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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 2023

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 2023 (the “Review Period”) together with comparative figures for the corresponding period in 2022 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2023

		For the six months ended 30 June	
	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	4	414,577	482,726
Cost of sales and services rendered		<u>(342,746)</u>	<u>(412,125)</u>
Gross profit		71,831	70,601
Other income and gains		28,653	4,882
Selling and distribution expenses		(1,819)	(1,794)
Administrative expenses and other net operating expenses		(339,464)	(175,782)
Finance costs	5	(18,206)	(12,196)
Fair value loss on financial assets measures at fair value through profit or loss	12	(12,068)	(7,854)
Impairment loss on trade receivables and contract assets		(3,061)	(389)
Reversal of impairment loss on other receivables		8,050	-
Impairment loss on amounts due from associates		(2,322)	(4,731)
Impairment loss on amount due from a joint venture		(167)	-
Share of losses of associates		<u>(1)</u>	<u>(1)</u>
Loss before taxation	6	(268,574)	(127,264)
Taxation	7	<u>(3,109)</u>	<u>811</u>
<b>Loss for the period</b>		<u><b>(271,683)</b></u>	<u><b>(126,453)</b></u>
<b>Loss attributable to:</b>			
Owners of the Company		(197,557)	(118,458)
Non-controlling interests		<u>(74,126)</u>	<u>(7,995)</u>
		<u><b>(271,683)</b></u>	<u><b>(126,453)</b></u>
<b>Loss per share attributable to the owners of the Company:</b>			(Re-presented)
		<b>HK cents</b>	<b>HK cents</b>
Basic and diluted	8	<u><b>(4.032)</b></u>	<u><b>(2.667)</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2023**

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
<b>Loss for the period</b>	<b>(271,683)</b>	(126,453)
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	<b>5,122</b>	(17,576)
Share of other comprehensive income of associates	<b>2</b>	4
Share of other comprehensive income of a joint venture	<u>-</u>	<u>(34)</u>
<b>Other comprehensive income for the period, net of tax</b>	<u><b>5,124</b></u>	<u>(17,606)</u>
<b>Total comprehensive income for the period</b>	<u><b>(266,559)</b></u>	<u>(144,059)</u>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>(191,828)</b>	(136,169)
Non-controlling interests	<u><b>(74,731)</b></u>	<u>(7,890)</u>
	<u><b>(266,559)</b></u>	<u>(144,059)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2023**

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2023</b>	2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>42,603</b>	50,919
Investment properties		<b>24,764</b>	24,668
Right-of-use assets		<b>95,689</b>	82,292
Goodwill and intangible assets	9	<b>391,428</b>	522,211
Interests in associates		<b>29,267</b>	30,048
Interests in joint ventures		<b>8</b>	8
Loan to a joint venture	10	<b>23,510</b>	-
Financial asset measured at fair value through other comprehensive income ("FVOCI")	11	-	-
Financial assets measured at fair value through profit or loss ("FVTPL")	12	<b>30,149</b>	41,349
Deposits	14	<b>10,451</b>	10,239
Deferred tax assets		<b>1,768</b>	1,551
		<b>649,637</b>	763,285
<b>Current assets</b>			
Trade receivables, other receivables and prepayments	14	<b>108,989</b>	107,670
Amount due from a joint venture		<b>1,655</b>	-
Contract assets		<b>15,353</b>	2,536
Tax recoverable		<b>1,055</b>	2,659
Cash and cash equivalents and pledged bank deposits	15	<b>484,493</b>	153,553
		<b>611,545</b>	266,418
<b>Current liabilities</b>			
Trade payables, other payables and accruals	16	<b>197,817</b>	193,558
Lease liabilities		<b>38,381</b>	25,061
Contract liabilities		<b>96,985</b>	53,624
Borrowings		<b>76,810</b>	149,016
Tax payable		<b>3,678</b>	3,621
		<b>413,671</b>	424,880
<b>Net current assets / (liabilities)</b>		<b>197,874</b>	(158,462)
<b>Total assets less current liabilities</b>		<b>847,511</b>	604,823
<b>Non-current liabilities</b>			
Borrowings		<b>253,165</b>	192,846
Lease liabilities		<b>77,262</b>	75,508
Deferred tax liabilities		<b>44,630</b>	43,450
		<b>375,057</b>	311,804
<b>NET ASSETS</b>		<b>472,454</b>	293,019
<b>Capital and reserves</b>			
Share capital	17	<b>62,338</b>	43,290
Reserves		<b>567,585</b>	332,467
<b>Equity attributable to owners of the Company</b>		<b>629,923</b>	375,757
<b>Non-controlling interests</b>		<b>(157,469)</b>	(82,738)
<b>TOTAL EQUITY</b>		<b>472,454</b>	293,019

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2023**

	<b>For six months ended</b>	
	<b>30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flows from operating activities</b>		
Loss before taxation	<b>(268,574)</b>	(127,264)
Adjustments for:		
Depreciation of property, plant and equipment	<b>12,849</b>	20,323
Depreciation of right-of-use assets	<b>20,175</b>	17,262
Amortisation of intangible assets	<b>149,823</b>	16,769
Covid-19-Related rent concessions	-	(683)
Effect of lease modification	-	(50)
Gain on disposal of property, plant and equipment	<b>(1)</b>	(3)
Equity-settled share-based payment expenses	-	48
Net exchange losses/(gains)	<b>7,840</b>	(9,215)
Share of losses of associates	<b>1</b>	1
Impairment loss on trade receivables and contract assets	<b>3,061</b>	389
Reversal of impairment loss on other receivables	<b>(8,050)</b>	-
Impairment loss on amounts due from associates	<b>2,322</b>	4,731
Impairment loss on amount due from a joint venture	<b>167</b>	-
Fair value loss on financial assets measured at FVTPL	<b>12,068</b>	7,854
Interest income	<b>(1,897)</b>	(1,361)
Finance costs	<b>18,206</b>	12,196
	<hr/>	<hr/>
Operating loss before working capital changes	<b>(52,010)</b>	(59,003)
Decrease/(increase) in trade receivables, other receivables and prepayments	<b>1,290</b>	(515)
Increase in contract assets	<b>(12,817)</b>	(4,732)
Increase in trade payables, other payables and accruals	<b>1,830</b>	22,872
Increase in contract liabilities	<b>43,361</b>	17,260
	<hr/>	<hr/>
Cash used in operations	<b>(18,346)</b>	(24,118)
Income tax paid	<b>(1,712)</b>	(1,876)
Interest paid	<b>(9,291)</b>	(5,154)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(29,349)</b>	(31,148)

