for a :60 CG trailer for **“Game of Peace.”**
- Digital Domain’s Visual Effects Supervisor Mr. Piotr KARWAS partnered with 72andSunny for a 2D flame job for Pluto TV.
- Visual Effects Supervisor Mr. Piotr KARWAS and the team worked on Magic Leap’s watch video ad for HBO.
- For Microsoft’s Xbox, Visual Effects Supervisor Mr. Piotr KARWAS and team are working on a two-minute game cinematic trailer for **“Joanna Dark.”**
- For Reynolds, Digital Domain teamed up with Havas Chicago to create three fifteen second spots that included live action shoot, design, editorial and finishing.
- The team is also working on a :30 game trailer for Microsoft’s **“CrossfireX,”** utilizing the Unreal engine. The work also included building four digital heads to attach to in-game bodies.
- Also for 72andSunny the team is working on 80+ versions of a live action spot for American celebrity skateboarder Tony Hawk, for which we are handling all finishing work (cleanup, beauty and online).

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 alternate technologies. An appeal of the statement of decision was subsequently filed. The appellate court issued a written decision on 31 July 2020 in which it concluded that Claimant owned 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 in certain visual effects projects that the US Subsidiary had completed (“Other Lawsuits”). In its production services agreements for these projects, 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’s clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court has allowed both parties in the Other Lawsuits to conduct further discovery and investigation into these remaining claims before hearing further arguments in favour of and against the motion.

The US Subsidiary has submitted the indemnity requests that it has received from these clients 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 to the US Subsidiary’s clients, but subsequently communicated to the US Subsidiary that it was re-evaluating its coverage obligations under the insurance policy. 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.

Digital Domain China:

Through the investment in Lucrative Skill Holdings Limited (“Lucrative Skill”) in April 2016 - the holding company of the Post Production Office group of companies (collectively rebranded as “Digital Domain China (DD China)”), the Group made significant progress in establishing 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° videos and feature films.

Visual effects and colour grading for feature films and TV drama series include “***Dare To Grow Up***”, as well as upcoming “***Ban Lang Chuan Shuo***”, “***Leap***” and “***Summer Blur***”.

In 2020, DD China continued to provide post-production and production (e.g. shooting, editing, colour grading, music production etc.) services for various high-profile commercials profiling leading brands like OMO, L'Oréal Paris, BVLGARI, Biotherm, PizzaHut, DIOR, DiDi, Dove, Hair Recipe, Feihe, FOREO, Fenqile.com, Chef Nic, fresh, HAVAL, DARLIE, HUAWEI, “*Going Home*”, Carslan, BESTORE, LOCKDOWN NEIGHBOURS, Mercedes-Benz, Minute Maid, SHEN YU PICTURES, TAYRON X, Tmall - CHINA COOL, URBAN DECAY, VIVO, “*VOGUE China*”, LittleOndine, MI, Youku - “*We Are Young*”, FAW-Hongqi, SHISEIDO and The JB Conspiracy - “*Guiding Lights*”.

Digital Domain India:

The Hyderabad facility continues to be an integral part of the Group’s global strategy for its VFX services. The facility has proven to be a dependable delivery centre for internal shows and slowly building a similar reputation with external, domestic and international clients.

Digital Domain India provides services across platforms, i.e. features, television, web and over-the-top (“OTT”). Digital Domain India gives utmost importance to data security and also passed security audits of The Motion Picture Association of America, Inc. (“MPAA”), Walt Disney Studios Motion Pictures (“Disney”) and Marvel Studios, LLC (“Marvel”). Digital Domain India is a certified secured facility to handle content for all “A” list Hollywood and other international shows.

In first half of 2020, Digital Domain India has managed to deliver quality work on schedule while dealing with the global COVID-19 challenges. The capacity expansion and the full CG production plans in partnership with IP developers continue to be in the pipe and slated take shape as the markets recover, thus improving its overall revenue targets in the next few years.

