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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 2022

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 2022 (the “Review Period”) together with comparative figures for the corresponding period in 2021 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2022

		For the six months ended 30 June	
	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	3	482,726	414,663
Cost of sales and services rendered		<u>(412,125)</u>	<u>(350,807)</u>
Gross profit		70,601	63,856
Other income and gains		4,882	55,520
Selling and distribution expenses		(1,794)	(2,719)
Administrative expenses and other net operating expenses		(175,782)	(182,560)
Finance costs	4	(12,196)	(12,913)
Impairment loss on trade receivables and contract assets		(389)	(5,164)
Impairment loss on amounts due from associates		(4,731)	(3,949)
Share of losses of associates		(1)	(17,743)
Fair value loss on financial assets measured at fair value through profit or loss	10	<u>(7,854)</u>	<u>(16,394)</u>
Loss before taxation	5	(127,264)	(122,066)
Taxation	6	<u>811</u>	<u>275</u>
<b>Loss for the period</b>		<u><b>(126,453)</b></u>	<u><b>(121,791)</b></u>

		<b>For the six months ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Loss attributable to:</b>	<i>Note</i>		
- Owners of the Company		<b>(118,458)</b>	(103,796)
- Non-controlling interest		<u><b>(7,995)</b></u>	<u>(17,995)</u>
		<u><b>(126,453)</b></u>	<u>(121,791)</u>
<b>Loss per share attributable to the owners of the Company:</b>			(Re-presented)
- Basic and diluted	7	<u><b>HK cents (2.736)</b></u>	<u>HK cents (2.563)</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss for the period</b>	<b>(126,453)</b>	<b>(121,791)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	<b>(17,576)</b>	<b>(3,436)</b>
Share of other comprehensive income of associates	<b>4</b>	<b>(537)</b>
Share of other comprehensive income of a joint venture	<b>(34)</b>	<b>10</b>
<b>Other comprehensive income for the period, net of tax</b>	<b>(17,606)</b>	<b>(3,963)</b>
<b>Total comprehensive income for the period</b>	<b>(144,059)</b>	<b>(125,754)</b>
<b>Total comprehensive income attributable to:</b>		
- Owners of the Company	<b>(136,169)</b>	<b>(108,377)</b>
- Non-controlling interest	<b>(7,890)</b>	<b>(17,377)</b>
	<b>(144,059)</b>	<b>(125,754)</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AS AT 30 JUNE 2022*

	<i>Notes</i>	<b>Unaudited 30 June 2022 HK\$'000</b>	Audited 31 December 2021 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		70,828	83,791
Right-of-use assets		90,819	56,314
Intangible assets	8	532,458	533,994
Interests in associates		31,497	34,730
Interest in a joint venture		37	71
Financial asset measured at fair value through other comprehensive income ("FVOCI")	9	–	–
Financial assets measured at fair value through profit or loss ("FVTPL")	10	57,532	70,151
Deposits	12	8,832	7,344
Deferred tax assets		647	681
		<u>792,650</u>	<u>787,076</u>
<b>Current assets</b>			
Trade receivables, other receivables and prepayments	12	140,705	140,710
Contract assets		29,290	24,558
Tax recoverable		348	–
Bank balances and cash		160,701	247,755
		<u>331,044</u>	<u>413,023</u>
<b>Current liabilities</b>			
Trade payables, other payables and accruals	13	198,529	170,845
Lease liabilities		25,885	26,567
Contract liabilities		103,967	86,707
Borrowings		71,494	49,646
Tax payable		5,113	7,604
		<u>404,988</u>	<u>341,369</u>
<b>Net current (liabilities)/assets</b>		<u>(73,944)</u>	<u>71,654</u>
<b>Total assets less current liabilities</b>		<u>718,706</u>	<u>858,730</u>
<b>Non-current liabilities</b>			
Other payable	13	6,324	10,304
Borrowings		215,375	238,758
Lease liabilities		84,246	52,352
Deferred tax liabilities		45,986	46,530
		<u>351,931</u>	<u>347,944</u>
<b>NET ASSETS</b>		<u>366,775</u>	<u>510,786</u>
<b>Capital and reserves</b>			
Share capital	14	43,290	43,290
Reserves		406,461	542,582
<b>Equity attributable to owners of the Company</b>		<u>449,751</u>	<u>585,872</u>
<b>Non-controlling interest</b>		<u>(82,976)</u>	<u>(75,086)</u>
<b>TOTAL EQUITY</b>		<u>366,775</u>	<u>510,786</u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flows from operating activities</b>		
Loss before taxation	(127,264)	(122,066)
Adjustments for:		
Depreciation of property, plant and equipment	20,323	14,426
Depreciation of right-of-use assets	17,262	17,179
Amortisation of intangible assets	16,769	15,822
Covid-19-Related rent concessions	(683)	(613)
Paycheck Protection Program loans forgiven	–	(8,194)
Effect of lease modification	(50)	–
Gain on disposal of property, plant and equipment	(3)	–
Equity-settled share-based payment expenses	48	1,235
Net exchange gains	(9,215)	(3,099)
Share of losses of associates	1	17,743
Impairment loss on trade receivables and contract assets	389	5,164
Impairment loss on amounts due from associates	4,731	3,949
Interest income	(1,361)	(2,567)
Finance costs	12,196	12,913
Fair value loss on financial assets measured at FVTPL	7,854	16,394
	<hr/>	<hr/>
Operating loss before working capital changes	(59,003)	(31,714)
Increase in trade receivables, other receivables and prepayments	(515)	(14,592)
Increase in contract assets	(4,732)	(7,449)
Increase/(decrease) in trade payables, other payables and accruals	22,872	(40,866)
Increase in contract liabilities	17,260	65,874
	<hr/>	<hr/>
Cash used in operations	(24,118)	(28,747)
Income tax paid	(1,876)	(18)
Interest paid	(5,154)	(5,716)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(31,148)</b>	<b>(34,481)</b>

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flows from investing activities</b>		
Interest received	272	2,935
Purchases of property, plant and equipment	(7,980)	(16,847)
Proceeds from disposal of property, plant and equipment	4	–
Additions to intangible assets	(14,176)	(32,479)
(Advance to)/repayment from associates	(3,166)	3,799
Increase in bank deposits with more than three months to maturity when placed or pledged	(841)	(11,781)
Purchases of financial assets measured at FVTPL	–	(102,394)
Investment in an associate	–	(15,433)
<b>Net cash used in investing activities</b>	<u>(25,887)</u>	<u>(172,200)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares, net of issuing expenses	–	340,435
Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder	–	122,757
New bank borrowings	11,552	17,318
Repayment of bank borrowings	(14,479)	(15,620)
Repayment of other loans	(341)	(11,286)
Repayment of principal portion of lease liabilities	(24,662)	(24,148)
<b>Net cash (used in)/generated from financing activities</b>	<u>(27,930)</u>	<u>429,456</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(84,965)</b>	<b>222,775</b>
Effect of foreign exchange rate changes	(2,930)	(2,709)
<b>Cash and cash equivalents at 1 January</b>	<u>130,455</u>	<u>28,617</u>
<b>Cash and cash equivalents at 30 June</b>	<u><u>42,560</u></u>	<u><u>248,683</u></u>
<b>Represented by:</b>		
Bank balances and cash	160,701	345,746
Bank deposits with more than three months to maturity when placed or pledged	(118,141)	(97,063)
	<u><u>42,560</u></u>	<u><u>248,683</u></u>

## NOTES

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2022 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 “Stock Exchange”).

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis 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 2021 annual consolidated financial statements. Details of any changes in accounting policies are set out in note 2. The adoption of the new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”) had 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 2021 annual consolidated 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 HKFRSs and should be read in conjunction with the 2021 annual consolidated financial statements.

## 2. CHANGES IN HKFRSs

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

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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 adoption of the new or revised HKFRSs that are effective from 1 January 2022 did not have any significant impact on the Group's accounting policy.