	<b>For the six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flows from investing activities</b>		
Interest received	521	272
Purchases of property, plant and equipment	(4,398)	(7,980)
Proceeds from disposal of property, plant and equipment	1	4
Additions to intangible assets	(17,404)	(14,176)
Advance to associates	(1,542)	(3,166)
Advance to a joint venture	(1,122)	-
Loan to a joint venture	(23,510)	-
Increase in bank deposits with more than three months to maturity when placed or pledged	(537)	(841)
<b>Net cash used in investing activities</b>	<b>(47,991)</b>	<b>(25,887)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares, net of issuing expenses	445,994	-
New bank borrowings	11,454	11,552
Repayment of bank borrowings	(7,276)	(14,479)
Repayment of other loans	(17,208)	(341)
Repayment of principal portion of lease liabilities	(18,599)	(19,892)
Repayment of interest portion of lease liabilities	(5,954)	(4,770)
<b>Net cash generated from/(used in) financing activities</b>	<b>408,411</b>	<b>(27,930)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>331,071</b>	<b>(84,965)</b>
Effect of foreign exchange rate changes	(668)	(2,930)
<b>Cash and cash equivalents at 1 January</b>	<b>36,480</b>	<b>130,455</b>
<b>Cash and cash equivalents at 30 June</b>	<b>366,883</b>	<b>42,560</b>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	366,883	42,560

## NOTES

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2023 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 2022 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 2022 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 2022 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 HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 amended HKFRSs that are effective from 1 January 2023 did not have any significant impact on the Group’s accounting policy.

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

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

### **Amendments to HKAS 8 – Definition of Accounting Estimates**

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

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

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

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>1</sup>
Amendments to HKFRS 16	Lease liability in a Sale and Leaseback <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>2</sup>

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

<sup>2</sup> No mandatory effective date determined but available for adoption

### **3. USE OF JUDGEMENTS AND ESTIMATES**

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2022 annual consolidated financial statements.

#### 4. 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 service and post production services, virtual human services 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:

	For the six months ended	
	30 June	
	2023	2022
	HK\$'000	HK\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15:</b>		
Provision of		
– visual effects production and post production services	<b>411,629</b>	464,197
– virtual human services	<b>2,948</b>	17,527
– granting of licence for virtual reality contents	-	1,002
	<b><u>414,577</u></b>	<u>482,726</u>



(b) Disaggregation of revenue from contracts with customers

Segment	Media entertainment For the six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
<b>Types of goods or service</b>		
Provision of		
– visual effects production and post production services	411,629	464,197
– virtual human services	2,948	17,527
– granting of licence for virtual reality contents	-	1,002
<b>Total revenue from contracts with customers</b>	<b>414,577</b>	<b>482,726</b>
<b>Geographical markets</b>		
Hong Kong	-	975
The People's Republic of China	39,855	45,917
The United States of America	144,836	129,619
Canada	225,375	298,628
United Kingdom	1,840	4,218
Other countries/regions	2,671	3,369
<b>Total revenue from contracts with customers</b>	<b>414,577</b>	<b>482,726</b>
<b>Timing of revenue recognition</b>		
A point in time	372	18,529
Over time	414,205	464,197
<b>Total revenue from contracts with customers</b>	<b>414,577</b>	<b>482,726</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>	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment revenue from external customers	<u>414,577</u>	<u>482,726</u>
Reportable segment loss	<u>(195,872)</u>	<u>(78,805)</u>
	<b>As at</b>	
	<b>30 June</b>	31 December
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	<u>721,848</u>	<u>782,143</u>
Reportable segment liabilities	<u>609,856</u>	<u>541,430</u>

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

	<b>For the six months ended</b>	
	<b>30 June</b>	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Loss before taxation</b>		
Segment loss	(195,872)	(78,805)
Reversal of impairment loss on other receivable	8,050	-
Impairment loss on amounts due from associates	(2,322)	(4,731)
Impairment loss on amount due from a joint venture	(167)	-
Fair value loss on financial assets measured at FVTPL	(12,068)	(7,854)
Gain on disposal of unallocated property, plant and equipment	-	3
Share of losses of associates	(1)	(1)
Auditor's remuneration	(1,340)	(1,195)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(1,096)	(3,087)
Professional fees	(32,089)	(15,507)
Finance costs	(10,467)	(6,138)
Equity-settled share-based payment expenses	-	(48)
Unallocated short-term lease expenses	(81)	(80)
Unallocated other income and gains	15,477	3,666
Other unallocated corporate expenses*	(36,598)	(13,487)
Consolidated loss before taxation	<u>(268,574)</u>	<u>(127,264)</u>

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

	As at	
	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
<b>Assets</b>		
Reportable segment assets	721,848	782,143
Investment properties	24,764	24,668
Interests in associates	29,267	30,048
Interests in joint ventures	8	8
Loan to a joint venture	23,510	-
Amount due from a joint venture	1,655	-
Financial assets measured at FVTPL	30,149	41,349
Unallocated cash and cash equivalents and pledged bank deposits	421,356	120,841
Unallocated corporate assets	<u>8,625</u>	<u>30,646</u>
Consolidated total assets	<u><u>1,261,182</u></u>	<u><u>1,029,703</u></u>

	As at	
	30 June 2023 <i>HK\$'000</i>	31 December 2022 <i>HK\$'000</i>
<b>Liabilities</b>		
Report segment liabilities	609,856	541,430
Tax payable	3,678	3,621
Deferred tax liabilities	44,630	43,450
Unallocated borrowings	73,871	90,772
Unallocated corporate liabilities	<u>56,693</u>	<u>57,411</u>
Consolidated total liabilities	<u><u>788,728</u></u>	<u><u>736,684</u></u>

(e) **Revenue**

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

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Trade receivables	<b>61,063</b>	45,140
Contract assets	<b>15,353</b>	2,536
Contract liabilities	<b><u>96,985</u></b>	<u>53,624</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.