B. Virtual Reality/Augmented Reality (“AR”), New Media and Experiential

This segment includes businesses offering augmented, immersive and virtual reality (collectively as “VR”) technology services using 360° digital capture technology and CG.

Digital Domain offers a variety of products and services in the emerging VR market. The Company has developed a VR streaming platform and interactive toolset to support an end-to-end solution from concept to consumption of immersive content. Digital Domain teams use proprietary cameras and software for capturing 360° video footage, and their digital artists produce VR experiences in real time and for video on demand (VOD). In addition to using its own app for hosting VR content, Digital Domain technical teams also create custom VR apps for brands and telecommunication entities.

Digital Domain’s VR/AR, new media and experiential team executed several livestream broadcasts, experiences and installations, including for these in 2020:

- Digital Domain partnered with **TIME** for “*The March*”, to produce an immersive historical recreation of the 1963 March on Washington for Jobs and Freedom in virtual reality, which includes **Dr. Martin Luther King Jr.’s ‘I Have a Dream’ speech**.
- Digital Domain is working with a major theme park company on R&D for a future virtual human project.
- The team also worked on an Undisclosed AAA game project, capturing 30 hours of performance capture leveraging our Masquerade facial capture process.

The global studio participated in several events, including:

- **Foundry Virtual Events Series: “Nuke TD Roundtable”** Mr. Deke KINCAID participated in a Nuke TD Roundtable exploring what TDs and technical artists do and why it’s a good career.
- **#AIShowBiz: Trailblazer** – Mr. John CANNING, Executive Producer of New Media & Experiential, spoke on a panel on “Creating Digital Characters and Worlds in the New Normal.”
- Mr. John CANNING, Executive Producer of New Media & Experiential, participated in a panel for **VES online** discussing Real-Time Virtual Humans.
- **Virtual Digital Hollywood:** Mr. John CANNING, Executive Producer of New Media & Experiential, participated as a moderator on Virtual Hollywood Production and Immersive Entertainment.
- **VRTO:** Mr. John CANNING, joined Keran Malicki-Sanchez for a pixelside chat covering a wide range of concepts and production anecdotes centered around the art of capturing humans, monsters and historic figures in such a way that they are indistinguishable from the real thing.

- **Langara Centre for Entertainment Arts:** Mr. Jan Philip CRAMER, Head of Animation, presented a Facial Animation master class to showcase techniques that result in the most realistic and best possible facial animation out of motion capture or keyframe animation.

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 management team of 3Glasses Group has more than 10 years of experiences in VR technology development and is a pioneer in providing VR solutions in the PRC. The major product of 3Glasses Group is the self-developed VR headset, which is a head-mounted display device that provides VR experience for wearers and is widely used with computer games, simulators and trainers. 3Glasses has launched China’s first (the world’s second) VR headset (3Glasses D1) and China’s first mixed reality headset (3Glasses Blubur S1, development version for Microsoft). 3Glasses Group has undertaken more than 200 successful VR projects serving a broad variety of industry sectors including entertainment, education, tourism, exhibition and display, architecture, design, health care, film and television and security.

In 2019, 3Glasses released the world’s first ultra-thin consumer VR glasses, X1, with only one-third of comparable product’s weight and size in the market, levelled up current VR glasses’ benchmark with a striking standard. In 2019, 3Glasses X1 was successfully directly connected to ZTE’s Axon 10 Pro, which makes X1 the world’s first mass-produced ultra-thin VR glasses connected to 5G mobile phones. Also, in 2019, 3Glasses launched D4, an upgraded VR headset based on D series, which not only realises better visual experience in optics, but also optimises industrial design and wire rod for offline VR experience.

On 17 March 2020, 3Glasses and China Unicom jointly held a strategic cooperation conference online. In the press conference with the theme of “Same Frequency and Joint Resonance”, both parties announced that in the course of China Unicom’s integration of 5G+VR industry joint resonance solutions, 3Glasses became one of the initial partners of China Unicom’s “terminal + application” and “online + offline” integration to implement cooperation agreements. In addition, “X1S”, 3Glasses’ brand new VR glasses under the “X” series made its debut at the press conference.

