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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 2021

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 2021 (the “Review Period”) together with comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | | For the six months ended 30 June | |
|--|-------|-------------------------------------|------------------------------------|
| | Notes | 2021 HK\$'000 | 2020 HK\$'000 (Re-presented) |
| Continuing operations | | | |
| Revenue | 3 | 414,663 | 332,100 |
| Cost of sales and services rendered | | <u>(350,807)</u> | <u>(294,594)</u> |
| Gross profit | | 63,856 | 37,506 |
| Other income and gains | | 55,520 | 82,140 |
| Selling and distribution expenses | | (2,719) | (639) |
| Administrative expenses and other net operating expenses | | (182,560) | (219,145) |
| Finance costs | 4 | (12,913) | (14,929) |
| (Recognition)/reversal of impairment loss on trade receivables and contract assets | | (5,164) | 3,294 |
| Reversal of impairment loss on other receivables | | - | 2,799 |
| Impairment loss on amounts due from associates | | (3,949) | - |
| Share of losses of associates | | (17,743) | (7,721) |
| Fair value loss on financial assets measured at fair value through profit or loss | 10 | <u>(16,394)</u> | <u>-</u> |
| Loss before taxation | 5 | (122,066) | (116,695) |
| Taxation | 6 | <u>275</u> | <u>(191)</u> |
| Loss for the period from continuing operations | | (121,791) | (116,886) |
| Discontinued operation | | | |
| Loss for the period from discontinued operation | 5 | <u>-</u> | <u>(29,556)</u> |
| Loss for the period | | <u><u>(121,791)</u></u> | <u><u>(146,442)</u></u> |

| | | For the six months ended | |
|---|-------------|---------------------------------|-------------------------|
| | | 30 June | |
| | <i>Note</i> | 2021 | 2020 |
| | | HK\$'000 | HK\$'000 |
| | | | (Re-presented) |
| Loss attributable to: | | | |
| Owners of the Company | | | |
| - Loss for the period from continuing operations | | (103,796) | (107,455) |
| - Loss for the period from discontinued operation | | <u>-</u> | <u>(19,769)</u> |
| | | (103,796) | (127,224) |
| Non-controlling interest | | | |
| - Loss for the period from continuing operations | | (17,995) | (9,431) |
| - Loss for the period from discontinued operation | | <u>-</u> | <u>(9,787)</u> |
| | | (17,995) | (19,218) |
| | | (121,791) | (146,442) |
| Loss per share from continuing operations | | | |
| attributable to the owners of the Company: | | | |
| - Basic and diluted | 7 | <u>HK cents (0.256)</u> | <u>HK cents (0.293)</u> |
| Loss per share from discontinued operation | | | |
| attributable to the owners of the Company: | | | |
| - Basic and diluted | 7 | <u>-</u> | <u>HK cents (0.054)</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | For the six months ended | |
|---|---------------------------------|------------------|
| | 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Loss for the period | (121,791) | (146,442) |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Currency translation differences | (3,436) | (5,615) |
| Share of other comprehensive income of associates | (537) | 92 |
| Share of other comprehensive income of a joint venture | 10 | (4) |
| Other comprehensive income for the period, net of tax | (3,963) | (5,527) |
| Total comprehensive income for the period | (125,754) | (151,969) |
| Total comprehensive income attributable to: | | |
| Owners of the Company | | |
| - Loss from continuing operations | (108,377) | (111,785) |
| - Loss from discontinued operation | - | (19,769) |
| | (108,377) | (131,554) |
| Non-controlling interest | | |
| - Loss from continuing operations | (17,377) | (10,108) |
| - Loss from discontinued operation | - | (10,307) |
| | (17,377) | (20,415) |
| | (125,754) | (151,969) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