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Imputed interest on lease liabilities	5,954	4,770
Interest on bank and other loans	12,252	7,426
	<u>18,206</u>	<u>12,196</u>

## 6. LOSS BEFORE TAXATION

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
This is arrived at after crediting/charging:		
<i>Crediting:</i>		
Interest income	1,897	1,361
<i>Charging:</i>		
Staff costs (including directors' remuneration)	351,450	427,159
Depreciation of property, plant and equipment	12,849	20,323
Depreciation of right-of-use assets	20,175	17,262
Amortisation of intangible assets	149,823	16,769
Short-term lease expenses	308	294
	<u>308</u>	<u>294</u>

## 7. TAXATION

Taxation credited to the unaudited condensed consolidated income statement represents:

	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Current taxation – Hong Kong profits tax	-	-
Current taxation – Overseas tax		
– provision for the period	1,214	-
– under/(over)-provision in respect of prior years	2,092	(811)
Deferred taxation	(197)	-
	<u>3,109</u>	<u>(811)</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.

## 8. LOSS PER SHARE

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

	<b>For the six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the period attributable to the owners of the Company	<u><b>(197,557)</b></u>	<u><b>(118,458)</b></u>

	<b>For the six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>Number of shares</b>	<b>Number of shares</b>
		<b>(Re-presented)</b>
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted ( <i>Note</i> )	<u><b>4,900,187,464</b></u>	<u><b>4,441,582,343</b></u>

*Note:* The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the bonus elements in the issue of shares through share subscription during the six months ended 30 June 2023.

### **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.

## 9. GOODWILL AND INTANGIBLE ASSETS

	<b>Goodwill</b>	<b>Trademarks</b>	<b>Proprietary software</b>	<b>Participation rights</b>	<b>Patents</b>	<b>Licence for intellectual property rights</b>	<b>Film rights</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>								
As at 1 January 2023	690,049	19,516	249,831	382,267	107,922	10,938	128,499	1,589,022
Additions	-	-	15,744	-	-	-	1,660	17,404
Exchange realignment	(111)	76	2,566	1,012	1,638	-	499	5,680
As at 30 June 2023	689,938	19,592	268,141	383,279	109,560	10,938	130,658	1,612,106
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS</b>								
As at 1 January 2023	395,708	-	170,146	382,267	107,922	10,768	-	1,066,811
Amortisation for the period	-	-	19,872	-	-	161	129,790	149,823
Exchange realignment	-	-	1,432	1,012	1,638	-	(38)	4,044
As at 30 June 2023	395,708	-	191,450	383,279	109,560	10,929	129,752	1,220,678
<b>CARRYING AMOUNT</b>								
As at 30 June 2023	294,230	19,592	76,691	-	-	9	906	391,428
As at 31 December 2022	294,341	19,516	79,685	-	-	170	128,499	522,211

## 10. LOAN TO A JOINT VENTURE

On 13 February 2023, an indirect wholly-owned subsidiary of the Company, entered into loan agreement with a joint venture company, namely Digital Eve Technology Limited, in the principal amount of US\$3,000,000 (equivalent to HK\$23,510,000) with a tenor of three years at an interest rate ranging from 8% to 12% per annum.

## 11. 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.

## 12. 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 2022 and 30 June 2023.

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

On 31 August 2022, the common shares of asknet were delisted from the Frankfurt Stock Exchange. Immediately before the delist, the fair value of the Group’s interests in asknet, based on quoted market price, amounted to HK\$881,000. In the opinion of the Directors, upon the delist of asknet the fair value of the Group’s interests in asknet becomes minimal and accordingly a further fair value loss of HK\$881,000 was recognised in profit or loss during the year ended 31 December 2022.

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 2022 and 30 June 2023, the sales shares held by the Group represented approximately 2.8% of the total issued bearer shares of HLEE.

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 2023</b>	31 December 2022
	<b>HK\$’000</b>	<b>HK\$’000</b>
Listed equity securities outside Hong Kong, at fair value	<u><b>30,149</b></u>	<u>41,349</u>

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

	<i>HK\$’000</i>
As at 1 January 2023	41,349
Fair value loss recognised in profit or loss	(12,068)
Exchange realignment	868
As at 30 June 2023	<u><u>30,149</u></u>



### 13. 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:

- i. Trade receivables, other receivables and deposits
- ii. Amount due from a joint venture
- iii. Trade payables, other payables and accruals
- iv. Bank balances and cash
- v. Lease liabilities
- vi. 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:

- i. Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- ii. 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)
- iii. Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<b>As at 30 June 2023</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial asset at FVOCI</b>				
– Unlisted equity investment	–	–	–	–
<b>Financial assets at FVTPL</b>				
– Listed equity investments	<b>30,149</b>	–	–	<b>30,149</b>
	<b>As at 31 December 2022</b>			
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial asset at FVOCI				
– Unlisted equity investment	–	–	–	–
Financial assets at FVTPL				
– Listed equity investments	41,349	–	–	41,349

During the six months ended 30 June 2023, 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.

#### 14. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	<b>30 June 2023 HK\$'000</b>	31 December 2022 HK\$'000
<b>Non-current portion:</b>		
Deposits	<u>10,451</u>	<u>10,239</u>
<b>Current portion:</b>		
Trade receivables	61,063	45,140
Other receivables	18,921	34,476
Deposits	661	678
Prepayments	<u>28,344</u>	<u>27,376</u>
	<u>108,989</u>	<u>107,670</u>
 Total trade receivables, other receivables and prepayments	 <u>119,440</u>	 <u>117,909</u>

The Group normally allows an average credit period of 30 days (as at 31 December 2022: 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:

	<b>30 June 2023 HK\$'000</b>	31 December 2022 HK\$'000
0 to 30 days	46,324	34,758
31 to 60 days	4,809	813
61 to 90 days	5,029	2,110
91 to 365 days	2,947	2,408
Over 365 days	<u>1,954</u>	<u>5,051</u>
	<u>61,063</u>	<u>45,140</u>