Being the first official certified partner of Qualcomm XR SIMPLEVIEW program, 3Glasses also has co-operated with other famous corporations such as BOE Technology Group Co., Ltd. for development of ultra-thin VR optical components to iterate VR industry. Furthermore, with the laying of 5G network by the telecommunication operators in the PRC, 3Glasses X1 and the new X1S, being a carrier of 5G application tethered to 5G smartphones, will serve as the consumer VR hardware for families and individual users to provide immersive and seamless VR experiences over 5G.

As at 30 June 2020, 3Glasses Group has applied for 404 VR independent core patents. As an innovative technology company, while maintaining its technological leading edge in the area of hardware products such as VR headset, 3Glasses also actively expands its solutions services (including VR hardware, VR games and content services and industry applications).

Contractual Arrangements – please refer to pages 17 to 21 of Annual Report 2019.

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

For the further enhancement of the virtual human technology and business development, the Group continues to seek opportunities for financing and collaboration with strategic partners and recruitment of appropriate global talent.

The Virtual Human Group (VHG) of North America region participated in several events, including:

- Dr. Doug ROBLE was invited to present a tele presence keynote at **Real-Time Conference** which detailed how he and our VHG successfully introduced the world to DigiDoug, a photorealistic avatar who took the stage in real-time for TED Conference in 2019. This presentation also went into the details with where we are now with the technology concentrating on the “real” in both real-time and photoreal.
- At **NVIDIA’s GTC**, Dr. Doug ROBLE also presented “Photorealistic, Real-Time, Digital Humans: From Our TED Talk to Now” which delved into how the team achieved their 2019 TED presentation solving real-time human problems and what they’ve been working on since; increasing the fidelity of the rendered character, creating the ability to easily have someone else drive a character, creating autonomous characters who can drive themselves and creating new ways to render the character for ultimate fidelity.
- Additionally, Dr. Doug ROBLE gave an internal presentation for **NVIDA**.
- Mr. Darren HENDLER participated in **SIGGRAPH’s** spotlight podcast on “Age Manipulation in VFX” which dove into the science, technology and technique behind age manipulation in VFX.
- For **Cannes XR**, Mr. Darren HENDLER and Mr. John CANNING participated in a panel called “Welcome to the age (and magic) of Virtual Humans,” which explored Virtual Humans and their revolution in cinema and Digital Domain’s vision for real-life applications.

Besides Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (e.g. famous singers/movie stars or corporations) in the Greater China Region. Since 2018, the Group created its own Digital Domain’s virtual human characters/IPs (e.g. Lydia, STAR). The Group also deployed resources towards research and development for enhancement of the interactive functions between virtual human characters and audience.

D. Co-Production

Feature Film:

The film “*Ender’s Game*” was released in November 2013 in USA. The film continues to generate income from non-box office channels both within and outside the USA. “*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 in “Other revenue and gains” in the Group’s consolidated income statement.

TV Drama Series:

Digital Domain entered a collaboration with Talent Television and Film and Cenic Media to produce a TV Drama “*Ten Years Late*,” which tells an inspiring workplace story set in multiple cities. Digital Domain will provide VFX and VR solutions for the drama, so that viewers can enjoy 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 Review Period, HK\$39,782,000 (2019: HK\$57,795,000) from “*The Legends of Monkey King*” (2019: “*Ten Years Late*”) was recognized as income arising from broadcasting movies and TV dramas and grouped under the “Other income and gains” in the Income Statement. There were amortization expenses from investment in TV drama series mentioned above (grouped under “Participation Rights”) of HK\$21,657,000 (2019: HK\$20,256,000).

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 the business development of virtual human, the Group continues to seek opportunities for financing and collaboration with strategic partners. In January 2019, the Group invited strategic investors to invest into certain virtual human companies-projects in the Greater China Region and these companies-projects have been reclassified as associates of the Company from 1 February 2019.