| | | Unaudited 30 June 2021 HK\$'000 | Audited 31 December 2020 HK\$'000 |
|---|--------------|--|--|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | | 77,675 | 75,477 |
| Right-of-use assets | | 73,429 | 88,415 |
| Intangible assets | 8 | 760,000 | 737,030 |
| Interests in associates | | 254,510 | 265,104 |
| Interests in a joint venture | | 56 | 46 |
| Financial asset measured at fair value through other comprehensive income ("FVOCI") | 9 | - | - |
| Financial assets measured at fair value through profit or loss ("FVTPL") | 10 | 84,435 | - |
| Deposits and other receivables | 12 | 42,799 | 44,375 |
| Deferred tax assets | | 438 | 445 |
| | | <u>1,293,342</u> | <u>1,210,892</u> |
| Current assets | | | |
| Trade receivables, other receivables and prepayments | 12 | 165,911 | 154,657 |
| Contract assets | | 25,219 | 17,802 |
| Bank balances and cash | | 345,746 | 113,899 |
| | | <u>536,876</u> | <u>286,358</u> |
| Current liabilities | | | |
| Trade payables, other payables and accruals | 13 | 137,463 | 176,572 |
| Lease liabilities | | 36,784 | 37,368 |
| Contract liabilities | | 110,776 | 44,902 |
| Borrowings | | 59,203 | 154,285 |
| Tax payable | | 5,326 | 5,225 |
| | | <u>349,552</u> | <u>418,352</u> |
| Net current assets/(liabilities) | | <u>187,324</u> | <u>(131,994)</u> |
| Total assets less current liabilities | | <u>1,480,666</u> | <u>1,078,898</u> |
| Non-current liabilities | | | |
| Borrowings | | 220,772 | 142,309 |
| Lease liabilities | | 60,806 | 77,220 |
| Deferred tax liabilities | | 47,544 | 46,498 |
| | | <u>329,122</u> | <u>266,027</u> |
| NET ASSETS | | <u>1,151,544</u> | <u>812,871</u> |
| Capital and reserves | | | |
| Share capital | 14 | 408,902 | 340,754 |
| Reserves | | 665,822 | 500,677 |
| Equity attributable to owners of the Company | | <u>1,074,724</u> | <u>841,431</u> |
| Non-controlling interest | | <u>76,820</u> | <u>(28,560)</u> |
| TOTAL EQUITY | | <u>1,151,544</u> | <u>812,871</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | For the six months ended | |
|--|---------------------------------|------------------|
| | 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Cash flows from operating activities | | |
| Loss before taxation from continuing operations | (122,066) | (116,695) |
| Loss before taxation from discontinued operation | - | (33,540) |
| | <u>(122,066)</u> | <u>(150,235)</u> |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 14,426 | 15,108 |
| Depreciation of right-of-use assets | 17,179 | 25,306 |
| Amortisation of intangible assets | 15,822 | 52,792 |
| Covid-19-related rent concessions | (613) | - |
| Paycheck Protection Program loans forgiven | (8,194) | - |
| Loss on disposal of property, plant and equipment | - | 57 |
| Equity-settled share-based payment expenses | 1,235 | 6,418 |
| Net exchange (gains)/losses | (3,099) | 3,521 |
| Share of losses of associates | 17,743 | 7,721 |
| Recognition/(reversal) of impairment loss on trade receivables and contract assets | 5,164 | (3,294) |
| Reversal of impairment loss on other receivables | - | (2,799) |
| Impairment loss on amounts due from associates | 3,949 | - |
| Change in fair value of contingent consideration payable | - | (887) |
| Interest income | (2,567) | (2,509) |
| Finance costs | 12,913 | 14,985 |
| Fair value loss on financial assets measured at FVTPL | <u>16,394</u> | <u>-</u> |
| Operating loss before working capital changes | (31,714) | (33,816) |
| Increase in inventories | - | (7,905) |
| Increase in trade receivables, other receivables and prepayments | (14,592) | (36,649) |
| (Increase)/decrease in contract assets | (7,449) | 9,375 |
| (Decrease)/increase in trade payables, other payables and accruals | (40,866) | 28,578 |
| Increase/(decrease) in contract liabilities | <u>65,874</u> | <u>(14,337)</u> |
| Cash used in operations | (28,747) | (54,754) |
| Income tax paid | (18) | (374) |
| Interest paid | <u>(5,716)</u> | <u>(5,199)</u> |
| Net cash used in operating activities | <u>(34,481)</u> | <u>(60,327)</u> |