#### 15. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	<b>30 June 2023 HK\$'000</b>	As at 31 December 2022 HK\$'000
Cash and cash equivalents	366,883	36,480
Pledged bank deposits	<u>117,610</u>	<u>117,073</u>
	<u>484,493</u>	<u>153,553</u>

## 16. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	<b>30 June 2023 HK\$'000</b>	31 December 2022 HK\$'000
Trade payables	41,943	39,985
Other payables	67,854	64,866
Interest payables	32,733	32,182
Accruals	<u>55,287</u>	<u>56,525</u>
 Total trade payables, other payables and accruals	 <u><b>197,817</b></u>	 <u>193,558</u>

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

	<b>30 June 2023 HK\$'000</b>	31 December 2022 HK\$'000
0 to 30 days	11,420	16,312
31 to 60 days	4,500	7,226
61 to 90 days	3,401	2,258
91 to 365 days	16,243	8,643
Over 365 days	<u>6,379</u>	<u>5,546</u>
	<u><b>41,943</b></u>	<u>39,985</u>

## 17. 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 2022 and 30 June 2023	<u>75,000,000,000</u>	<u>750,000</u>
Issued and fully paid:		
As at 31 December 2022	4,329,027,625	43,290
Issue of shares on subscriptions	<u>1,904,771,000</u>	<u>19,048</u>
As at 30 June 2023	<u>6,233,798,625</u>	<u>62,338</u>

## 18. SHARE-BASED PAYMENT TRANSACTIONS

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

On 21 May 2020, 478,000,000 share options (“Options”) were conditionally granted to employees of the Group under the 2012 Option Scheme. Out of which, 292,200,000 and 92,200,000 Options were vested on 21 May 2020 and 21 May 2021 respectively, the remaining 93,600,000 Options were vested on 21 May 2022. All Options are exercisable from their respective vesting dates until 20 May 2030. The exercise price of the Options is HK\$0.046 per share, being the closing price of the Company’s ordinary shares on 21 May 2020. Following to Company’s capital reorganisation completed during 2021, the exercise price was adjusted to HK\$0.46 per share with effective from 11 October 2021.

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

During the six months ended 30 June 2023, no Options (six months ended 30 June 2022: nil) were forfeited and no Options (six months ended 30 June 2022: nil) were exercised.

As at 30 June 2023, the weighted average exercise price of Options outstanding was HK\$2.547 (as at 31 December 2022: HK\$2.547) and the average remaining contractual life is 3.2 years (as at 31 December 2022: 3.69 years).

The Group had no share option expenses (six months ended 30 June 2022: HK\$48,000) during the six months ended 30 June 2023.

## 19. RELATED PARTY TRANSACTION

During the six months ended 30 June 2023, the Group had the following material related party transaction:

Related party relationship	Type of transaction	For the six months ended 30 June	
		2023 HK\$'000	2022 HK\$'000
Joint venture	Interest income	<u>701</u>	<u>-</u>

## 20. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment as at 30 June 2023 and 31 December 2022.

## **INTERIM DIVIDEND**

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2023 (2022: Nil).

## **FINANCIAL AND BUSINESS REVIEW**

During the six months ended 30 June 2023, the Group achieved a revenue of HK\$414,577,000 (2022: HK\$482,726,000), showing a decrease of approximately 14.1% compared to that of the previous corresponding period. The gross profit of the Group amounted to HK\$71,831,000 (2022: HK\$70,601,000) during the Review Period, showing an increase of approximately 1.7%. The change in turnover and gross profit were attributable to the media entertainment segment. As at 30 June 2023, the total assets of the Group amounted to HK\$1,261,182,000 (as at 31 December 2022: HK\$1,029,703,000). The loss attributable to the owners of the Company for the Review Period was HK\$197,557,000 (2022: HK\$118,458,000). The loss for the Review Period amounted to HK\$271,683,000 (2022: HK\$126,453,000) and it was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
  - (a) equity-settled share-based payments for the share options granted between 2014 and 2020 in 2022 as HK\$48,000;
  - (b) amortisation and depreciation expenses excluding depreciation related to Right-of-use Assets and amortisation of film right to the value of HK\$32,882,000 (2022: HK\$37,092,000);
  - (c) amortisation expense of film right to the value of HK\$129,790,000 (2022: HK\$Nil);
  - (d) share of losses of associates of HK\$1,000 (2022: HK\$1,000); and
  - (e) fair value loss on financial assets measured at fair value through profit or loss of HK\$12,068,000 (2022: HK\$7,854,000);
- (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\$414,577,000 (2022: HK\$482,726,000) and incurred a loss of HK\$195,872,000 (2022: HK\$78,805,000). The loss included the research and development costs incurred and expensed during the Review Period relating to virtual human technology and amortisation on the film rights upon the film release.

“The earnings before interest, tax, depreciation and amortisation (EBITDA)” of the media entertainment segment for the six months ended 30 June 2023 was a loss of HK\$6,382,000 (2022: HK\$21,480,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company’s operating performance. EBITDA should not be considered in isolation or be construed as an alternative to cash flows, net income or any other measure of performance, or as an indicator of the Group’s operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA for the media entertainment segment is calculated based on the loss of the segment for the period but does not account for taxes, interest expenses, depreciation (of the segment’s property, plant and equipment) and amortisation charges (on the segment’s intangible assets).

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

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

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

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

**Telly Awards**

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

**The Visual Effects Society Awards**

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

Mr. Aruna INVERSIN, Mr. Paul PIANEZZA, and Ms. Kimberly CHEIFER received a nomination for Outstanding Visual Effects in a Real-Time Project for their exceptional work on *“The Quarry”* developed by Supermassive Games.

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

- **“Ant-Man and the Wasp: *Quantumania*”** – VFX Supervisor, Mr. David HODGINS and his team completed work on the film that follows the adventures of Ant-Man and the Wasp, which released in February 2023.
- VFX Supervisor, Mr. Mitch DRAIN completed work with Netflix Studios as the production-side VFX on the film *“Chupa”*, which released in April 2023.
- **“Extraction 2”** – VFX Supervisor, Mr. Jean-Luc DINSDALE worked on the sequel to the Netflix action thriller, which released in June 2023.
- **“Blue Beetle”** – VFX Supervisor, Mr. Jay BARTON worked on the Warner Bros. film, which released in August 2023.
- VFX Supervisor, Mr. Joel BEHRENS is continuing work alongside production VFX Supervisor, Mr. Matthew BUTLER on an upcoming Netflix film.
- VFX Supervisor, Mr. Piotr KARWAS and his team began work on an upcoming Apple Studios film.
- VFX Supervisor, Mr. Scott EDELSTEIN and his team are continuing work on an upcoming Sony Pictures film.
- VFX Supervisor, Mr. Hanzhi TANG and his team began work on an upcoming Marvel Studios film.