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

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

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

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

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

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

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

The annual improvements amend a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.
- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.



- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

These amendments had no impact on the unaudited condensed consolidated interim financial statements of the Group.

The Group intends to use the practical expedients in future periods if they become applicable.

The Group has not early adopted the following new or revised HKFRSs that have been issued, potentially relevant to the Group's operations but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs. The Group is not yet in a position to state whether these new or revised HKFRSs will result in substantial changes to the Group's accounting policies and financial statements:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrow of a Term Loan that Contains a Repayment on Demand Clause <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024

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

### 3. REVENUE AND SEGMENT REPORTING

#### Reportable segment

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

Media entertainment:

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

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

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	2021
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Revenue from contracts with customers within the scope of HKFRS 15:</b>		
Provision of		
– visual effects production and post production services	464,197	379,971
– virtual human and virtual reality services and 360 degree digital capture technology application	17,527	31,980
– granting of licence for virtual reality contents	<u>1,002</u>	<u>2,712</u>
	<u><u>482,726</u></u>	<u><u>414,663</u></u>

(b) Disaggregation of revenue from contracts with customers

<i>Segment</i>	<b>Media entertainment</b>	
	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Types of goods or services</b>		
Provision of		
– visual effects production and post production services	464,197	379,971
– virtual human and virtual reality services and 360 degree digital capture technology application	17,527	31,980
– granting of licence for virtual reality contents	<u>1,002</u>	<u>2,712</u>
<b>Total revenue from contracts with customers</b>	<b><u>482,726</u></b>	<b><u>414,663</u></b>
<b>Geographical markets</b>		
Hong Kong	975	–
The People's Republic of China (the "PRC")	45,917	35,596
The United States of America ("USA")	129,619	171,011
Canada	298,628	183,824
United Kingdom ("UK")	4,218	20,769
Europe other than UK	–	2,890
Other countries/regions	<u>3,369</u>	<u>573</u>
<b>Total revenue from contracts with customers</b>	<b><u>482,726</u></b>	<b><u>414,663</u></b>
<b>Timing of revenue recognition</b>		
A point in time	18,529	34,692
Over time	<u>464,197</u>	<u>379,971</u>
<b>Total revenue from contracts with customers</b>	<b><u>482,726</u></b>	<b><u>414,663</u></b>

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

	<b>Media entertainment</b>	
	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Reportable segment revenue from external customers	<u>482,726</u>	<u>414,663</u>
Reportable segment loss	<u>(72,747)</u>	<u>(81,177)</u>
	<b>As at</b>	
	<b>30 June</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Reportable segment assets	<u>931,808</u>	<u>905,319</u>
Reportable segment liabilities	<u>650,411</u>	<u>581,029</u>

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

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Loss before taxation</b>		
Segment loss	(72,747)	(81,177)
Impairment loss on amounts due from associates	(4,731)	(3,949)
Fair value loss on financial assets measured at FVTPL	(7,854)	(16,394)
Gain on disposal of unallocated property, plant and equipment	3	–
Share of losses of associates	(1)	(17,743)
Auditor's remuneration	(1,195)	(1,050)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(3,087)	(3,104)
Professional fees	(15,507)	(23,548)
Finance costs	(12,196)	(12,913)
Equity-settled share-based payment expenses	(48)	(1,235)
Unallocated short-term lease expenses	(80)	(75)
Unallocated other income and gains	3,666	54,288
Other unallocated corporate expenses*	(13,487)	(15,166)
Consolidated loss before taxation	<u>(127,264)</u>	<u>(122,066)</u>

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

	As at	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
<b>Assets</b>		
Reportable segment assets	931,808	905,319
Unallocated bank balances and cash	120,620	213,758
Unallocated corporate assets	<u>71,266</u>	<u>81,022</u>
Consolidated total assets	<u><u>1,123,694</u></u>	<u><u>1,200,099</u></u>

	As at	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
<b>Liabilities</b>		
Reportable segment liabilities	650,411	581,029
Tax payable	5,113	7,604
Deferred tax liabilities	45,986	46,530
Unallocated borrowings	4,909	4,909
Unallocated corporate liabilities	<u>50,500</u>	<u>49,241</u>
Consolidated total liabilities	<u><u>756,919</u></u>	<u><u>689,313</u></u>

(e) Revenue

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

	As at	
	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Trade receivables	60,346	65,000
Contract assets	29,290	24,558
Contract liabilities	<u>103,967</u>	<u>86,707</u>

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provisions of visual effects production service. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities mainly relate to the advance consideration received from customers.

The Group has applied the practical expedient to its sales contracts for media entertainment services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for media entertainment services that had an original expected duration of one year or less.

#### 4. FINANCE COSTS

	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Imputed interest on lease liabilities	4,770	5,440
Interest on bank and other loans	<u>7,426</u>	<u>7,473</u>
	<u>12,196</u>	<u>12,913</u>

#### 5. LOSS BEFORE TAXATION

	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
This is arrived at after crediting/charging:		
<i>Crediting:</i>		
Interest income	1,361	2,567
<i>Charging:</i>		
Staff costs (including directors' remuneration)	427,159	370,748
Depreciation of property, plant and equipment	20,323	14,426
Depreciation of right-of-use assets	17,262	17,179
Amortisation of intangible assets	16,769	15,822
Short-term lease expenses	<u>294</u>	<u>114</u>

#### 6. TAXATION

Taxation credited to the unaudited condensed consolidated income statement represents:

	For the six months ended	
	30 June	
	2022	2021
	HK\$'000	HK\$'000
Current taxation - Hong Kong profits tax	-	-
Current taxation - Overseas tax		
- provision for the period	-	18
- over-provision in respect of prior years	(811)	-
Deferred taxation	<u>-</u>	<u>(293)</u>
	<u>(811)</u>	<u>(275)</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	
	2022	2021
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	<u>(118,458)</u>	<u>(103,796)</u>
	For the six months ended 30 June	
	2022	2021
	Number of shares	Number of shares (Re-presented)
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted ( <i>Note</i> )	<u>4,329,027,625</u>	<u>4,049,025,064</u>

*Note:* The weighted average number of ordinary shares for the purpose of basic loss per share for the six months ended 30 June 2021 has been adjusted for: i) bonus elements in the issue of shares through share subscription on 18 January 2021; and ii) consolidation of every ten existing shares into one consolidated share during the period as if effective since 1 January 2021.

### **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

			Proprietary Participation		Licenses for intellectual property			Total
	Goodwill	Trademarks	software	rights	Patents	rights	Film rights	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>								
As at 1 January 2022	689,585	157,169	228,751	381,940	107,918	10,917	128,628	1,704,908
Additions	–	–	13,607	–	–	21	548	14,176
Exchange realignment	178	126	357	1,680	8	–	830	3,179
As at 30 June 2022	689,763	157,295	242,715	383,620	107,926	10,938	130,006	1,722,263
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS</b>								
As at 1 January 2022	395,708	137,678	138,574	381,940	107,918	9,096	–	1,170,914
Amortisation for the period	–	–	15,723	–	–	1,046	–	16,769
Exchange realignment	–	–	434	1,680	8	–	–	2,122
As at 30 June 2022	395,708	137,678	154,731	383,620	107,926	10,142	–	1,189,805
<b>CARRYING AMOUNT</b>								
As at 30 June 2022	294,055	19,617	87,984	–	–	796	130,006	532,458
As at 31 December 2021	293,877	19,491	90,177	–	–	1,821	128,628	533,994



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

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 had been recognised in other comprehensive income since 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 provides a more meaningful presentation for medium or long-term strategic investment, than reflecting changes in fair value immediately in profit or loss.

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

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

In November 2021, asknet proposed to increase its capital from 1,307,530 shares to 3,268,825 shares. Therefore the sales shares held by the Group was diluted which represented approximately 7.6% of the total issued common shares of asknet as at 31 December 2021 and 30 June 2022.

