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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)

**DISCLOSEABLE TRANSACTION
IN RELATION TO
THE DISPOSAL OF 22.29% OF THE ISSUED SHARE CAPITAL
OF LEAD TURBO LIMITED**

Reference is made to the Acquisition Announcement, pursuant to which the Company announced that it has through DD Network (a wholly-owned subsidiary of the Company) acquired 66.88% of the issued share capital of the Target Company.

The Board is pleased to announce that on 27 December 2019 (after the trading hours of the Stock Exchange), DD Network and the Purchaser entered into the Disposal Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and DD Network conditionally agreed to sell, the Sale Shares, representing 22.29% of the issued share capital of the Target Company, at an aggregate consideration of up to HK\$99 million.

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but less than 25%. Accordingly, the Disposal constitutes a discloseable transaction of the Company pursuant to Rule 14.06 of the Listing Rules and is therefore subject to notification and announcement requirements under the Listing Rules.

INTRODUCTION

Reference is made to the Acquisition Announcement, pursuant to which the Company announced that it has through DD Network (a wholly-owned subsidiary of the Company) acquired 66.88% of the issued share capital of the Target Company.

The Board is pleased to announce that on 27 December 2019 (after the trading hours of the Stock Exchange), DD Network and the Purchaser entered into the Disposal Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and DD Network conditionally agreed to sell, the Sale Shares, representing 22.29% of the issued share capital of the Target Company, at an aggregate consideration of up to HK\$99 million. Details of the Disposal are set out as follows:

THE DISPOSAL AGREEMENT

Date: 27 December 2019

Parties: DD Network (as seller)
The Purchaser (as purchaser)

Assets to be disposed: The Sale Shares, representing 22.29% of the total issued share capital of the Target Company as at the date of Completion.

Consideration: HK\$ 99 million by way of three instalments: -

- (a) the first instalment in the amount of HK\$33 million to be paid on or before 15 January 2020;
- (b) the second instalment in the amount of HK\$33 million to be paid on or before 1 December 2020; and
- (c) the third instalment in the amount of HK\$33 million to be paid on or before 1 December 2021.

The consideration for the Disposal was arrived at after arm's length negotiations between the parties to the Disposal Agreement. The Company took into account, among other things, (i) the Group's investment of the Target Group in 2018 and the Shareholder's Loan (as defined below); (ii) the growth of the Target Group's self-owned virtual reality ("VR") and augmented reality ("AR") technologies post acquisition; and (iii) the Target Group's financial performance, its market position in the VR industry in the PRC and perceived business prospects.

Conditions precedent:

Completion is conditional upon the following:-

1. approval by the board of directors of the Target Company on the registration of the transfer in relation to the sale and purchase of the Sale Shares;
2. the Purchaser shall execute share charge(s) over the Sale Shares at Completion in favour of DD Network as security for the full payment of the consideration after Completion;
3. the approval by the board of directors of DD Network and the Purchaser authorising the sale and purchase of the Sale Shares;
4. the delivery of instrument of transfer of the Sales Shares from DD Network to the Purchaser; and
5. the approval from Mr. Lin Che Chu George, the existing shareholder of the Target Company, confirming that he has waived all his pre-emptive rights with respect to the sale and purchase of the Sale Shares pursuant to the Acquisition Agreement.

Completion is to take place 2 days after the fulfilment (or waiver) of the conditions precedent or such other date as the parties to the Disposal Agreement may agree in writing.

INFORMATION ON THE TARGET GROUP

Set out below is certain financial information of the Target Group for the two years ended 31 December 2017 and 31 December 2018, which is prepared in accordance with generally accepted accounting principles in Hong Kong:

	For the year ended 31 December	
	2017	2018
	RMB'000	RMB'000
	(unaudited)^(Note)	(audited)
Revenue	13,640	85,273
Net (loss)/ profit before taxation	(21,370)	28,927
Net (loss)/ profit after taxation	(21,372)	30,578

Note: The Target Company was incorporated on 3 January 2018 and became the holding company of VR Technology (HK) Limited on 22 January 2018. The above shows the combined results of the Target Group members for the year ended 31 December 2017.

The unaudited net asset value of the Target Company as at 30 September 2019 is approximately HK\$87.1 million.

As a result of the Disposal, the Target Company will cease to be a subsidiary of the Company. Accordingly, the assets, liabilities and financial results of the Target Company will be deconsolidated from the consolidated financial statements of the Group.


Reference is made to the Acquisition Announcement, DD Network has provided a non-interest bearing loan of RMB30 million to finance the Target Group's financial needs (the "Shareholder's Loan"), which shall survive the completion of the Disposal and when such loan will mature.

FINANCIAL EFFECT OF THE DISPOSAL

Based on the unaudited financial information of the Target Group from its management accounts as at 30 September 2019, it is estimated that the Company would recognise a gain of approximately HK\$82,000 as a result of the Disposal which is calculated by reference to the consideration of the Disposal, net asset value, release of exchange reserve and goodwill. The above financial impact is shown for illustrative purposes only and the final financial effect of the Disposal will be subject to audit and the fair value of assets and liabilities of the Target Group at completion of the Disposal and therefore, may vary from the current estimation.