| | For the six months ended | |
|--|---------------------------------|------------------|
| | 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Cash flows from investing activities | | |
| Interest received | 2,935 | 831 |
| Purchases of property, plant and equipment | (16,847) | (25,378) |
| Proceeds from disposal of property, plant and equipment | - | 17 |
| Additions to intangible assets | (32,479) | (22,355) |
| Repayment from/(advance to) associates | 3,799 | (10,683) |
| Increase in bank deposits with more than three months to maturity when placed or pledged | (11,781) | (69,674) |
| Purchases of financial assets measured at FVTPL | (102,394) | - |
| Investment in an associate | (15,433) | - |
| Net cash used in investing activities | (172,200) | (127,242) |
| Cash flows from financing activities | | |
| Proceeds from issue of ordinary shares, net of issuing expenses | 340,435 | - |
| Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder | 122,757 | - |
| New bank borrowings | 17,318 | 42,076 |
| Repayment of bank borrowings | (15,620) | (5,338) |
| Repayment of other loans | (11,286) | - |
| Repayment of principal portion of lease liabilities | (24,148) | (34,123) |
| Net cash generated from financing activities | 429,456 | 2,615 |
| Net increase/(decrease) in cash and cash equivalents | 222,775 | (184,954) |
| Effect of foreign exchange rate changes | (2,709) | (2,390) |
| Cash and cash equivalents at 1 January | 28,617 | 309,851 |
| Cash and cash equivalents at 30 June | 248,683 | 122,507 |
| Represented by: | | |
| Bank balances and cash | 345,746 | 207,763 |
| Bank deposits with more than three months to maturity when placed or pledged | (97,063) | (85,256) |
| | 248,683 | 122,507 |

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 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 values.

These unaudited condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2020 annual consolidated financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2021. The Group has early adopted the Amendment to Hong Kong Financial Reporting Standard 16 – “Covid-19-related Rent Concessions beyond 30 June 2021” (“Amendment to HKFRS 16”). Details of any changes in accounting policies are set out in note 2. Except for the early adoption of Amendment to HKFRS 16, the adoption of the new and revised HKFRSs 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 2020 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 Hong Kong Financial Reporting Standards (the “HKFRSs”) and should be read in conjunction with the 2020 annual consolidated financial statements.

2. CHANGES IN HKFRSs

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

| | |
|---|--|
| Amendment to HKFRS 16 | Covid-19-related Rent Concessions beyond 30 June 2021 (early adoption) |
| Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 | Interest Rate Benchmark Reform - Phase 2 |

The Group has adopted all the new or revised HKFRSs that are relevant to its operations and effective for the current accounting period of the Group. The impact of the early adoption of Amendment to HKFRS 16 have been summarised below. The adoption of other new or amended HKFRSs that are effective from 1 January 2021 did not have any significant impact on the Group's accounting policy.

Amendment to HKFRS 16

Amendments to HKFRS 16: Covid-19-related Rent Concessions beyond 30 June 2021

In April 2021, the HKICPA amended HKFRS 16 Leases, extending the practical expedient in order to permit lessees to apply it to rent concessions for which reductions in lease payments affect payments originally due on or before 30 June 2022. This amendment is applicable for annual reporting periods beginning on or after 1 April 2021, with early application permitted, including in financial statements not authorised for issue at 9 April 2021.

The Group has early adopted this amendment for its annual reporting period beginning on 1 January 2021.

During the six months ended 30 June 2021, the Group has entered into additional rent concessions that satisfy the criteria for the application of the extended practical expedient. The Group has applied the practical expedient to these rent concessions.

Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 - Interest Rate Benchmark Reform – Phase 2

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the interim condensed consolidated 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:

| | |
|---|--|
| Annual Improvements Project HKFRS 3, HKAS 16 and HKAS 37 AG 5 (revised) | Annual Improvements to HKFRSs 2018-2020 ¹ Narrow-scope amendments ¹ Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations ¹ |
| HKAS 1 HKFRS 17 HKFRS 17 HK-Int 5 (2020) | Classification of Liabilities as Current or Non-current ² Insurance Contracts ² Amendments to HKFRS 17 ² Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ³ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for annual periods beginning on or after 1 January 2023.

³ Effective for annual periods beginning on or after 1 January 2023 and early application is permitted.