On 30 May 2022, asknet announced that its Executive Board with the approval of the Supervisory Board decided to delist its shares on the Frankfurt Stock Exchange with effective from 31 August 2022, because the economic benefit of the inclusion of its shares in the Regulated Unofficial Market of the Frankfurt Stock Exchange no longer justifies the associated expenses.

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

As at 31 December 2021 and 30 June 2022, the sales shares held by the Group represented approximately 2.8% of the total issued bearer shares of HLEE due to the increase of share capital of HLEE in 2021.

The above investments are classified as non-current so the management expects to realise these financial assets after twelve months after the reporting period.

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

	<b>As at</b>	
	<b>30 June 2022 HK\$'000</b>	31 December 2021 HK\$'000
Listed equity securities outside Hong Kong, at fair value	<u><u>57,532</u></u>	<u><u>70,151</u></u>

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

	<i>HK\$'000</i>
As at 1 January 2022	70,151
Fair value loss recognised in profit or loss	(7,854)
Exchange realignment	<u>(4,765)</u>
As at 30 June 2022	<u><u>57,532</u></u>

## 11. FAIR VALUE

### (a) Carrying amount versus fair value

The Group considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

- Trade receivables, other receivables and deposits
- Trade payables, other payables and accruals
- Bank balances and cash
- Lease liabilities
- Borrowings

### (b) Fair value hierarchy

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 30 June 2022			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Financial asset at FVOCI</b>				
- Unlisted equity investment	–	–	–	–
<b>Financial assets at FVTPL</b>				
- Listed equity investments	<u>57,532</u>	–	–	<u>57,532</u>
	As at 31 December 2021			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial asset at FVOCI				
- Unlisted equity investment	–	–	–	–
Financial assets at FVTPL				
- Listed equity investments	<u>70,151</u>	–	–	<u>70,151</u>

During the six months ended 30 June 2022, there was no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 for both financial assets and financial liabilities.

## 12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 days (as at 31 December 2021: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for impairment losses, based on the invoice date, is as follows:

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
<b>Current portion</b>		
Trade receivables by ageing		
0 to 30 days	33,741	20,259
31 to 60 days	3,876	8,023
61 to 90 days	3,955	15,669
91 to 365 days	13,345	17,543
Over 365 days	<u>5,429</u>	<u>3,506</u>
Total trade receivables	60,346	65,000
Consideration receivables	3,802	3,288
Other receivables	44,342	46,020
Deposits	3,706	5,355
Prepayments	<u>28,509</u>	<u>21,047</u>
Sub-total current portion	<u>140,705</u>	<u>140,710</u>
<b>Non-current portion</b>		
Deposits	<u>8,832</u>	<u>7,344</u>
Sub-total non-current portion	<u>8,832</u>	<u>7,344</u>
Total trade receivables, other receivables and prepayments	<u>149,537</u>	<u>148,054</u>

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

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

	<b>30 June 2022 HK\$'000</b>	31 December 2021 HK\$'000
<b>Current portion</b>		
Trade payables by ageing		
0 to 30 days	12,769	14,543
31 to 60 days	7,351	18,482
61 to 90 days	1,410	3,126
91 to 365 days	13,265	5,635
Over 365 days	7,773	5,085
	<hr/>	<hr/>
Total trade payables	42,568	46,871
Other payables	65,649	49,347
Accruals	90,312	74,627
	<hr/>	<hr/>
Sub-total current portion	198,529	170,845
	<hr/>	<hr/>
<b>Non-current portion</b>		
Other payable	6,324	10,304
	<hr/>	<hr/>
Sub-total non-current portion	6,324	10,304
	<hr/>	<hr/>
Total trade payables, other payables and accruals	204,853	181,149
	<hr/> <hr/>	<hr/> <hr/>

### 14. SHARE CAPITAL

	<b>Number of ordinary shares</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2021 and 30 June 2022	75,000,000,000	750,000
	<hr/> <hr/>	<hr/> <hr/>
Issued and fully paid:		
As at 31 December 2021 and 30 June 2022	4,329,027,625	43,290
	<hr/> <hr/>	<hr/> <hr/>

## **15. 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 immediately vested on 21 May 2020, while 92,200,000 Options have vested on 21 May 2021 and 93,600,000 Options were vested on 21 May 2022. All Options are exercisable from their respective vesting dates until 20 May 2030. The exercise price of the Options is HK\$0.046 per share, being the closing price as stated in the daily quotations sheet issued by the Stock Exchange on 21 May 2020.

During the six months ended 30 June 2022, no Options (six months ended 30 June 2021: nil) were forfeited and no Options (six months ended 30 June 2021: nil) were exercised.

As at 30 June 2022, the weighted average exercise price of Options outstanding was HK\$2.547 (as at 31 December 2021: HK\$2.547), and their average remaining contractual life is 4.20 years (as at 31 December 2021: 4.69 years).

In aggregate, the Group had recognised an equity-settled share-based payment expenses of approximately HK\$48,000 (six months ended 30 June 2021: HK\$1,235,000) during the six months ended 30 June 2022.

## **16. CAPITAL COMMITMENTS**

The Group did not have any significant capital commitment as at 30 June 2022 and 31 December 2021.

## **INTERIM DIVIDEND**

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2022 (2021: Nil).

## **FINANCIAL AND BUSINESS REVIEW**

During the six months ended 30 June 2022, the Group achieved a revenue of HK\$482,726,000 (2021: HK\$414,663,000), showing an increase of approximately 16% compared to that of the previous corresponding period. The gross profit of the Group amounted to HK\$70,601,000 (2021: HK\$63,856,000) during the Review Period, showing an increase of approximately 11%. The increase in turnover and gross profit were attributable to the media entertainment segment. As at 30 June 2022, the total assets of the Group amounted to HK\$1,123,694,000 (as at 31 December 2021: HK\$1,200,099,000). The loss attributable to the owners of the Company for the Review Period was HK\$118,458,000 (2021: HK\$103,796,000). The loss for the Review Period was HK\$126,453,000 (2021: HK\$121,791,000) and it was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
  - (a) equity-settled share-based payments expenses for the share options granted amounted to HK\$48,000 (2021: HK\$1,235,000);
  - (b) amortisation and depreciation expenses (excluding depreciation related to Right-of-use Assets) to the value of HK\$37,092,000 (2021: HK\$30,248,000);
  - (c) impairment losses on amounts due from associates of HK\$4,731,000 (2021: HK\$3,949,000);
  - (d) share of losses of associates of HK\$1,000 (2021: HK\$17,743,000); and
  - (e) fair value loss on financial assets measured at fair value through profit or loss of HK\$7,854,000 (2021: HK\$16,394,000);
- (ii) administrative and other project expenses; and
- (iii) operating losses from the media entertainment segment.

## **MEDIA ENTERTAINMENT SEGMENT**

During the Review Period, this segment recorded a revenue of HK\$482,726,000 (2021: HK\$414,663,000) and incurred a loss of HK\$72,747,000 (2021: HK\$81,177,000). The loss included the research and development costs incurred and expensed during the Review Period relating to virtual human technology.

“The earnings before interest, tax, depreciation and amortisation (EBITDA)” of the media entertainment segment for the six months ended 30 June 2022 was a loss of HK\$21,480,000 (2021: HK\$36,854,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company’s operating performance. EBITDA should not be considered in isolation or be construed as an alternative to cash flows, net income or any other measure of performance, or as an indicator of the Group’s operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA for the media entertainment segment is calculated based on the loss of the segment for the period but does not account for taxes, interest expenses, depreciation (of the segment’s property, plant and equipment) and amortisation charges (on the segment’s intangible assets).

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

This segment provides visual effects (“VFX”) production and post-production services which include visualisation, pre-visualisation, post-visualisation, visual effects, computer graphics (“CG”), animation, motion capture, virtual production and design for major motion picture studios, networks, streaming services, advertisers, brands and games.