In 2014, Digital Domain Media (HK) Limited (“DDM”), an indirect wholly-owned subsidiary of the Company (became an associates of the Company from 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 of the music works of the deceased 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, 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.

- In December 2019, **Handan Merlot City Global Centre, Virtual Human Teresa Teng’s exhibition and hologram show** had completed the hologram theatre building and content rehearsal. We expected the show would be performed in late 2020 and last for a year.

Digital Domain Space (VR Theatre)

In September 2017, Digital Domain announced its collaboration with Poly Capital and Hony Capital, to establish 數字王國空間(北京)傳媒科技有限公司 (**Digital Domain Space**). During 2018, CITIC Press Group invested in Digital Domain Space as a strategic investor and business partner.

Digital Domain Space’s aim is to develop and execute an innovative VR experience with VR theatres opened in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space’s VR theatres have already been installed inside shopping malls in Beijing, Guangzhou, Hangzhou, Chongqing, Tianjin, Shenyang, Fushun and Nanjing, and elsewhere. Compared to extant domestic VR technologies, Digital Domain Space presents consumers with elevated VR content and total immersion in VR experiences. Leveraging the influence and scale of its brand, store locations and consumer volume, Digital Domain Space offers enhanced product and advertising placement to provide additional and diversified business opportunities. The share of losses from this associate was amounted to approximately HK\$6,106,000 (2019: HK\$5,787,000).

In order to meet the increasingly diversified needs of consumers in the cultural and tourism circle for content and experience, Digital Domain, Digital Domain Space and Ningxiang Cultural Tourism Investment Co., Ltd. jointly built the “**Digital Domain • Oasis Mega Digital Theme Park**” which officially commenced construction in December 2019 and held a groundbreaking ceremony in Tanhe Ancient City, Ningxiang City, Hunan Province. Based on the cutting-edge digital imaging technologies such as VR and holographic projection, the Group will build digital entertainment projects such as holographic theatre, monster prison, VR cinema and Cyber Block, with a usage area of up to 8,800 square meters.

EVENTS AFTER THE REPORTING PERIOD

Discloseable transaction in relation to the disposal of 22.29% of the issued share capital of Lead Turbo Limited

On 17 July 2020 (after the trading hours of the Stock Exchange), Digital Domain Network Technology Limited (“DD Network”) and the purchaser entered into the disposal agreement, pursuant to which the purchaser conditionally agreed to acquire, and DD Network conditionally agreed to sell, the sale shares, representing 22.29% of the issued share capital of the Target (Lead Turbo Limited), at an aggregate consideration of HK\$102,000,000. The disposal was completed on 31 July 2020.

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the disposal exceeds 5% but less than 25%. Accordingly, the disposal constitutes a discloseable transaction of the Company pursuant to Rule 14.06 of the Listing Rules and is therefore subject to notification and announcement requirements under the Listing Rules. For details, please refer to the Company’s announcement dated 17 July 2020.

CAPITAL

Shares

As at 30 June 2020, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 34,073,816,258 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 Review Period, no share options were exercised, cancelled or have lapsed. 46,570,000 share options were exercised and 140,760,000 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 Review Period, no share options were exercised, cancelled or have lapsed. 10,000 share options were exercised and 3,000,000 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 Review Period, no share options were exercised, cancelled or have lapsed. No share options were exercised and 25,666,665 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 Review Period and since the grant-date (22 June 2016), no share options were exercised, cancelled or have 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 Review Period, no share options were exercised, cancelled or have lapsed. No share options were exercised and 13,199,986 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 Review Period and since the grant-date (13 February 2017), no share options were exercised, cancelled or have 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 Review Period and since the grant-date (24 April 2019), no share options were exercised, cancelled or have 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 Review Period, no share options were exercised, cancelled or have lapsed.