⁴ The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

3. REVENUE AND SEGMENT REPORTING

Reportable segment

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

During the year ended 31 December 2020, the operation for sale of hardware and solution services was discontinued upon the partial disposal of Lead Turbo Limited and its subsidiaries (collectively the “Lead Turbo Group”). The partial disposal by the Group resulted in loss of control of the Lead Turbo Group by the Group. The Group accounts for the retained interests in the Lead Turbo Group as interests in associates. The following summary describes the operations in the Group’s only reportable segment, media entertainment segment:

Continuing operations

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

Discontinued operation

- provision of sales of hardware and solution services

(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 | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Continuing operations | | |
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| Provision of | | |
| – visual effects production service | 371,038 | 304,607 |
| – post production service | 8,933 | 5,299 |
| – 360 degree digital capture technology application and virtual reality services | 31,980 | 22,194 |
| – granting of licence for virtual reality contents | 2,712 | - |
| | <u>414,663</u> | <u>332,100</u> |
| Discontinued operation | | |
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| Provision of sales of hardware and solution services | - | 2,639 |

(b) Disaggregation of revenue from contracts with customers

| <i>Segment</i> | Media entertainment | |
|--|---------------------------------|-----------------|
| | For the six months ended | |
| | 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Types of goods or services | | |
| Provision of | | |
| – visual effects production service | 371,038 | 304,607 |
| – post production service | 8,933 | 5,299 |
| – 360 degree digital capture technology application and virtual reality services | 31,980 | 22,194 |
| – granting of licence for virtual reality contents | 2,712 | - |
| Total revenue from contracts with customers (continuing operations) | 414,663 | 332,100 |
| Total revenue from contracts with customers (discontinued operation) | | |
| Provision of sales of hardware and solution services | - | 2,639 |
| Geographical markets | | |
| The People's Republic of China (the "PRC") | 35,596 | 23,407 |
| The United States of America ("USA") | 171,011 | 88,485 |
| Canada | 183,824 | 215,559 |
| United Kingdom | 20,769 | 2,671 |
| Europe | 2,890 | - |
| Other countries/regions | 573 | 1,978 |
| Total revenue from contracts with customers (continuing operations) | 414,663 | 332,100 |
| Total revenue from contracts with customers (discontinued operation) | | |
| The PRC | - | 2,639 |
| Timing of revenue recognition | | |
| At a point in time | 34,635 | 22,201 |
| Over time | 380,028 | 309,899 |
| Total revenue from contracts with customers (continuing operations) | 414,663 | 332,100 |
| Total revenue from contracts with customers (discontinued operation) | | |
| At a point in time | - | 2,639 |

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

| | Media entertainment | | | | | |
|--|------------------------------|--------------------|-------------------------------|--------------------|---------------------------|--------------------|
| | Continuing operations | | Discontinued operation | | Total | |
| | For the six months | | For the six months | | For the six months | |
| | ended 30 June | | ended 30 June | | ended 30 June | |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Re-presented) | | (Re-presented) | | (Re-presented) | |
| Reportable segment revenue from external customers | <u>414,663</u> | <u>332,100</u> | <u>-</u> | <u>2,639</u> | <u>414,663</u> | <u>334,739</u> |
| Reportable segment loss | <u>(81,177)</u> | <u>(97,280)</u> | <u>-</u> | <u>(33,540)</u> | <u>(81,177)</u> | <u>(130,820)</u> |
| | | | | | | |
| | As at | | As at | | As at | |
| | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December |
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Reportable segment assets | <u>1,126,527</u> | <u>1,077,263</u> | <u>-</u> | <u>-</u> | <u>1,126,527</u> | <u>1,077,263</u> |
| Reportable segment liabilities | <u>581,921</u> | <u>556,815</u> | <u>-</u> | <u>-</u> | <u>581,921</u> | <u>556,815</u> |