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

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

#### **BAFTA Awards**

Three films Digital Domain contributed outstanding visual effects to, “*Black Widow*”, “*Free Guy*” and “*Shang-Chi and the Legend of the Ten Rings*”, were longlisted for the BAFTA Awards. Of those three films, one was nominated for the BAFTA Awards.

Digital Domain VFX Supervisor Mr. Nikos KALAITZIDIS and team were nominated for their work on “*Free Guy*” for a BAFTA Award in the Special Visual Effects category.

#### **Academy Awards (Oscars)**

Three of our Digital Domain VFX Supervisors, Mr. Nikos KALAITZIDIS, Mr. Scott EDELSTEIN and Mr. David HODGINS participated in the Academy Visual Effects Bake Off, which highlights the top ten best films in the category for their work on “*Free Guy*”, “*Spider-Man: No Way Home*”, and “*Black Widow*”, respectively. Of those three films, two were nominated for Academy Awards.

VFX Supervisor Mr. Nikos KALAITZIDIS and the Digital Domain visual effects team were nominated for an Academy Award in the Visual Effects category for their work on “*Free Guy*”.

VFX Supervisors Mr. Kelly PORT, Mr. Scott EDELSTEIN and the Digital Domain team were nominated for an Academy Award in the Visual Effects category for their work on “*Spider-Man: No Way Home*”.

### **The Emmy Awards**

Supervised by Mr. Manolo MANTERO, Season 4 of the **Netflix series’ “Stranger Things”** was nominated for “Outstanding Special Visual Effects in a Season or Movie”.

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

Mr. Paul CHAPMAN, Mr. Tom TRUSCOTT, Mr. Biagio FIGLIUZZI, and Mr. Attila SZALMA received the award for Outstanding Compositing & Lighting in an Episode for their work on **“Loki”**.

Mr. Kelly PORT and Mr. Scott EDELSTEIN received a nomination for Outstanding Visual Effects in a Photoreal Feature for their work on **“Spider-Man: No Way Home”**.

Mr. Ryan DUHAIME, Mr. James STUART, Mrs. Bo KWON and Mr. Tristan John CONNORS received a nomination for Outstanding Model in a Photoreal or Animated Feature for their work creating the Red Room in Marvel Studios’ **“Black Widow”**.

Mr. Michael MELCHIORRE, Mr. Simon TWINE, Mr. Daniel HARKNESS and Mr. Tim CROWSON received a nomination for Outstanding Compositing & Lighting In a Feature for their work on **“Black Widow”**.

Mr. Scott INKSTER alongside the team at The Third Floor received a nomination for their work on **“Loki”** in the Outstanding Virtual Cinematography in a CG Project category.

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

- **“Morbius”** – VFX Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their team completed work on this highly anticipated Sony Pictures film directed by Daniel ESPINOSA, which was released in April 2022.
- **“Doctor Strange in the Multiverse of Madness”** – VFX Supervisor Mr. Joel BEHRENS and his team completed work on the latest instalment in the Doctor Strange series. The film was released in May 2022.
- **“Fantastic Beasts and Where to Find Them 3”** – VFX Supervisor Mr. Jay BARTON and his team completed work on Warner Bros.’ third instalment in the “Fantastic Beasts” series, which released in April 2022.
- **“Spider-Man: No Way Home”** – VFX Supervisors Mr. Kelly PORT, Mr. Scott EDELSTEIN and their team worked on the third instalment (in 2022) of the Spider-Man franchise released in December 2021.
- **“Ant-Man and the Wasp: Quantumania”** – VFX Supervisor Mr. David HODGINS and his team are working on the film that follows the adventures of Ant-Man and the Wasp due for release in 2023.
- **“Black Adam”** – VFX Supervisor Mr. Nikos KALAITZIDIS and his team are working on the “Shazam!” spin off starring Dwayne “The Rock” Johnson. The film is due out October 2022.
- **“Chupa”** – VFX Supervisor Mr. Mitch DRAIN is working with Netflix Studios client side on an upcoming film, which is set to release in 2022.



- ***“Children of the Corn”*** – VFX Supervisor Mr. Mitch DRAIN and his team delivered visual work on the upcoming horror film to be released in 2022 globally.
- ***“Black Panther: Wakanda Forever”*** – VFX Supervisor Mr. Hanzhi TANG and his team are working on the sequel to the Marvel film, which is set to release in November 2022.
- ***“Extraction 2”*** – VFX Supervisor Mr. Jean-Luc DINSDALE is working on the sequel to the Netflix action thriller due out later this year.
- VFX Supervisor Mr. Jay BARTON began work on an upcoming Warner Bros.’ film due out in 2023.
- VFX Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their teams began working on an upcoming Netflix film.
- VFX Supervisor Mr. Manolo MANTERO began work on an upcoming Sony Pictures film.

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

- ***“Ms. Marvel”*** – VFX Supervisor Mr. Aladino DEBERT and his team completed work on the first season of one of the newest Marvel Studios/Disney+ series.
- ***“She-Hulk: Attorney at Law”*** – VFX Supervisor Mr. Phil CRAMER is leading a team of artists to create the visual effects for the Marvel Studios series, which was released in August 2022.
- ***“Stranger Things”*** – VFX Supervisor Mr. Manolo MANTERO and Digital Domain artists completed work on season 4 of the popular Netflix series.
- The Digital Domain team began work on an upcoming Marvel Studios series due out in 2023.
- The Digital Domain team began working on a few shots for Halloween special that will be features on Disney+.

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

- Marvel Studios’ ***“Black Panther: Wakanda Forever”***
- Marvel Studios’ ***“She-Hulk: Attorney at Law”***
- Marvel Studios’ ***“Ant-Man and the Wasp: Quantumania”***
- Marvel Studios’ ***“Doctor Strange in the Multiverse of Madness”***
- An upcoming Netflix Studios’ film
- An upcoming HBO series
- An upcoming Marvel Studios’ film

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

- Marvel Studios' "*Ms. Marvel*".
- Marvel Studios' "*Ant-Man and the Wasp: Quantumania*".
- An upcoming Disney project with *Animatrik*.
- An upcoming *Electronic Arts* game with *Animatrik*.
- An upcoming *Skydance* game project with *The Werk House*.
- An upcoming game project with *MiHoYo Games*.
- An upcoming project with *The Werk House*.
- An upcoming Metaverse project with *Animatrik*.
- An upcoming Marvel game with *The Werk House*.
- An upcoming Bethesda Game Studio project with *Animatrik*.
- An upcoming *Square Enix* game.
- An upcoming *Netflix Studios*' film.

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

- For **eToro**, the team delivered a Super Bowl LVI spot where they created crowd simulations of people flying through the sky.
- For **Wendy's**, the advertising and games team worked on finishing for various spots, colour, clean up, and delivery on a wide array of spots with an extensive list of deliverables.
- For **Florida Power and Lighting**, the team delivered a television commercial creating a full CG world.
- For **Wwise**, Digital Domain delivered logo animations.
- For **Advanced Micro Devices, Inc.**, the team worked on concept development for the company's next generation of graphics processors.
- For **Autonomy**, the advertising and games team designed and animated a mo-graph spot for outdoor video billboards.

**Possible Indemnification**

A wholly-owned subsidiary of the Company based in the United States (the "US Subsidiary") has used a combination of physical equipment and intellectual property to record images of human faces (the "Disputed IP"). The Disputed IP is one of several different technologies available to capture elements of a human face prior to visual effects enhancements that create the final image. The US Subsidiary's use of the Disputed IP had been under a 2013 license from an unaffiliated company based in the PRC (the "Original Owner").