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

- **“The Last of Us” Season 1** – The Digital Domain team completed work on Season 1 of HBO’s “The Last of Us” in 2022 and the series released on 15 January 2023.
- **“Carnival Row” Season 2** – Digital Domain finished the production of Season 2 of “Carnival Row” for Amazon in 2021, and the show was made available to viewers on 17 February 2023.
- **“The Mandalorian” Season 3** – VFX Supervisor, Mr. Nikos KALAITZIDIS and his team completed work on the Disney+ series, which released on 1 March 2023.
- **“Citadel”** – VFX Supervisor, Mr. Aladino DEBERT and his team completed work on the first season of one of Amazon’s newest series, and was asked to include work in the client’s Emmy submission.
- **“Secret Invasion” Season 1** – VFX Supervisor, Mr. David CUNNINGHAM, and his team have finished work for Season 1 of the Marvel Studios series, released in June 2023.
- **“Ahsoka” Season 1** – VFX Supervisor, Mr. Nikos KALAITZIDIS and his team completed work on the first season of the upcoming Disney+ series, “Ahsoka”, which was released on 23 August 2023.
- VFX Supervisor, Mr. Nikos KALAITZIDIS, and his team have finished work on the upcoming third season of a series produced by Apple Studios. The series is scheduled to premiere in September 2023.
- VFX Supervisor, Mr. Aladino DEBERT, and his team are currently developing a new Marvel Studios series that is set to be released in 2023.
- VFX Supervisors, Mr. Kelly PORT and Mr. Michael MELCHIORRE along with their teams are currently working on an upcoming Marvel Studios series expected to release in 2024.
- **“Black Mirror” Season 6** - The Digital Domain team in Hyderabad completed work on Netflix’s “Black Mirror”. The series released in June 2023.
- Digital Domain’s Hyderabad team is working on an upcoming Amazon Studios series.

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

- Netflix’s **“Extraction 2”**
- Two upcoming Marvel Studios’ films
- An upcoming Netflix film
- An upcoming Marvel Studios’ series
- An upcoming Sony film
- An upcoming Legendary film
- An upcoming film directed by Francis Ford COPPOLA
- An upcoming New Line Cinema film
- An upcoming Twentieth Century Fox film

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

- An upcoming Legendary film
- An upcoming Skydance video game
- A trailer for an upcoming Skydance video game
- A project in collaboration with Something Wicked Games
- An upcoming game for Sucker Punch Studios
- A commercial for CrowdStrike in collaboration with Radical Media

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

- For **The Brand Agency and Amazon Studios**, the Digital Domain advertising team worked with the VHG team, utilising the studio's proprietary technology Charlatan to recreate three historical figures that were used in a promo to launch the Citadel Season 1 series marketing campaign.

**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 US Subsidiary's clients in the Other Lawsuits have been narrowed. The US Subsidiary's clients filed another motion asking the court to summarily adjudicate the remaining claims in their favor or, the alternative, to narrow the Claimant's claims further. The court is scheduled to hear the motion on 17 August 2023, but even if the hearing takes place on that date, the court may not issue its decision on the motion until after that date.

The parties are presently in the process of concluding pre-trial discovery and will begin trial preparation. The court has scheduled the Other Lawsuits for trial commencing on 4 December 2023, although this is not a firm date as future developments in the case and other matters on the court's docket may delay the start of the trial.

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

On 21 February 2023, the court dismissed the New Lawsuit on the grounds that the facts, as plead, in the lawsuit did not give rise to legally actionable claims. The court gave the Claimant an opportunity to file a new amended complaint that rectifies the legal defects that the court identified. The US Subsidiary's clients filed a motion to dismiss the new amended complaint which the court is scheduled to hear on 5 October 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 determinations 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.

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

Visual effects and colour grading services delivered for feature films and episodic this year include "***Ride On***", "***The Legends of Monkey King***", "***Lost You-Forever***", as well as the upcoming "***Ali's Dream Castle***".

DD China continues to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile clients, including: **Bosideng, BYD, Cadillac, Estée Lauder, HUAWEI, HONOR, L'ORÉAL, L'Oréal Paris, MEIZU, Minute Maid, Moonton Games "Mobile Legends: Bang Bang", Pechoin, Schwarzkopf and Yili.**

#### **DD China's professionals participated in several publicity activities:**

- In May 2023 - VFX Supervisor, Mr. Wang GUO discussed how generative artificial intelligence is revolutionising the creative landscape, through YiMagazine's special edition.

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

Completing the sixth year as of June 2023, Digital Domain India ("DD India") continues to play a vital role in our global VFX road map. This year DD India has taken positive strides in contributing across departments and skillsets and played a key role in shot production work compared to its earlier years. DD India continues to explore domestic and direct opportunities to offer DD's global talent and combined experience to all potential clients.

In continuation to the first half of 2023, DD India will focus on delivering more value work in terms of complexity and volume. This is in line with our plan for 2023 and beyond to increase and improve the Group's VFX services' top line and margins while organically scaling up our headcount globally. In addition to contributing for the "A list" internal projects, DD India worked on the recently released "***Black Mirror – Season 6***" on Netflix and is in the process of delivering an entire first season of a new regional show to be aired on a reputed platform in India. In 2023, DD India will also start work on three major local features scheduled to release in 2024. Thus setting a solid platform to establish our presence and target the growing entertainment market in India.

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***

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

**North America Region:**

- Digital Domain is continuing its relationship with the team from Studio Wildcard as they prepare for the highly anticipated release of **ARK 2**, the follow up to its award-winning predecessor, ARK.
- Digital Domain has partnered with *Madison Square Garden (MSG)* and *Sphere Entertainment* for an upcoming dome project.