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

| | For the six months ended | |
|--|---------------------------------|-----------------------|
| | 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Loss before taxation | | |
| Segment loss from continuing operations | (81,177) | (97,280) |
| Segment loss from discontinued operation | - | (33,540) |
| | <u>(81,177)</u> | <u>(130,820)</u> |
| Reversal of impairment loss on trade receivables and contract assets | - | 3,294 |
| Reversal of impairment loss on other receivables | - | 2,799 |
| Impairment loss on amounts due from associates | (3,949) | - |
| Fair value loss on financial assets measured at FVTPL | (16,394) | - |
| Loss on disposal of unallocated property, plant and equipment | - | (74) |
| Share of losses of associates | (17,743) | (7,721) |
| Auditor's remuneration | (1,050) | (882) |
| Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use-assets and amortisation of unallocated intangible assets | (3,104) | (26,511) |
| Professional fees | (23,548) | (12,348) |
| Finance costs | (12,913) | (14,985) |
| Equity-settled share-based payment expenses | (1,235) | (6,418) |
| Unallocated short-term lease expenses | (75) | (74) |
| Unallocated other income and gains | 54,288 | 80,845 |
| Other unallocated corporate expenses* | (15,166) | (37,340) |
| Consolidated loss before taxation | <u>(122,066)</u> | <u>(150,235)</u> |
| | | |
| | As at | |
| | 30 June | 31 December |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Assets | | |
| Reportable segment assets | 1,126,527 | 1,077,263 |
| Unallocated bank balances and cash | 301,708 | 74,682 |
| Unallocated corporate assets | <u>401,983</u> | <u>345,305</u> |
| Consolidated total assets | <u>1,830,218</u> | <u>1,497,250</u> |
| | | |
| | As at | |
| | 30 June | 31 December |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Liabilities | | |
| Reportable segment liabilities | 581,921 | 556,815 |
| Tax payable | 5,326 | 5,225 |
| Deferred tax liabilities | 47,544 | 46,498 |
| Unallocated borrowings | 4,909 | 4,909 |
| Unallocated corporate liabilities | <u>38,974</u> | <u>70,932</u> |
| Consolidated total liabilities | <u>678,674</u> | <u>684,379</u> |

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

(e) Geographic information

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

| | For the six months ended | |
|-------------------------------|---------------------------------|-----------------|
| | 30 June | |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Continuing operations | | |
| The PRC | 35,596 | 23,407 |
| USA | 171,011 | 88,485 |
| Canada | 183,824 | 215,559 |
| United Kingdom | 20,769 | 2,671 |
| Europe | 2,890 | - |
| Other countries/regions | 573 | 1,978 |
| | 414,663 | 332,100 |
| Discontinued operation | | |
| The PRC | - | 2,639 |

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

(f) Revenue

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

| | As at | |
|----------------------|-----------------|--------------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| Trade receivables | 52,718 | 40,798 |
| Contract assets | 25,219 | 17,802 |
| Contract liabilities | 110,776 | 44,902 |

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

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

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

4. FINANCE COSTS

| | For the six months ended 30 June | |
|----------------------------------|-------------------------------------|-------------------------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 (Re-presented) |
| Continuing operations | | |
| Imputed interest on: | | |
| Contingent consideration payable | - | 158 |
| Lease liabilities | 5,440 | 8,197 |
| Interest on: | | |
| Bank and other loans | 7,473 | 6,574 |
| | <u>12,913</u> | <u>14,929</u> |
| Discontinued operation | | |
| Imputed interest on: | | |
| Lease liabilities | - | 56 |

5. LOSS BEFORE TAXATION

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------------------------------|
| | 2021 HK\$'000 | 2020 HK\$'000 (Re-presented) |
| Continuing operations | | |
| This is arrived at after crediting/charging: | | |
| <i>Crediting:</i> | | |
| Interest income | 2,567 | 2,480 |
| Reversal of impairment loss on trade receivables and contract assets | - | 3,294 |
| Reversal of impairment loss on other receivables | - | 2,799 |
| <i>Charging:</i> | | |
| Staff costs (including directors' remuneration) | 370,748 | 344,996 |
| Depreciation of property, plant and equipment | 14,426 | 14,179 |
| Depreciation of right-of-use assets | 17,179 | 23,843 |
| Amortisation of intangible assets | 15,822 | 29,048 |
| Short-term lease expenses | 114 | 132 |
| Impairment loss on trade receivables and contract assets | 5,164 | - |
| Impairment loss on amounts due from associates | 3,949 | - |
| Fair value loss on financial assets measured at FVTPL | <u>16,394</u> | <u>-</u> |