In 2014, a dispute over the ownership of the Disputed IP between the Original Owner and another company based in the United States (the "Claimant") resulted in the filing of a lawsuit (the "Lawsuit") in the United States District Court, Northern District of California. Neither the Original Owner nor the Claimant is a member company of the Group. Another subsidiary of the Company agreed in 2015 to purchase the Disputed IP. The completion of the transfer of such Disputed IP is subject to the favourable outcome of the Lawsuit. On 11 August 2017, the court issued a statement of decision which concluded that the Claimant

owned the Disputed IP. The US Subsidiary had already used alternative technologies. On appeal of the statement of decision, the court of appeal upheld the decision of the trial court that the Claimant was the owner of the Disputed IP.

During 2017, the Claimant filed four separate lawsuits against certain clients of the US Subsidiary relating to the use of the Disputed IP for certain visual effects projects that the US Subsidiary had completed (the “Other Lawsuits”). The US Subsidiary’s clients filed two separate motions to dismiss the lawsuits brought against them. In response to these motions, the court dismissed a significant portion of the claims, but allowed the Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. The Claimant later voluntarily dismissed several of its claims.

The US Subsidiary’s clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court initially granted that motion with respect to certain feature film projects that were the subject of the lawsuit but, after reconsideration proceedings took place, ultimately granted the motion as to all films except one. Thus, the claims against the US Subsidiary’s clients in the Other Lawsuits have been narrowed.

On 21 April 2022, the Claimant filed a new lawsuit against one of the US Subsidiary’s clients and its affiliates’ copyright infringement against those entities with respect to two films that are not part of the Other Lawsuits (the “New Lawsuit”). However, the US Subsidiary did not use the Disputed IP on either of these films.

The litigation of the Other Lawsuits and the New Lawsuit is continuing. Discovery is now taking place and counsel for the US Subsidiary is assisting counsel for the clients to defend the Other Lawsuits and the New Lawsuit. The Court has scheduled the trial of the Other Lawsuits to commence on 4 December 2023.

In its production services agreements for the films that are the subject of the Other Lawsuits, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested that the US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits. The US Subsidiary has submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company initially acknowledged its obligation to provide a defence for the US Subsidiary’s clients, but subsequently communicated to the US Subsidiary that it no longer believed that coverage existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

In its production services agreements for the films that are subject of the New Lawsuit, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested that the US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the New Lawsuit. The US Subsidiary has submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. No determination regarding insurance coverage for the New Lawsuit has been communicated to the US Subsidiary.

The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits and the New LawsUIT.

On 20 January 2022, the Claimant, the US Subsidiary's clients, the US Subsidiary and its insurance company commenced a settlement process through a neutral third party mediator. Although this mediation process was initially unsuccessful, the parties anticipated that another mediation will take place in the future.

#### ***Digital Domain China:***

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

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

Visual effects and colour grading services delivered for feature films and episodic this year include *"Too Cool To Kill"*, *"Don't Forget I Love You"*, *"Stranger Things Season 4"*, *"Ms. Marvel"* and *"She-Hulk: Attorney at Law"* as well as the upcoming *"Black Adam"*, *"Black Panther: Wakanda Forever"*, *"Ali's Dream Castle"*, *"The Furious Sandstorm"*, *"Lao Ba Shi Wang Cai"*, *"Men Qian Bao Di"*, *"Ordinary Hero"*, *"Qian Qiu Ling"*, *"Wang Dao"* and *"Lost You-Forever"*.

Digital Domain China continued to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile clients, including: Bosch, Bosideng, Burberry, Budweiser, Curél, HONOR, HUAWEI, IKEA, IM, Kiehl's, MI, Samsung *"Starry Night"* ft. Lu Chuan, Tencent Games *"SPARK 2022"* and XPENG.

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

- From December 2021 to March 2022 – The travelling exhibition **BEFORE LIGHT IN MOTION** held by eyepetizer roared into Hangzhou Powerlong Art Center, with the virtual reality experience *"Micro Giants"* featured at the venue of Rabbit Hole. The exhibition ended successfully in March 2022.
- In May 2022 – Mr. David Rivero MARTIN, Director of Digital Intermediate (D.I.), revealed his to-do list as colourist through MI's documentary series Xiaomi Fan Story *"Digital Inker"*, which was shot on Xiaomi 12 Pro with himself credited.
- In May 2022 – The Jiangxi Cultural Industry Fair come to its first edition in Shangrao from 25 May to 29 May. In order to spotlight how advanced technologies, such as artificial intelligence, transform the creations, virtual reality experience *"Micro Giants"* and *Virtual Human Teresa Teng* showcased.

### ***Digital Domain India:***

Celebrating five years in India, Digital Domain India (“DD India”) continues to be an integral part of the Group’s global growth plan in visual effects business.

In addition to making valuable contribution to our internal ongoing projects, DD India delivered some fantastic work on two of the biggest commercial feature film hits coming out of India this year i.e. “*RRR*” and “*KGF Chapter 2*”. This year also saw DD India secured some continuous work commitments from repeat clients that would help DD India’s growth from both headcount and topline perspective. The list of direct clients and revenues is on an upward graph consisting of work that spreads across formats and platforms. For the period between July 2022 to June 2023, DD India has set itself up to maximise the present capacity and be a major delivery center to achieve the Group’s overall revenue targets.

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

## **B. New Media and Experiential and Virtual Human Business**

### **Digital Domain’s New Media and Experiential team executed several projects in the first half of 2022:**

- “*The Quarry*” – Digital Domain and Supermassive Games partnered up in 2019 to embark on their biggest, highest fidelity video game. Released on 10 June 2022, our team captured 32 hours of facial and body performance capture across fifteen characters, and utilised our **Masquerade 2.0** proprietary facial capture process to solve 4,500 shots with machine learning and only 27 shots were touched by an animator throughout all talent acquisition on this truly massive new game project. “*The Quarry*” was the number one downloaded game in the PlayStation store in North America, and number two in Europe.
- Digital Domain has partnered with a large theme park on a new attraction, which will showcase some of Digital Domain’s most recent groundbreaking achievements in real-time technology.
- Digital Domain is partnering with **ITEC Entertainment Corporation** to create a Pepper’s Ghost type experience at **Billy Graham Library** in North Carolina. This will serve as an homage to the late Reverend Graham. In addition to a body double, we employed VHG’s own proprietary Charlatan process to bring a more authentic lifelike experience to the project.
- Digital Domain is continuing its relationship with the team from Studio Wildcard as they prepare for the highly anticipated release of **ARK 2**, the follow up to its award winning predecessor, ARK. Currently, Digital Domain is assisting with the creation of several “in-game” assets. Digital Domain anticipates being intimately involved in all aspects of the project though the game’s release in the spring of 2025.

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

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

### **Digital Domain's Virtual Human Group ("VHG")'s research and development aided multiple projects and resulted in new developments in the first half of 2022:**

- VHG has partnered with the episodic team to use **Masquerade 2.0** on the upcoming Marvel Studios' series *"She-Hulk: Attorney at Law"*. VHG's body deformations also took a huge leap forward with the continued development to their machine learning cloth systems, which was also used on the series. Additionally, the team tested **Charlatan Geo**, which captures geometry of a performance from a single camera.
- VHG utilised **Masquerade 2.0** on Supermassive Games' *"The Quarry"* in partnership with the New Media Team.
- Digital Domain worked with a large theme park client to create digital real-time humans based on a long running movie franchise. The attractions will go live in 2024.
- VHG created and revealed a new autonomous character **"Zoey"**. The team developed everything from look development to animation. Users can now have a full conversation with Zoey. For Zoey's voice, VHG partnered with WellSaid Labs.

### **VHG of the North America region participated in several events, including:**

- Mr. Matthias WITTMANN presented the autonomous **virtual human "Douglas"** for the Hong Kong's South China Morning Post.
- Ms. Melissa CELL and Mr. Deke KINKAID participated in a recruiting event with **WomenHack**.
- Ms. Melissa CELL and Mr. Matthias WITTMANN participated in a virtual presentation and Q&A for **Design Academy Eindhoven's Research Festival 2022**, where they presented the autonomous **virtual human "Douglas"**.
- Ms. Melissa CELL and Mr. Matthias WITTMANN participated in a virtual presentation and Q&A for **Film and Media Exchange ("FMX")** where they revealed Digital Domain's latest autonomous **virtual human, Zoey**, in a presentation titled "Giving a Face to AI".