**Digital Domain’s Virtual Human Group (“VHG”) in North America - research and development aided multiple projects and resulted in new developments in the first half of 2023:**

- **Charlatan:** VHG partnered with the advertising and games team, utilising Charlatan for Amazon Studios *“Citadel”* and the series’ *“Myth”* promo. The technology was also used on Netflix’s *“Extraction 2”*, as well as Marvel Studios’ *“Secret Invasion”*.
- **ML Cloth System:** Digital Domain’s ML Cloth System was used on projects including Warner Brother’s *“Blue Beetle”*, and also an upcoming Sony feature film.
- **Samson:** Digital Domain’s Samson has been utilised for several projects including *“Secret Invasion”*, *“Ahsoka”*, *“Blue Beetle”*, an upcoming Sony film, an upcoming Netflix film, and an upcoming Apple Studios series.

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

- VHG’s Mr. Peter RABEL and Mr. Rickey CLOUDSDALE alongside VFX Supervisor, Mr. Aruna INVERSIN attended Game Developers Conference (GDC) 2023 where they presented their work on Supermassive Games’ *“The Quarry”*.
- Mr. Jose SERRA, Software Developer, presented on marker less facial mocap online for **SPARK FX 2023** and participated in Q&A.
- VFX Supervisor, Mr. Matthias WITTMANN participated on a panel at Digital Hollywood - The AI Summit: Breaking the Net where he discussed virtual humans.

## The Greater China Region:

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

- From March 2023, **MetaAge Group** has partnered with Digital Domain to create a series of internal training videos. These videos feature virtual HR consultant who introduce new employees to the company, course platform, and operational guidelines. The projects aim to streamline the company's training procedures and enhance efficiency.
- Featuring “**Digital Transformation & Green Transition**”, 2023 Smart City Summit and Expo (SCSE) took place in Taipei from 28 March to 31 March 2023. The organisers specially arranged an AI virtual tour guide, so that visitors can have the opportunity to experience the latest technology interaction up close. The AI virtual tour guide is the latest technology of cooperation between MomentX and Digital Domain, behind which is the virtual human control software Momentum Cloud independently developed by Digital Domain. Visitors can not only ask the virtual tour guide questions related to the expo, but also ask anything you want to chat or learn about, including weather, food and attractions around the exhibition hall.
- In April 2023, Digital Domain participated in the “**AI EXPO Taiwan 2023**” to showcase an AI virtual fortune teller. The booth attracted a large audience who gathered to experience the personalised and real-time interactive fortune-telling.
- In May 2023, Digital Domain exhibited an AI virtual business assistant at the “**Computex 2023**”. The virtual assistant interacted with visitors, answering questions about client companies for international business professionals.
- In June 2023, the prestigious AI industry event, “**FUTURE COMMERCE 2023 AI TAIWAN**” with the theme “**AI FOR ALL**”, featured Digital Domain's virtual human, **Nonoka**, as the protagonist in the opening video. Through its connection and contrast with real-world humans, virtual human conveyed the message that AI solutions applied across industries are already transforming human lives, heralding the dawn of a new era.
- In June 2023, Digital Domain demonstrated AI virtual human solutions at the “**FUTURE COMMERCE 2023 AI TAIWAN**”. The exhibition showcased three interactive modes, featuring a poetic young girl, a passionate soul guide, and a friendly café server. These diverse personas represented the versatility of service-oriented virtual humans.
- **MomentX** and Digital Domain once again cooperated to participate in the “**FUTURE COMMERCE 2023 AI TAIWAN**” and unveiled a brand new AI assistant in the “AI New Imagination” exhibition area. Combining interactive experience and co-creation participation, the AI assistant not only answers questions related to the exhibition, but also can lead the audience to understand the influence and creation of generative AI before 2030.

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

- VFX Supervisor, Mr. Jan Philip CRAMER and Animation Supervisor, Ms. Elizabeth BERNARD presented their work on “**She-Hulk: Attorney at Law**” at SPARK FX 2023.
- VFX Supervisor, Mr. Jan Philip CRAMER presented his team’s work on “**She-Hulk: Attorney at Law**” at **Film and Media Exchange (FMX) 2023** in Stuttgart, Germany.
- Ms. Lala GAVGAVIAN, the President for VFX Business and, Chief Operating Officer for the Group, and, VFX Supervisor, Mr. Piotr KARWAS attended the **Mastercard OFF CAMERA International Festival of Independent Cinema**. Mr. KARWAS participated in two panels during the event, discussing his work on **Apex Legends’ “Northstar”** as a case study. He highlighted the extensive VFX work involved in game development and the use of AI in the VFX industry.

*D. CO-PRODUCTIONS*

The Group partnered with Mr. Lucas FOSTER (a producer of famous films, such as “Ford v Ferrari”, “Mr. & Mrs. Smith”, “Man on Fire”, etc.) to produce a film “**Children of the Corn**”. Shooting of the film took place in Australia during the pandemic in 2020 and the film was released globally in March 2023.

**INTERESTS IN ASSOCIATES**

The Group invested in several associates and the reviews of the most 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 associates.

**Virtual Human Teresa Teng**

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

- February 2023, **Virtual Human Teresa Teng** performed The Magic Blade’s iconic theme song “**Tianya**” at its Spring Festival Gala.
- “**Kugou Live**” organised an immersive CNY Festival online concert, allowing all players to participate. The event featured a special appearance by a legendary superstar, the **Virtual Human Teresa Teng**, created by Digital Domain. With her sweet and gentle voice, the Virtual Human Teresa Teng enchanted the audience with a performance of the game’s theme song, leaving them mesmerised. She enthusiastically interacted with the online viewers and extended Lunar New Year blessings to everyone.
- **The 2023 Beijing Radio and Television Spring Festival Gala** invited **Virtual Human Teresa Teng**, to make a stunning appearance, performing “**I Only Care About You**” alongside female singers Cyndi WANG and Cecilia HAN. This awe-inspiring cross-temporal collaboration became the highlight of the night’s news. Virtual Human Teresa Teng, created by a team of artists from Digital Domain, took approximately six weeks to construct. In addition, the visual effects that impressed the audience during the performance were also crafted by the Digital Domain team, including lighting, special effects, and pre-compositing.
- **Malaysia United Overseas Bank** hosted an exclusive event for VIP clients. They specially invited the **Virtual Human Teresa Teng**, who made a remarkable comeback on stage using the latest hologram projection technology, delivering an incredibly lifelike performance. When the audience saw the Virtual Human Teresa Teng appear so realistically before their eyes, they could not help but gasp in astonishment, as if transported back to that classic era, overwhelmed by emotions and memories. The legendary revival of Virtual Human Teresa Teng was made possible through the exclusive technology of Digital Domain. This technology allowed the grace and charm of the superstar diva to be authentically showcased, leading the audience to relive this musical legend.