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 2020, the Company has banking facilities from a bank in Hong Kong amounted to US\$13,000,000 (approximately HK\$100,757,000). These banking facilities were credit limits for issuing standby letters of credit and the utilised portions (US\$1,415,000, approximately HK\$10,970,000) were secured by time deposits of the Group. The Group had working capital loans in amount of RMB9,500,000 (approximately HK\$10,422,000) and each working capital loan was secured by a standby letter of credit issued by the bank in Hong Kong mentioned above. The Group had a banking facilities from a bank in Canada amounted to CAD\$4,500,000 (approximately HK\$25,691,000) secured by corporate guarantee provided by the subsidiaries, which utilized portion as CAD\$1,559,000 (approximately HK\$8,900,000). The Group also had working capital loans in amount of US\$10,833,000 (approximately HK\$83,964,000) and each working capital loan was secured by a time deposit of the Group. In addition, the Group has utilised a banking facility from a bank in Mainland of China amounted to RMB11,620,000 (approximately HK\$12,747,000) secured by fixed deposit of the same bank.

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group in the entertainment media segment, which was discontinued at the end of December 2010, obtained a banking facility amounting to HK\$6,000,000 from a bank in Hong Kong in 2009 which consisted of a 5-year instalment loan (“Five Year Loan”). This facility was granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region (the “Government”), pursuant to which the Government provided an 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary. On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the aforesaid subsidiary has been discontinued since the end of December 2010. The Five Year Loan has been fully classified as a current liability.

As at 30 June 2020, the Group also had lease liabilities of HK\$133,535,000, which were determined at the present value of the lease payments that are payable at that date. Apart from lease payments related to office premises, the Group had lease liabilities of HK\$123,000, RMB549,000 (approximately HK\$602,000), US\$541,000 (approximately HK\$4,191,000) and CAD\$549,000 (approximately HK\$3,133,000) related to computer equipment, office equipment, furniture and software (leased assets) secured by the lessor’s charge over the leased assets. Among these leased assets, the term of payments were 60 months, 33 months, 30 months and 36 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\$181,029,000 as at 30 June 2020. One indirect wholly-owned subsidiary has a loan in amount of US\$3,500,000 (approximately HK\$27,065,000) and HK\$10,000,000, which is unsecured, interest-free and is not repayable within 13 months from 30 June 2020. One indirect wholly-owned subsidiaries also had a term loan facility of US\$10,000,000 (approximately HK\$77,500,000) 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 30 June 2020 was US\$8,000,000 (approximately HK\$62,004,000 and HK\$50,000,000). These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 13 months from 30 June 2020. There is an other loan in amount of RMB20,000,000 (approximately HK\$21,940,000), from a minority shareholder of the 3Glasses Group. During the period, the

Group has borrowed other short-term loans of approximately HK\$10,020,000 which were unsecured, interest bearing and repayable within 12 months. During the period, the Group participated in the payroll protection plan and obtained certain loans of US\$897,000 (approximately HK\$6,953,000).

The total cash and bank balance as at 30 June 2020 was approximately HK\$207,763,000. As at 30 June 2020, the Group had banking facilities of approximately HK\$247,278,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$90,916,000 are denominated in United States dollars, loans amounting to approximately HK\$8,900,000 are denominated in Canadian dollars and loans amounting to approximately HK\$23,169,000 are denominated in Renminbi. During the Review Period, all of the Group's bank loans were classified as either current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings as at 30 June 2020 was spread over a period of three years, with approximately 33% repayable within one year and 67% repayable between two and three years.

The Group's current assets were approximately HK\$456,511,000 while the current liabilities were approximately HK\$323,818,000 as at 30 June 2020. As at 30 June 2020, the Group's current ratio was 1.4 (as at 31 December 2019: 1.8).

As at 30 June 2020, 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 34% (as at 31 December 2019: 31%).