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

- From January 2022, Digital Domain cooperated with Firenze Culture to create a **virtual human of the Mona Lisa** in the **Renaissance Alive Art Exhibition**, using artificial intelligence to make the Mona Lisa come to life in modern times, and take pictures with the visiting people.
- March 2022, at **Cloudmile's "Cloud the future" conference**, Digital Domain's **virtual human host "Cloudy"** co-hosted the opening, creating memorable moments through the interaction with the guests.



- From March 2022, Digital Domain’s **virtual human IP “Metaverse Girl Eve”** began to share photos of her own life on social platforms. Through the power of art and technology, Digital Domain once again created a new generation of virtual internet celebrities for the metaverse world.
- March 2022, at **Taishin Bank's 30th anniversary press conference**, Taishin Bank **virtual human tellers “Ms. Rose”** and **“Mr. Sunny”** served as important performance guests, introducing the corporate philosophy and values of Taishin Bank's 30th anniversary in a wonderful way.
- March 2022, the emerging designer and brand, **Claudia WANG (王子欣)**, cooperated with Digital Domain to create her new collection show at **Taipei Fashion Week AW22**, featuring **Metaverse Girl Eve** to walk the catwalk together. This was the first appearance of Eve in the fashion week, fully demonstrating the stage charm of combining technology and art. She put on Claudia brand clothing, interpreting the clothing with retro classic plaid and innovative color, making the performance across dimensions become a new generation of fashion topics.
- From April 2022, **Cloudmile** started to work with Digital Domain in a series of marketing campaign videos on their YouTube channel. The lovely **Vtuber “Cloudy”** was the host to introduce various functionalities and applications of Google Workspace with different scenarios.
- April 2022, Digital Domain's virtual human host showed up on a giant LED screen for the opening of **Future Commerce Exhibition in Taipei**. By interacting in real-time with its human host counterpart and the audiences, switching roles and scenes in the opening ceremony, virtual human technology echoed the theme of this exhibition – **“Beyond Infinity”**, presenting the infinite possibilities of the metaverse.
- April 2022, Digital Domain collaborated with **Asiabots** and **Litemax** and presented the latest technology integration – **“AI virtual human”** for the first time at the **2022 Future Commerce Exhibition**. AI virtual human solution provides new possibilities to the business field and become an important part of future commerce.
- May 2022, LINE launched the **LINE MUSIC LIVE** commercial video to social media. Inviting the Digital Domain avatar metaverse girl Eve as the protagonist of the advertisement, Digital Domain used its real-time capture and render technology to drive **virtual human Eve** to perform with the band together.
- May 2022, at **Acer's global press conference event, next@acer**, the **3D virtual human Star** showed up from the computer screen and talked with the real host, having a lively interaction.
- May 2022, **COMPUTEX TAIPEI**: Integrating **Digital Domain’s Momentum Cloud Service** and Acer’s SpatialLabs, virtual humans can be seen in a glasses-free stereoscopic 3D display and the viewer can interact with the virtual human with simple keystrokes in front of the 3D-screen.

- June 2022, **Digital Solutions Multimedia Asia (DSMA)**, **Intel Corporation** and **World Peace Industrial Group (WPI)** held a forum to discuss the future smart retail solutions from the various aspects of Internet of Things (**IOT**), digital transformation and AI. At the forum, Digital Domain demonstrated the “AI virtual human” as a solution in the smart retail industry.
- June 2022, Digital Domain collaborated with **Abico Group** to exhibit **AI virtual human** at the **2022 ESG Summit** in Taipei, inviting visitors to inquire about its AI virtual human for the various core concepts of ESG.

**C. Digital Domain staff from the global studio participated in several events:**

- Mr. Scott EDELSTEIN participated in a virtual panel with the **Visual Effects Society** where he discussed Digital Domain’s work on “*Spider-Man: No Way Home*”. He also presented Digital Domain’s work on “*Spider-Man: No Way Home*” to University of Southern California (“USC”) film students.
- Mr. Nikos KALAITZIDIS joined a **Disney** virtual panel moderated by Shawn Levy to discuss Digital Domain’s work on “*Free Guy*” alongside other VFX supervisors on the project.
- Mr. Kelly PORT participated in a virtual panel by the **VIEW Conference**, which featured the five VFX supervisors contending for the Academy Awards. He also hosted a guest lecture at USC for students that highlighted the VFX process and his work on the “*Avengers*” and “*Spider-Man: No Way Home*”.
- Ms. Heldden BYUMVUHORE participated in **Festival Vues d’Afrique** where she spoke to students and interested adults from minority backgrounds interested in the VFX industry and helped answer questions in regards to entering the industry.
- Ms. Samantha MCCONNELL joined career day for **Henry File Middle School** and discussed her background in visual effects.
- Mr. Aruna INVERSIN participated in career day for the **Culver City School District** and talked to students about his career and role as Creative Director and Visual Effects Supervisor.
- Mr. David CUNNINGHAM joined “*Spider-Man: No Way Home*” supervisors for an **FMX 2022 presentation**. At FMX, Mr. CUNNINGHAM also showcased Digital Domain’s work in the **SideFX tool Solaris** in a separate presentation title, “**Solaris at Digital Domain**”.



## **D. DDCP and Investments in Europe**

### **Formation of DDCP**

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

### **Investment in asknet**

On 3 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 248,431 common shares (“asknet Sale Shares”) of asknet Solutions AG, a publicly traded German e-commerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) (“asknet”) for an aggregate consideration of approximately EUR3,709,000 (approximately HK\$34,586,000), i.e. amounting to approximately EUR14.93 (approximately HK\$140.79) per asknet Sales Share. The asknet Sale Shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021. As at 30 June 2022, the asknet Sale Shares represented 7.6% of the total issued common shares of asknet. On 30 May 2022, asknet announced that its executive board with the approval of the supervisory board decided to delist its shares on the Frankfurt Stock Exchange with effect from 31 August 2022 because the economic benefit of the inclusion of its shares in the Regulated Unofficial Market of the Frankfurt Stock Exchange no longer justifies the associated expenses. Founded in 1995, asknet is an established procurement, e-commerce and payment specialist in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors.

### **Investment in HLEE**

During the first half of 2021, DDCP as the purchaser entered into two sale and purchase agreements with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell a total of 265,000 bearer shares (“HLEE Sale Shares”) of Highlight Event and Entertainment AG, a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) (“HLEE”) for an aggregate consideration of EUR7,214,000 (approximately HK\$67,808,000), i.e. amounting to approximately EUR27.22 (approximately HK\$255.88) per HLEE Sale Share. The HLEE Sale Shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021. As at 30 June 2022, the HLEE Sale Shares represented 2.8% of the total issued bearer shares of HLEE. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

## **INTERESTS IN ASSOCIATES**

The Group invested in several associates and the review of the significant associates are summarised as below. The Group will continue to monitor the development and opportunities in this challenging operating environment with respect to the Group’s other associates.