### **Beijing Xu Gu (虛谷未來科技(北京)有限公司)**

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

- In December 2022, **Tencent Music Entertainment Group (TME)** co-created by **TME, RM LABS**, and **Beijing Xu Gu**, launched **super-realistic virtual idol LUCY**, which immediately sparked a circle-breaking interest. From January to May 2023, Beijing Xu Gu continued to provide virtual content production for its daily operations.
- In January 2023, Beijing Xu Gu joined the “**Chaoyang Dark Horse Digital Human Application Scene Accelerator**”, which is an industrial co-creation base for digital human enterprises nationwide under the guidance of the Chaoyang District People’s Government of Beijing Municipality and co-created by the Zhongguancun Science Park Administrative Committee, Dark Horse Technology Group Co., Ltd. (“Dark Horse”) and Beijing Chaoyang International Technology Innovation Service Co., Ltd (“CITIS”).

- In February 2023, Beijing Xu Gu was honoured to be listed in the **first Metaverse ∞ Billboard**, and was awarded “**Top 10 Metaverse Enterprises of 2022**”. In addition, the General Manager of Beijing Xu Gu was invited to attend and deliver a keynote speech.
- In March 2023, Beijing Xu Gu appeared at the **Web 3.0 Eco Release Conference “Towards a Vibrant Web 3.0 Building for the Future”** organised by the Beijing Municipal Science and Technology Commission, Administrative Commission of Zhongguancun Science Park, Beijing Municipal Bureau of Economy and Information Technology, Beijing Association for Science and Technology and Chaoyang District People’s Government of Beijing Municipality, where the Virtual Human Teresa Teng, Virtual Human Elbor, Virtual Human Nonoka and Virtual Human Alice, demonstrated around super-realistic virtual human real-time interaction, super-realistic fabric real-time calculation and lightweight virtual live broadcast solutions.
- In March 2023, Beijing Xu Gu appeared at the **2023 (2nd) China Virtual Human Industry Conference and AIGC Innovation and Development Forum**. During the event, Virtual Human Alice was selected as one of the “**Top 100 Chinese Virtual Humans in 2023**” published by iiMedia Research, and was honoured with the “**Most Influential Virtual Idol Award of China in 2023**”, becoming the only children’s virtual IP on the list and receive such awards. In addition, the General Manager of Beijing Xu Gu was invited to participate in the summit dialogue.
- In May 2023, the 「悦然址上」 brand strategy launch and 23rd anniversary celebration was held as scheduled, for which Beijing Xu Gu provided virtual human holographic show solutions.
- In June 2023, Beijing Xu Gu joined the “**Beijing Digital Human Base Deposit Platform**”. This platform will focus on the process of intellectual property rights confirmation, rights protection and transaction security, and provide notary legal services such as intellectual property rights protection, evidence collection, and rights protection for digital human enterprises, so as to solve the problem of intellectual property rights protection for the property rights of digital human beings and related digital assets.

## **CAPITAL**

### **Shares**

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

On 17 January 2023, the Company entered into the subscription agreements with ADATA Technology Co., Ltd. (“ADATA”) and Mr. Choi Chiu Fai Stanley (“Mr. Choi”). Pursuant to the subscription agreements, the Company conditionally agreed to allot and issue 146,250,000 shares to ADATA and 73,125,000 shares to Mr. Choi respectively at the subscription price of HK\$0.32 per subscription share (the “Subscription”). The Subscription was completed on 2 February 2023 and the Subscription shares were allotted and issued pursuant to the general mandate of the Company. The Subscription shares represent approximately 5.07% of the issued share capital of the Company of 4,329,027,625 shares as at the date of announcement of the Subscription (i.e. 17 January 2023) and approximately 4.83% of the issued share capital of the Company of 4,548,402,625 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are HK\$70,200,000 and approximately HK\$69,760,000 respectively, and are intended to be applied towards the development of the Group’s media entertainment segment and general working capital of the Group. For details, please refer to the Company’s announcements dated 17 January 2023 and 2 February 2023.

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

The gross proceeds and net proceeds from the 2nd Subscription are approximately HK\$143,500,000 and approximately HK\$143,100,000 respectively, and are intended to be applied towards the development of the Group’s media entertainment segment and general working capital of the Group. For details, please refer to the Company’s announcements dated 20 April 2023 and 3 May 2023.

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

The gross proceeds and net proceeds from the 3rd Subscription are HK\$232,700,000 and approximately HK\$232,500,000 respectively, and are intended to be applied towards the development of the Group’s media entertainment segment and general working capital of the Group. For details, please refer to the Company’s announcements dated 12 June 2023 and 20 June 2023.

As at 30 June 2023, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 6,233,798,625 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. A new share option scheme was approved and adopted by the shareholders of the Company at the special general meeting held on 16 June 2022 (the “2022 Option Scheme”). 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 2023.

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

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

In 2023, the Company had banking facilities from two banks in the United States amounting to US\$16,000,000 (approximately HK\$125,386,000) and the utilised portion of these banking facilities were US\$15,822,000 (approximately HK\$123,990,000). Among the above mentioned US\$16,000,000 facilities, (i) Facilities of US\$2,000,000 (approximately HK\$15,673,000) with US\$1,831,000 (approximately HK\$14,349,000) being utilised as at 30 June 2023 has been successfully refinanced for another 3 years (to 2026), and (ii) Utilised facilities of US\$10,000,000 (approximately HK\$78,366,000) has also been refinanced for another 2 years (to 2025). These banking facilities were secured by time deposits and two investment properties of the Group. The Group had banking facilities from a bank in Canada in amount of CAD6,900,000 (approximately HK\$40,820,000) and the utilised portion of these banking facilities were CAD735,000 (approximately HK\$4,350,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

As at 30 June 2023, the loan granted under emergencies loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$355,000). This loan is unsecured and repayable on 31 December 2025.