Discontinued operation

On 17 July 2020, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of 22.29% equity interest of the Lead Turbo Group. The disposal was completed on 31 July 2020, the date on which the control of the Lead Turbo Group was lost. Revenue, results and cash flows of the Lead Turbo Group for the period from 1 January 2020 to 30 June 2020 were as follows:

| | Period from 1 January 2020 to 30 June 2020 HK\$'000 |
|--|--|
| Revenue | 2,639 |
| Expenses | <u>(36,179)</u> |
| Loss before taxation from the discontinued operation | (33,540) |
| Taxation | <u>3,984</u> |
| Loss for the period from discontinued operation | <u><u>(29,556)</u></u> |
| Operating cash outflows | (11,543) |
| Investing cash outflows | (1,013) |
| Financing cash flows | <u>-</u> |
| Total cash outflows | <u><u>(12,556)</u></u> |

For the purpose of presenting discontinued operation, the comparative condensed consolidated income statement, condensed consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued had been discontinued at the beginning of the comparative period.

6. TAXATION

Taxation (credited)/charged to the unaudited condensed consolidated income statement represents:

| | For the six months ended 30 June | |
|--|---|---|
| | 2021 HK\$'000 | 2020 HK\$'000 (Re-presented) |
| Continuing operations | | |
| Current taxation - Hong Kong profits tax | - | - |
| Current taxation - Overseas tax | | |
| - provision for the period | 18 | 459 |
| Deferred taxation | <u>(293)</u> | <u>(268)</u> |
| | <u>(275)</u> | <u>191</u> |
| Discontinued operation | | |
| Current taxation - Hong Kong profits tax | - | - |
| Current taxation - Overseas tax | | |
| - over-provision in respect of prior years | - | (85) |
| Deferred taxation | <u>-</u> | <u>(3,899)</u> |
| | <u>-</u> | <u>(3,984)</u> |

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

7. LOSS PER SHARE

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

| | For the six months ended 30 June | |
|---|---|-------------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | | (Re-presented) |
| Continuing operations | | |
| Loss for the period attributable to owners of the Company from continuing operations for the purpose of basic loss per share | <u>(103,796)</u> | <u>(107,455)</u> |
| Discontinued operation | | |
| Loss for the period attributable to owners of the Company from discontinued operation for the purpose of basic loss per share | <u>-</u> | <u>(19,769)</u> |
| | For the six months ended 30 June | |
| | 2021 | 2020 |
| | Number of shares | Number of shares |
| | | (Re-presented) |
| Weighted average number of ordinary shares for the purposes of basic loss per share (<i>Note</i>) | <u>40,490,250,641</u> | <u>36,629,352,477</u> |

Note: The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for bonus elements in the issue of shares through share subscription on 18 January 2021.

Diluted loss per share

Since the share options outstanding had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options were not assumed in the computation of diluted loss per share.

Except for the above, there is no other dilutive potential share during the current and prior periods. Therefore, the basic and diluted loss per share in the current and prior periods are equal.

8. INTANGIBLE ASSETS

| | Goodwill | Trademarks | Proprietary software | Participation rights | Patents | Licenses for intellectual property rights | Film rights | Total |
|---|-----------|------------|----------------------|----------------------|-----------|---|-------------|-----------|
| | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| COST | | | | | | | | |
| As at 1 January 2021 | 689,585 | 155,270 | 205,843 | 380,480 | 107,082 | 8,470 | 94,355 | 1,641,085 |
| Additions | - | - | 7,009 | - | - | 527 | 24,943 | 32,479 |
| Exchange realignment | (168) | 3,947 | 1,520 | 394 | 1,832 | - | 154 | 7,679 |
| As at 30 June 2021 | 689,417 | 159,217 | 214,372 | 380,874 | 108,914 | 8,997 | 119,452 | 1,681,243 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS | | | | | | | | |
| As at 1 January 2021 | 379,538 | - | 110,768 | 380,480 | 25,460 | 7,809 | - | 904,055 |
| Amortisation for the period | - | - | 12,523 | - | 2,664 | 635 | - | 15,822 |
| Exchange realignment | - | - | 537 | 394 | 435 | - | - | 1,366 |
| As at 30 June 2021 | 379,538 | - | 123,828 | 380,874 | 28,559 | 8,444 | - | 921,243 |
| CARRYING AMOUNT | | | | | | | | |
| As at 30 June 2021 | 309,879 | 159,217 | 90,544 | - | 80,355 | 553 | 119,452 | 760,000 |
| As at 31 December 2020 | 310,047 | 155,270 | 95,075 | - | 81,622 | 661 | 94,355 | 737,030 |