INFORMATION ON THE TARGET GROUP AND THE PURCHASER

The Target Group

The Target Group is principally engaged in the research, development and sale of VR and AR hardware, smart wearable devices, VR software development kit and other related products. The major product of the Target Group is the self-developed VR headset, which is a head-mounted display device that provides VR for wearers and is widely used with computer games, simulators and trainers, under the brand name of "3Glasses" .

Following completion of the Disposal, the Company will indirectly hold 44.59% of the issued share capital of the Target Company, details of which are as follows:-

Name of shareholders in the Target Company	Shares held in the Target Company and its relevant percentage in the total issued share capital of the Target Company	
DD Network	4,459	(44.59%)
Lin Che Chu, George	2,855	(28.55%)
The Purchaser	2,229	(22.29%)
Other existing shareholder	457	(4.57%)
Total:	10,000	(100%)

The Purchaser

The Purchaser is a limited company incorporated under the laws of the BVI for investment holding purposes. The Purchaser's ultimate beneficial owner is Mr. Keung To ("Mr. Keung"). Mr. Keung has more than 20 years of experience in trading mainly of electrical and mechanical products/electronic products), industrial investment and real estate development.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Purchaser and its ultimate beneficial owner are Independent Third Parties.

REASONS AND BENEFITS OF THE DISPOSAL

The Company is an investment holding company. Its subsidiaries are principally engaged in media entertainment business, including visual effects ("VFX") production, VR technology services using 360° digital capture technology and computer graphics ("CG"), post production service and virtual human business.

While the Target Group has achieved its profit targets for the financial year ended 31 December 2018 as part of the Acquisition and relatively stable in the first half of the current financial year as reported in the Company's interim report, the Target Group has experienced an unexpected slowdown of revenue in the last quarter due to a combination of the effect of slowdown of projects or reduction of investments by potential clients in response to a more subdued economic outlook and expected consumer spending in the PRC as the Sino-US trade war continues and timing mismatch of receipts and revenue recognition under Hong Kong Accounting Standards. As a result and in view of increased research and development and selling and distribution expenses this year, the current projection of the 2019 Actual Profit as at mid-December 2019 is below the 2019 Target. However, this is not expected to contribute to any material deterioration of the Group's overall results.

Accordingly, the Directors considered that the Disposal represent a good opportunity for the Group (i) to introduce the Purchaser as a strategic investor of the Target Group, so that the Target Group may tap into the business network of the Purchaser and its beneficial owner for the development of new business opportunities; and (ii) to realise part of its investment in the Target Group for cash (payable in instalments) that can contribute towards the Group's liquidity and working capital, while retaining a controlling interest in the Target Group.

USE OF PROCEEDS FROM THE DISPOSAL

The Company intends to apply the net proceeds of the Disposal for general working capital, funding for the future business development of media entertainment segment of the Group and repayment of loans of the Group.

LISTING RULES IMPLICATIONS

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Disposal exceeds 5% but less than 25%. Accordingly, the Disposal constitutes a discloseable transaction of the Company pursuant to Rule 14.06 of the Listing Rules and is therefore subject to notification and announcement requirements under the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“2019 Actual Profit”	the Net Profit for the year ending 31 December 2019
“2019 Target”	RMB50 million
“Acquisition”	the acquisition of 6,688 ordinary shares of the Target Company by DD Network in accordance with the terms and conditions of the Acquisition Agreement
“Acquisition Announcement”	the announcement of the Company dated 22 March 2018 in relation to the Acquisition
“Acquisition Agreement”	the sale and purchase agreement dated 22 March 2018 entered into among DD Network, Mr. Lin Che Chu George, the Target Company and Ms. Wang Jie being the guarantor in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Company”	Digital Domain Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 547)
“Completion”	the completion of the sale and purchase of the Sale Shares pursuant to Disposal Agreement
“connected person(s)”	the meaning ascribed to it under the Listing Rules
“DD Network”	Digital Domain Network Technology Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company

“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares by DD Network in accordance with the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the share sale and purchase agreement dated 27 December 2019 entered into between DD Network and the Purchaser in relation to the Disposal
“Group”	the Company and its subsidiaries (as defined in the Listing Rules)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Net Profit”	the audited consolidated net profit after taxation and before minority interest of the Target Company, but excluding any non-recurring item and/or one-off transaction gain or loss as set forth in the audited accounts of the Target Company prepared in accordance with generally accepted accounting principles in Hong Kong
“PRC”	the People’s Republic of China, and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Independent Third Party(ies)”	a third party who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquires, is independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	Techno Vision Development Ltd, a limited liability company incorporated under the laws of the BVI
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	2,229 ordinary shares of US\$1 each in the issued share capital of the Target Company, representing 22.29% of the issued share capital of the Target Company as at the date of Completion
“Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	Lead Turbo Limited, a company incorporated in the BVI with limited liability
“Target Group”	the Target Company and its subsidiaries
“US\$”	United States dollar(s), the lawful currency of United States of America
“%”	per cent

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

Hong Kong, 27 December 2019

As at the date of this announcement, Mr. Peter Chou and Mr. Seah Ang are the executive Directors; Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Mr. Wong Ka Kong Adam and Mr. John Alexander Lagerling are the independent non-executive Directors.