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

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

### **Virtual Human Teresa Teng**

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

- The Digital Domain’s virtual human team of the Greater China region keep developing the latest virtual human technology, combining deep learning and real time rendering technology. With the new virtual human technology developed and owned by Digital Domain, a new version of Virtual Human Teresa Teng (under associate business) was developed and “she” can be controlled live by the **Mystique Live System** and perform in various types of show, such as live streaming concert, hologram show etc.
- From January 2022, Digital Domain cooperated with Teresa Teng Foundation and VS Media to operate “**Terra’s life (小鄧 Life)**” social media account. By sharing daily life or releasing her special projects with fashion designers and celebrities, **Virtual Human Teresa Teng, aka Terra**, can communicate with her fans more closely.
- February 2022, Virtual Human Teresa Teng performed her songs at a special program for celebrating 6th anniversary of “**Yahoo TV Mickey Live Show (佼心食堂)**” with famous singers - Henry HSU (許富凱) and Julia PENG (彭佳慧). Henry HSU (許富凱) said that he had been a fan of Teresa for a long time and thought about singing with her. He was very touched that his dream could finally come true through Digital Domain's advanced technology.
- March 2022, Daniel SEAH, CEO of Digital Domain, gave an online speech at **Entertainment Pulse**. He talked about how the animation industry unites entertainment and technology, also expanding the territory of Digital Domain to combine artificial intelligence and multiple applications. He even invited Virtual Human Teresa Teng to meet the audience together. The conversation across time and space, as well as the wonderful singing of Virtual Human Teresa Teng, also attracted tens of thousands of online and offline audiences to watch together.
- March 2022, Virtual Human Teresa Teng teamed up with **Metaverse Girl Eve** to support the cutting-edge fashion designer **Claudia WANG (王子欣)** in **Taipei Fashion Week**. This time, Virtual Human Teresa Teng did not perform as a singer but as a model who dressed in the clothing created by Claudia WANG, the show of the 2022/23 Autumn Winter Collection.

## Beijing Xu Gu

In 2019, Beijing Xu Gu was set up as an associate of the Company and operates several virtual human projects within Mainland of China. Using Digital Domain Group's virtual human technology, Beijing Xu Gu continues to innovate and develop virtual IP live broadcasts, content marketing and business development, around the four core strengths of "new technology lightweight operation, multi-form virtual person creation, multi-content development, and multi-scenario business development". Beijing Xu Gu's projects break the barriers between virtual space and the real world, and create a "real person + virtual human" immersive live broadcast experience based on high-precision real-time interaction, and lightweight operation. Beijing Xu Gu brings innovation and new opportunities to the live broadcast industry.

- On the eve of the Chinese New Year in 2022, virtual human **Alice** participated in a series of activities jointly launched by **People's Daily Online x Sina News**. As the only virtual IP for children, she sent New Year's greetings to everyone.
- On the eve of the Chinese New Year in 2022, virtual human **Alice** was successfully selected into the **Xinhua News Agency's virtual human beings to celebrate the New Year**, becoming the first virtual human for children selected. The New Year's greeting video was released on various new media platforms of Xinhua News Agency.
- In April 2022, **iiMedia Research**, a world-renowned third-party data mining and analysis agency for the new economy industry, released the "**iiMedia Gold List | Top 100 Chinese Virtual Humans in the First Half of 2022**", Beijing Xu Gu 's original virtual human IP **Alice**, entered the list and became the only IP for children's avatars on the list.
- In April 2022, **iiMedia Research** released the "**2022 China Virtual Humans Commercialisation Trend Report**", and Beijing Xu Gu was rated as "the best virtual human full-stack operation and maintenance service provider."
- In April 2022, Beijing Xu Gu, as a representative enterprise of virtual human, participated in the forum live broadcast hosted by **Baidu APP** with the theme of "**Positioning and significance of virtual human under the wind of the Metaverse?**".
- On 11 May 2022, **Alibaba Cloud** and **NVIDIA** jointly held the "**2022 Alibaba Cloud Visual Computing Private Sharing Conference**". The conference was held in the "**NetEase Yaotai**" immersive event platform. As a representative enterprise of virtual human, Beijing Xu Gu shared with other virtual humans, digital space, XR platforms and other enterprises. The lecturers and guests of this conference can control the exclusive characters to interact in the virtual conference scene, and chat face-to-face in the realistic scene.
- In May 2022, the first batch of digital collections of the first children's virtual human **Alice** will be sold in the form of blind boxes on the unique art platform. This "**Alice Series Digital Collection**" was limited to 2,022 copies worldwide, including **5 Alice NFT dynamic works**, collect 5 models, you can unlock the mysterious composite map. Alice series of digital collections were snapped up as soon as they went online, and the current price of second-hand collections has increased nearly a thousand times.
- In May 2022, Beijing Xu Gu created its first brand virtual spokesperson "**Xīng Tong**" warm-up promotional video for Celsius.

- On 16 June 2022, the **first Chinese brand Metaverse Marketing Ranking List** with Metaverse Marketing as a reference dimension in the Chinese language world was officially unveiled in the Metaverse virtual space, **and Digital Domain's virtual human business was rated as a service provider top 1.**
- The **2022 ChinaJoy Online Exhibition (CJ Plus)** will be presented for the first time in the **MetaJoy metaverse digital scene** and provide an unprecedented online interactive experience. Online audiences can freely shuttle between the gorgeous exhibition areas created by many participating brands and experience customisation. Many innovative gameplays such as avatars, socialising with friends, synchronising official events, digital derivatives exchange, etc., make the vast C-end audience linger here and experience a unique online entertainment feast! Beijing Xu Gu was selected as a service provider for the 2022 ChinaJoy Online Exhibition (CJ Plus).
- Virtual human **Alice** continues to output original popular science content for children on platforms such as Video, Penguin, Tiktok, Kuaishou, Xiaohongshu, Bilibili, Weibo, Baijia, Himalaya, Xigua Video, etc. And Beijing Xu Gu has cooperated with Xinhua News Agency, People's Science and Technology, Asia Clean Air Center and other platforms for many times. As of 30 June 2022, the total exposure of the short video content of Alice exceeds 8 million.

## **CAPITAL Shares**

As at 30 June 2022, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 4,329,027,625 Shares.

## **Share Options**

The share option scheme of the Company was adopted on 27 April 2012 and amended on 3 April 2014 (the “2012 Option Scheme”). The 2012 Option Scheme was effective for a period of 10 years and expired on 27 April 2022. The adoption of a new share option scheme (the “2022 Option Scheme”) was approved by the shareholders of the Company at the special general meeting held on 16 June 2022. The 2022 Option Scheme is valid and effective for a period of 10 years commencing on 16 June 2022. For illustrative purpose, the exercise price and the number of the share options under the 2012 Option Scheme have been adjusted for the effect of capital reorganisation effective on 11 October 2021.

On 28 May 2014, a total of 98,006,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 98,006,000 new Shares at an exercise price of HK\$0.98 per Share. For details, please refer to the Company’s announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the Review Period, no share option was exercised, cancelled or has lapsed. 4,657,000 share options were exercised and 14,076,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

On 6 May 2015, a total of 7,800,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 7,800,000 new Shares at an exercise price of HK\$13.20 per Share. For details, please refer to the Company’s announcement dated 6 May 2015. During the Review Period, no share option was exercised, cancelled or has lapsed. 1,000 share options were exercised and 300,000 share options were cancelled or have lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 37,950,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 37,950,000 new Shares at an exercise price of HK\$4.13 per Share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the Review Period, no share option was exercised, cancelled or has lapsed. No share option was exercised and 2,566,669 share options were cancelled or have lapsed since the grant-date (29 January 2016).

On 22 June 2016, a total of 10,000,000 share options were granted under the 2012 Option Scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 10,000,000 new Shares at an exercise price of HK\$4.95 per Share. For details, please refer to the Company's announcement dated 22 June 2016. During the Review Period and since the grant-date (22 June 2016), no share option was exercised, cancelled or has lapsed.

On 29 July 2016, a total of 5,000,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 5,000,000 new Shares at an exercise price of HK\$5.66 per Share. For details, please refer to the Company's announcement dated 29 July 2016. During the Review Period, no share option was exercised, cancelled or has lapsed. No share option was exercised and 1,320,007 share options were cancelled or have lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 30,000,000 share options were granted under the 2012 Option Scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 30,000,000 new Shares at an exercise price of HK\$4.69 per Share. For details, please refer to the Company's announcements dated 13 February 2017 and 1 June 2017, and the circular dated 27 April 2017. During the Review Period and since the grant-date (13 February 2017), no share option was exercised, cancelled or has lapsed.