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") and Indian Rupees ("INR"). The exchange rates for the USD against the HKD remained relatively stable during Review Period. As some of the financial statements for the business operations in North America, Mainland of China and India were reported in CAD, RMB and INR, respectively, if the CAD or RMB or INR were to depreciate relative to the HKD, the reported earnings/expenses for the Canadian portion, Mainland of China portion or Indian portion would decrease.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB, CAD and/or INR. 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 Media Entertainment Segment above, as at 30 June 2020, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2020, the total headcount of the Group was 1,049. 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

The global economy has been adversely affected by the outbreak of new coronavirus (COVID-19) and associated government epidemic prevention and control measures in early 2020 and we can see that 2020 will continue to be an extremely challenging year for a lot of businesses, including our media entertainment business. Given that the overall situation remains unstable and further impact may be reflected in the second half of 2020, so we are adopting a prudent approach in our business strategies (including cost control, business direction, production mix, etc.).

The Group continues to leverage its extensive experience in the VFX industry and proactively seeks new projects and business opportunities despite the highly competitive market environment in US and China. However, government measures and public response to the outbreak of COVID-19 worldwide has had an impact on, the business activities (VFX work for feature films, TV drama, commercials, etc.) in terms of extensions or delays in production schedules and new projects becoming available as the industry monitors the development of government directions and policies and their potential impact, while there were increased opportunities for providing VFX work for other type of products (e.g. online games). While we have noted more business opportunities in US and China following the gradual resumption of commercial work, it is more challenging to predict trends in different segment given that the development of the pandemic in different countries remain unstable. With the official opening of our new studio in Montreal, Quebec, Canada in February 2020, we enjoy additional production capacity with tax and other benefits provided by the Quebec provincial/Canadian federal governments. 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 business activities (slowdown of expansion in Mainland of China and even world-wide, slowdown and/or reduction of investments/ projects by potential clients, etc.) of our VR business, especially those 360° digital capture/ livestreaming business (such as in sports, travel, concerts, social events with mass public) have also experienced a slowdown due to the COVID-19 pandemic related measures. Nevertheless, there are clients or investors who still have confidence in our VR business models/hardware products and they are still discussing the opportunities with us. However, the impact for financial year 2020 remains to be seen given that overall situation remains in flux. At the same time, we believe that the introduction of a new business partner through the disposal of certain equity interests in 3Glasses will provide an opportunity for us to evaluate our overall strategy (investment direction, products mix, etc.) of our VR business.

We will continue to explore new virtual human business opportunities (such as “virtual human live broadcasting with online shopping activities” in Mainland of China) and products with strategic investors by developing new technologies which will enhance the interactivity between virtual humans and the audience in social-networking platform and entertainment business.

Similar to 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 talents to support the Group’s future development. In line with our strategy to optimize our production capacity and costs, we will also explore appropriate strategically located properties for both operations and investment purposes. We will continue to seek opportunities for financing and collaboration with strategic partners/investors on 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.

Looking ahead, we will continue to build on our strengths and strive to provide quality services and products to our valued clients, especially during this challenging year, while we work towards maximising benefits for our important stakeholders (strategic partners, shareholders, staff and management) in the coming years.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE “LISTING RULES”)

There was a banking facility (the “Facility”) with the principal amount of HK\$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the “Subsidiary”), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary’s equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary (the “Intermediate Holding Company”). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 30 June 2020, the outstanding loan principal of this Facility amounted to approximately HK\$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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 Review Period.

CORPORATE GOVERNANCE

During the Review Period, the Company was in compliance with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules except for the following:

- (a) There is no separation of the roles of the chairman and the chief executive officer or chief executive during the period from 4 June 2020 to 30 June 2020. 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. 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 was seeking the suitable candidate to fill the vacancy of the position of the chairman of the Board;
- (b) 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 one month; and
- (c) Due to other pre-arranged business commitments which must be attended to by Mr. Jiang Yingchun and Mr. Wang Wei-Chung, the non-executive Directors, they were not present at the annual general meeting of the Company held on 5 June 2020.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim results of the Group for the Review Period.

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

Hong Kong, 21 August 2020

As at the date of this announcement, Mr. Seah Ang is the executive Director; Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Mr. Wong Ka Kong Adam and Dr. Elizabeth Monk Daley are the independent non-executive Directors.