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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**

The Board is pleased to announce that on 17 July 2020 (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 HK\$102,000,000.

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 announcement requirements under the Listing Rules.

#### **INTRODUCTION**

The Board is pleased to announce that on 17 July 2020 (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 HK\$102,000,000. The Purchaser had previously entered into an agreement to purchase the same shares from DD Network, which agreement was subsequently terminated, as disclosed in the announcements of the Company dated 27 December 2019, 3 January 2020 and 21 February 2020. The circumstances that contributed to re-initiation of discussions, and led to the signing of the Disposal Agreement is set out in “Reasons for and benefits of the Disposal” below.

The parties to the Disposal Agreement and material terms of the Disposal are described below:

## **THE DISPOSAL AGREEMENT**

**Date:** 17 July 2020

**Parties:** DD Network (as seller)

The Purchaser (as 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 Director's knowledge, information and belief having made all reasonable enquiries, as the date of this announcement, the Purchaser and its ultimate beneficial owner are Independent Third Parties.

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

**Consideration:** HK\$102,000,000 by way of three instalments: -

- (a) the first instalment in the amount of HK\$34,000,000 to be paid within 14 days from the Completion Date;
- (b) the second instalment in the amount of HK\$34,000,000 to be paid on or before the date falling on the first anniversary of the Completion Date; and
- (c) the third instalment in the amount of HK\$34,000,000 to be paid on or before the date falling on the second anniversary of the Completion Date.

If any relevant payment date is not a Business Day, such date shall be postponed to the first following day that is a Business Day.

The payment obligations of the Purchaser for the Consideration is to be secured by the Share Charge to be executed by the Purchaser in favour of DD Network on the Completion Date. In the event that the Purchaser defaults any of the instalments of the Consideration as set out above, DD Network may without further notice to the Purchaser proceed to enforce the security under the Share Charge, including but not limited to, taking possession of the Sale Shares.

The consideration for the Disposal was arrived at after arm's length negotiations between the parties to the Disposal Agreement. In agreeing the consideration, the Company took into account, among other things, (i) the Group's investment in the Target Group and the Shareholder's Loan (as defined below); (ii) the potential for growth of the Target Group's self-owned virtual reality ("VR") and augmented reality ("AR") technologies as a result of the development of the 5G network in the PRC; 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 the Share Charge over the Sale Shares 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; and
4. the approval from Mr. Lin, 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 on the Completion Date upon satisfaction of the aforementioned conditions precedent.

**INFORMATION ON THE TARGET GROUP**

The Target Company is an investment holding company incorporated on 3 January 2018 in the BVI with limited liability currently owned as to 66.88% by the Group, as to 28.55% by Mr. Lin from whom the Group purchased its interest in the Target Company in 2018 and as to 4.57% by another shareholder who is an Independent Third Party.

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" .

Set out below is certain consolidated financial information of the Target Group for the two years ended 31 December 2018 and 31 December 2019, which is prepared in accordance with generally accepted accounting principles in Hong Kong:

	<b>For the year ended 31 December 2018 RMB'000 (audited)</b>	<b>2019 RMB'000 (audited)</b>
Revenue	85,273	70,018
Net profit before taxation	28,927	11,911
Net profit after taxation	30,578	12,196

The unaudited net asset value of the Target Company as at 30 April 2020 is approximately HK\$78,629,000 (approximately RMB 71,637,000).

Following completion of the Disposal, the shareholding structure of the Target Company will be as follows:-

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

#### **FINANCIAL EFFECT OF THE DISPOSAL**

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. The non-interest bearing loan in the principal amount of RMB30,000,000 that DD Network advanced to the Target Group as part of the terms of its acquisition of the Target Company in 2018 (as disclosed in the Acquisition Announcement) will remain due to DD Network and it is repayable on demand.

Based on the unaudited financial information of the Target Group from its management accounts as at 30 April 2020, it is estimated for illustration purposes that the Company would recognise a gain of approximately HK\$11,600,000 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 actual financial effect of the Disposal will be determined based on the fair value of assets and liabilities of the Target Group at completion of the Disposal and is subject to audit and therefore may differ from the above estimation.

## **REASONS FOR 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.

References are made to the announcements of the Company dated 27 December 2019, 3 January 2020 and 21 February 2020 pursuant to which the Company announced the proposed disposal of 22.29% of the issued share capital of the Target Company which was subsequently terminated on 21 February 2020.

The performance of the Target Group in the first quarter of 2020 was adversely affected by the epidemic control and prevention measures implemented by the government in the PRC and globally. Following the relaxation of those measures in late April 2020, the business operation and activities in the PRC have gradually resumed. The Company has also noted that according to the Government Report upon the Third Meeting of the Thirteenth National People’s Congress (第十三屆全國人民代表大會第三次會議政府工作報告) and the proposal on national economy and social development by National Development and Reform Commission (國家發展和改革委員會) that was released and published in May 2020, it is the state policy to expedite the development of 5G network infrastructure and application and promote the VR experience-related consumer market in the PRC. A major technological challenge for the delivery of reliable AR and VR experiences is the availability of fast and reliable network connection. The advancement of the 5G network will improve the speed of processing of massive amount of graphical data in the cloud to facilitate the delivery of smooth and high-quality digital AR and VR experience to users. As the 5G network expands and becomes more accessible, the Company believes that the deployment of the AR and VR technologies in different markets including commercial, gaming, retail and e-commerce can become more prevalent and lead to significant market demand for the VR headsets and devices.

In view of the above development, the Company and the Purchaser reopened discussions to co-operate in developing the business of the Target Company and the market for the VR headsets.

In view of the uncertainties and technological challenges ahead for the VR and AR market to develop as a new economy, the financial performance of the Target Group and the capital expenditure potentially required for developing necessary technology, the Company believes that it is desirable to facilitate the organic growth of the Target Group to introduce a strategic partner that may support the Target Group in its business expansion and its future capital requirements to fund technological development, if required.

The Directors considered that the Disposal represents a good opportunity for the Group (i) to introduce the Purchaser as a strategic partner 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 an interest in the Target Group.

Having considered the above reasons and the Share Charge provided by the Purchaser as security for the full payment of the Consideration, the Directors are of the view that the terms of the Disposal Agreement are fair and reasonable and are in the interests of the Company and shareholders of the Company as a whole.

## **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/ or 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 announcement requirements under the Listing Rules.

## **DEFINITIONS**

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

“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, 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

“Business Day”	means a day (other than a Saturday or Sunday) when commercial banks are open for ordinary banking business in Hong Kong
“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
“Completion Date”	means the date of Completion as agreed in writing by the Seller and the Purchaser following the satisfaction of the conditions precedents as set out in section headed “The Disposal Agreement - Conditions precedent” in this announcement
“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 17 July 2020 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
“Mr. Lin”	Mr. Lin Che Chu, George, the existing shareholder of the Target Company
“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 Director’s 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 Completion Date
“Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Charge”	the equitable share mortgage in respect of the Sale Shares to be entered into by the Purchaser in favour of DD Network on the Completion Date, as security for the full payment of the Consideration by the Purchaser
“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, 17 July 2020

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