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 2023, the Group also had lease liabilities of HK\$115,643,000, 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 RMB185,000 (approximately HK\$199,000) related to computer equipment and software and HK\$150,000 related to office equipment (leased assets) secured by the lessor's charge over the leased assets. Among these leased assets, the terms of payments were 34 months and 60 months respectively. Payments were on a fixed payment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK\$196,371,000 as at 30 June 2023. One indirect wholly-owned subsidiary has a loan in amount of US\$3,500,000 (approximately HK\$27,065,000) which is unsecured, interest-free and is not repayable within 13 months from 30 June 2023. One indirect wholly-owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,361,000), 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\$78,366,000) 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 2023 were US\$8,000,000 (approximately HK\$62,693,000) 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 2023. As at 30 June 2023, there was an other loan with principal amount of US\$8,800,000 (approximately HK\$68,962,000) with HK\$56,423,000 repayable within one year and HK\$12,539,000 repayable in the next two years. This other loan was unsecured with a fixed interest rate.

During the Review Period, the Group also repaid two other loans (aggregate principal amount of HK\$7,800,000) which were unsecured with a fixed interest rate.

The total cash and bank balance as at 30 June 2023 was approximately HK\$484,493,000. As at 30 June 2023, the Group had banking facilities of approximately HK\$166,206,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$123,990,000 are denominated in United States dollars and loans amounting to approximately HK\$4,350,000 are denominated in Canadian dollars. During the Review Period, all of the Group's bank loans (except the Five Years Loan) 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) as at 30 June 2023 was spread over a period of five years, with approximately 10% repayable within one year, 79% repayable between one to two years and 11% repayable between two and five years.

The Group's current assets were HK\$611,545,000 while the current liabilities were HK\$413,671,000 as at 30 June 2023. As at 30 June 2023, the Group's current ratio was 1.5 (as at 31 December 2022: 0.6).

As at 30 June 2023, the Group's gearing ratio, representing the Group's financial liabilities (i.e. bank loans, other loans and lease liabilities) divided by the equity attributable to owners of the Company was 71% (as at 31 December 2022: 118%).

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

The Group's revenue, expenses, assets and liabilities were mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Canadian dollars ("CAD"), Renminbi ("RMB"), Indian Rupees ("INR") and Euro ("EUR"). The exchange rates for the USD against the HKD remained relatively stable during the 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 2023, the Group did not have any material contingent liabilities.

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

As at 30 June 2023, the total headcount of the Group was 1,030. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

## **PROSPECT**

While the dismantling of COVID restrictions worldwide will be positive for the global economy, many challenges remain. During the first half of 2023, inflation and recession are still the focal point. While there are signs that inflation may have peaked, the three leading economies in the world, the US, the European Union and China, are all slowing down. Uncertainties and geopolitical tensions (including Sino/US relationships and /or Russian/Ukraine conflict) are likely to persist in the foreseeable future. All these fuel concerns over a looming recession. We anticipate that global markets will experience fluctuations in the coming months.

Geopolitical developments and associated fiscal/monetary policy responses that have been and/or may in the future be implemented and which impact or is perceived to impact costs of operations and/or consumer demand adds to the uncertainties that the Group expects to confront in 2023. Demand for and the pricing of our products and services are ultimately driven by our clients' perception of consumer demands for their products. For example, the budget and roll out schedule of feature films can be affected by global economic conditions while perceived reduction in consumer spending powers can also affect our clients' product advertising budgets and campaign schedules.

Besides the macro situation we just mentioned, the media industry is also facing another critical challenge due to the Hollywood industry strikes. The Screen Actors Guild – American Federation of Television and Radio Artists ("SAG-AFTRA") has recently authorised a strike of its members, in addition to the strike approved by the Writers Guild of America ("WGA") which commenced on 2 May 2023. Having noted that the strike of WGA members has contributed to delays in production schedules of certain of the Group's clients in the latter part of the six months ended 30 June 2023, the Company expects that the additional actors' strike is likely to lead to more delays in the Group's VFX projects and therefore lower revenue being recognised for so long as these strikes remain unresolved.

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

Our “Objective” is to drive business and prosperity through our unique diversity (markets, shareholders, directors and staff) and this guides our strategy. In support of our “Objective”, we will continue to focus on visual effects and virtual human businesses while we are proud to connect the world’s most dynamic markets (US/Canada, China and India). The Group proactively seeks new projects and business opportunities in the feature films, online games, television/OTT episodes and commercials despite the highly competitive environment in our markets. 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 is also actively considering the potential projects in Europe with our European business partners.

For the VH business, the Group will continue to enhance current product and service offerings and explore new services and products (such as multi-language function, SaaS products, etc.) with strategic business partners and/or investors. We will enhance the interactivity between virtual humans and the audience in social-networking platforms, the entertainment businesses and other environments such as financial, customer services and education.

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

Last but not least, we will continue to closely monitor the external environment to ensure an appropriate balance of opportunity and risk, acting in your interests as shareholders. We are grateful to you for the trust you place in us and for your ongoing support of the Group. We are confident that we will continue to create long-term, sustainable value for all our stakeholders (clients, shareholders, staff and management). Once again, we would like to express appreciation to all our management and colleagues for their valuable contribution 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 2023, 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 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 former chairman in June 2020. The Board believed that at the time of vesting of the roles of chairman and chief executive officer in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group's operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board when appropriate;
- (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. Mr. Seah Ang has entered into a service agreement for no fixed term but his appointment is terminable by either party by giving three months' prior notice; and
- (c) The Company held the annual general meeting on 31 May 2023. Ms. Alla Y Alenikova and Mr. Brian Thomas McConville, the non-executive Directors, were unable to attend the above annual 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, 25 August 2023

*As at the date of this announcement, Mr. Seah Ang and Dr. Sun Ta-Chien are the executive Directors; Mr. Li Weiqiang, Mr. Cui Hao, Ms. Alla Y Alenikova 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.*