On 24 April 2019, a total of 13,000,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 13,000,000 new Shares at an exercise price of HK\$1.30 per Share. For details, please refer to the Company's announcement dated 24 April 2019. During the Review Period and since the grant-date (24 April 2019), no share option was exercised, cancelled or has lapsed.

On 21 May 2020 a total of 47,800,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 47,800,000 new Shares at an exercise price of HK\$0.46 per Share. For details, please refer to the Company's announcement dated 21 May 2020. During the Review Period, no share option was exercised, cancelled or has lapsed. 170,000 share options were exercised and 2,000,000 share options were cancelled or have lapsed since the grant-date (21 May 2020).

No share option under the 2022 Option Scheme was granted, exercised, cancelled or has lapsed from the date of adoption to 30 June 2022.

## **LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO**

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on a secured basis or an unsecured basis, non-bank loans on a secured or an unsecured basis and non-regular contributions (such as placement of shares, issuance of convertible notes or financing through shareholder loans) from shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

In 2022, the Company had banking facilities from two banks in the United States amounting to US\$15,000,000 (approximately HK\$117,702,000) and the utilised portion of these banking facilities were US\$14,997,000 (approximately HK\$117,676,000). These banking facilities were secured by time deposits of the Group. The Group had banking facilities from a bank in Canada in amount of CAD6,900,000 (approximately HK\$42,060,000) and the utilised portion of these banking facilities were CAD3,734,000 (approximately HK\$22,764,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

As at 30 June 2022, the loan granted under emergencies loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$366,000). This loan is unsecured and not repayable within 12 months from 30 June 2022.

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

As at 30 June 2022, the Group also had lease liabilities of HK\$110,131,000, which were determined at the present value of the lease payments that are payable at that date. The amount included in lease liabilities consist of HK\$1,698,000 related to leased assets (equipment amounted to RMB527,000 (approximately HK\$617,000), CAD148,000 (approximately HK\$901,000) and HK\$180,000) which secured by the lessor’s charge over the leased assets. Among these leased assets, the terms of payments were 34 months, 42 months and 60 months respectively. Payments were on a fixed payment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK\$142,054,000 as at 30 June 2022. One indirect wholly-owned subsidiary as a loan in amount of US\$3,500,000 (approximately HK\$27,065,000) which is unsecured, interest-free and is not repayable within 13 months from 30 June 2022. One indirect wholly-owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,366,000), which is unsecured and with a fixed interest rate. One indirect wholly-owned subsidiary also had a term loan facility of US\$10,000,000 (approximately HK\$78,468,000) 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 2022 were US\$8,000,000 (approximately HK\$62,774,000) and HK\$34,290,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and are not repayable within 13 months from 30 June 2022. There is an other loan in amount of US\$1,855,000 (approximately HK\$14,559,000) provided in relation to the production of a film with interest-bearing and secured by security interest in all right, title and interest in a film investment.



The total cash and bank balance as at 30 June 2022 was approximately HK\$160,701,000. As at 30 June 2022, the Group had banking facilities of approximately HK\$159,762,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$117,676,000 are denominated in United States dollars and loans amounting to approximately HK\$22,229,000 are denominated in Canadian dollars. During the Review Period, all of the Group's bank loans (except the Five Years Loan and a loan with a repayment on demand clause are classified as current liabilities) which are fully classified as current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (excluded the Five Years Loan but included a loan with a repayment on demand clause) as at 30 June 2022 was spread over a period of five years, with approximately 35% repayable within one year, 48% repayable between one to two years and 17% repayable between two and five years.

The Group's current assets were HK\$331,044,000 while the current liabilities were HK\$404,988,000 as at 30 June 2022. As at 30 June 2022, the Group's current ratio was 0.8 (as at 31 December 2021: 1.2).

As at 30 June 2022, the Group's gearing ratio, representing the Group's financial liabilities (i.e. bank loans, other loans and lease liabilities) divided by the equity attributable to owners of the Company was 88% (as at 31 December 2021: 63%).

#### **EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES**

The Group's revenue, expenses, assets and liabilities were mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Canadian dollars ("CAD"), Renminbi ("RMB"), Indian Rupees ("INR") and Euro ("EUR"). The exchange rates for the USD against the HKD remained relatively stable during the Review Period. As some of the financial statements for the business operations in North America, Mainland of China, India and Europe were reported in CAD, RMB, INR and EUR, respectively, if the CAD or RMB or INR or EUR were to depreciate relative to the HKD, the reported earnings/expenses for the Canadian portion, Mainland of China portion, Indian portion or European portion would decrease.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB, CAD, INR and/or EUR. However, the Group will constantly review the economic situation, the development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

#### **CONTINGENT LIABILITIES**

Save as disclosed under "Possible Indemnification" of the Media Entertainment Segment above, as at 30 June 2022, the Group did not have any material contingent liabilities.

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

As at 30 June 2022, the total headcount of the Group was 1,314. 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**

Economic activity rebounded during the first half of 2022 in many of the Group's markets as those geographic locations eased or removed pandemic restrictions entirely. However, the new coronavirus (COVID-19) situation remained worrisome in the Greater China region with lockdown and movement restrictions affecting the Group's businesses there.

A diverse range of responses from different geographic locations which are our key markets and have made it considerably more challenging to predict demand trends in our different business segments, plan effectively for the deployment of our resources (both due to less predictable acceleration and/or deferral of projects by clients and/or health impact on our staff) and our growth and deployment of our resources. More generally, global supply chain disruptions together with energy and food price inflation drove headline inflation rates to multi-year highs, particularly in the US and Europe, where inflationary pressures have been exacerbated by geopolitical developments (including Sino/US relationships and/or the Russian/Ukraine conflict). Fiscal and monetary policy responses have been mixed leading to increased currency volatility. Global equity and debt capital markets have seen significant turbulence. Expectations for growth this year and next have been and are being revised substantially downward, with heightened risk of recessions expected in several of the markets in which the Group operates. Given that the overall situation remains unstable, we are adopting a prudent approach in our business strategies (including for example, cost control, business direction and products mix).

Starting from 2022, the Group has strategically focused its resources towards its core VFX and VH businesses. The Group continues to leverage its extensive experience in the VFX industry and proactively seeks new projects and business opportunities in the feature film, online game, television/OTT episodes and commercials despite the highly competitive market environment in the US and China. At the same time, the Group will continue to evaluate the cost structure, function and operation performance of each studio in North America and Asia to enhance the effectiveness and efficiency of our working capacity while reducing production costs in the long run.

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

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

We will continue to build on our strengths and strive to provide quality services and products to our valued clients while we work towards maximising benefits for our important stakeholders (strategic partners, shareholders, employees and management) in the coming years. Last but not least, we would like to thank all our dedicated employees around the world for their continued loyalty, diligence, professionalism and contributions to the Group.



## **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 2022, 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 Review Period. Mr. Seah Ang, the executive Director and chief executive officer of the Company, was appointed as the acting chairman of the Board following the resignation of Mr. Peter Chou as the chairman of the Board and the executive Director in June 2020. The Board believed that at the time of vesting of the roles of chairman and chief executive officer in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group’s operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board;
- (b) The Chairman of the Board is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company’s bye-laws (the “Bye-laws”). Mr. Seah Ang has entered into a service agreement for no fixed term but his appointment is terminable by either party by giving three months’ prior notice;
- (c) The non-executive Directors and independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the non-executive Directors and independent non-executive Directors have a termination notice requirement of at least one month; and

- (d) The Company held the annual general meeting and the special general meeting both on 16 June 2022. Mr. Brian Thomas McConville, the non-executive Director, was unable to attend the above special general meeting while Mr. Sergei Skatershchikov, the non-executive Director, was unable to attend the above annual general meeting and special general meeting.

**REVIEW BY AUDIT COMMITTEE**

The audit committee of the Company has reviewed the 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, 30 August 2022

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