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

In 2018, the Group acquired the unlisted equity instrument at the consideration of United States dollars 25,000,000 (equivalent to approximately HK\$196,213,000). Accumulated fair value adjustment (downside) of HK\$196,213,000 had been recognised in other comprehensive income since 2019.

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

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

On 3 February 2021, the Group acquired 248,431 common shares of asknet Solutions AG (“asknet”), a publicly traded German ecommerce 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.

On 26 February 2021 and 6 May 2021, the Group acquired 260,000 and 5,000, respectively, common 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 common shares of HLEE on 26 February 2021 and 6 May 2021, respectively.

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.

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Listed equity securities outside Hong Kong, at fair value | <u>84,435</u> | <u>-</u> |

The movements of the Group’s financial assets measured at fair value through profit or loss were as follows:

| | Listed equity investments HK\$'000 |
|--|---|
| As at 1 January 2021 | - |
| Additions during the period | 102,394 |
| Fair value loss recognised in profit or loss | (16,394) |
| Exchange realignment | <u>(1,565)</u> |
| As at 30 June 2021 | <u>84,435</u> |

11. FAIR VALUE HIERARCHY

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

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

The fair value hierarchy has the following levels:

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

| As at 30 June 2021 | | | | |
|-------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| | Level 1 <i>HK\$'000</i> | Level 2 <i>HK\$'000</i> | Level 3 <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Financial asset at FVOCI | | | | |
| - Unlisted equity investment | - | - | - | - |
| Financial assets at FVTPL | | | | |
| - Listed equity investments | 84,435 | - | - | 84,435 |
| As at 31 December 2020 | | | | |
| | Level 1 <i>HK\$'000</i> | Level 2 <i>HK\$'000</i> | Level 3 <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Financial asset at FVOCI | | | | |
| - Unlisted equity investment | - | - | - | - |

During the six months ended 30 June 2021, there was no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 for both financial assets and financial liabilities.

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 days (as at 31 December 2020: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for impairment losses, based on the invoice date, is as follows:

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|--|-----------------------------|---------------------------------|
| Current portion | | |
| Trade receivables by ageing | | |
| 0 to 30 days | 9,827 | 17,031 |
| 31 to 60 days | 11,967 | 5,702 |
| 61 to 90 days | 16,484 | 4,815 |
| 91 to 365 days | 12,044 | 10,913 |
| Over 365 days | 2,396 | 2,337 |
| | <hr/> | <hr/> |
| Total trade receivables | 52,718 | 40,798 |
| Consideration receivables | 33,942 | 33,648 |
| Other receivables | 50,678 | 57,433 |
| Deposits | 3,337 | 2,750 |
| Prepayments | 25,236 | 20,028 |
| | <hr/> | <hr/> |
| Sub-total current portion | 165,911 | 154,657 |
| Non-current portion | | |
| Consideration receivables | 32,885 | 32,371 |
| Deposits | 9,914 | 12,004 |
| | <hr/> | <hr/> |
| Sub-total non-current portion | 42,799 | 44,375 |
| | <hr/> | <hr/> |
| Total trade receivables, other receivables and prepayments | 208,710 | 199,032 |
| | <hr/> | <hr/> |

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|---|-----------------------------|---------------------------------|
| Trade payables by ageing | | |
| 0 to 30 days | 7,392 | 15,595 |
| 31 to 60 days | 2,849 | 8,087 |
| 61 to 90 days | 6,683 | 1,327 |
| 91 to 365 days | 6,906 | 7,736 |
| Over 365 days | 5,041 | 5,198 |
| | <hr/> | <hr/> |
| Total trade payables | 28,871 | 37,943 |
| Other payables | 30,439 | 66,654 |
| Accruals | 78,153 | 71,975 |
| | <hr/> | <hr/> |
| Total trade payables, other payables and accruals | 137,463 | 176,572 |
| | <hr/> | <hr/> |

14. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$ '000 |
|---|--------------------------------------|-----------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| As at 31 December 2020 and 30 June 2021 | <u>75,000,000,000</u> | <u>750,000</u> |
| Issued and fully paid: | | |
| As at 31 December 2020 | 34,075,516,258 | 340,754 |
| Issue of shares on subscription | <u>6,814,760,000</u> | <u>68,148</u> |
| As at 30 June 2021 | <u>40,890,276,258</u> | <u>408,902</u> |

15. SHARE-BASED PAYMENT TRANSACTIONS

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

During the six months ended 30 June 2021, no Options (six months ended 30 June 2020: nil) were forfeited and no Options (six months ended 30 June 2020: nil) were exercised.

As at 30 June 2021, the weighted average exercise price of Options outstanding was HK\$0.253 (as at 31 December 2020: HK\$0.253), and their average remaining contractual life is 5.23 years (as at 31 December 2020: 5.73 years).

In aggregate, the Group had recognised an equity-settled shared-based payment expenses of approximately HK\$1,235,000 (six months ended 30 June 2020: HK\$6,418,000) during the six months ended 30 June 2021.

16. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment as at 30 June 2021 and 31 December 2020.

17. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) Subscription of new shares under General Mandate

On 21 July 2021, the Company entered into a share subscription agreement with an independent third party to allot and issue 2,400,000,000 new ordinary shares with par value of HK\$0.01 at a premium subscription price of HK\$0.065 each at an aggregate consideration of approximately HK\$155,500,000 net of issuing expenses.

On 30 July 2021, the share subscription was completed and the Company raised additional cash of approximately HK\$155,500,000 by means of a share placing of 2,400,000,000 ordinary shares.

Further details were set out in the Company's announcements dated 21 July 2021 and 30 July 2021.

(ii) Capital reorganisation

On 21 July 2021, the directors of the Company proposed (1) share consolidation of every 10 issued existing shares into 1 consolidated share whereby increasing the par value of all the then issued consolidated shares from HK\$0.01 to HK\$0.10 each; and (2) following the share consolidation, capital reduction of the issued share capital by reducing the par value of each issued consolidated share from HK\$0.10 to HK\$0.01 each by cancelling HK\$0.09 of the paid-up capital on each issued consolidated share and transfer of the credit arising from the capital reduction to the contributed surplus account of the Company.

Further details were set out in the Company's announcement dated 21 July 2021.

(iii) Discloseable and connected transaction in relation to acquisition of 40% non-controlling interest in a subsidiary of the Company, Digital Domain Capital Partners S.à r.l. ("DDCP")

On 16 August 2021, Digital Domain Broadcasting (Hong Kong) Limited (the "Purchaser", an indirect wholly-owned subsidiary of the Company) and Digital Knight Finance S.à r.l. (the "Vendor", a connected person of the Company) entered into a sale and purchase agreement in relation to the purchase of 40% equity interest in DDCP, for an aggregate cash consideration of approximately EUR13,333,000 (equivalent to approximately HK\$122,267,000). Upon completion of the acquisition, the Company's equity interest in DDCP will increase from 60% to 100% and DDCP will become an indirect wholly-owned subsidiary of the Company.

Further details were set out in the Company's announcement dated 16 August 2021.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: Nil).

FINANCIAL AND BUSINESS REVIEW

During the six months ended 30 June 2021, the Group achieved a revenue from continuing operations of HK\$414,663,000 (2020: HK\$332,100,000), showing an increase of approximately 25% compared to that of the previous corresponding period. The gross profit from continuing operations of the Group amounted to HK\$63,856,000 (2020: HK\$37,506,000) during the Review Period, showing an increase of approximately 70%. The increase in turnover and gross profit were attributable to the media entertainment segment. As at 30 June 2021, the total assets of the Group amounted to HK\$1,830,218,000 (as at 31 December 2020: HK\$1,497,250,000). The loss attributable to the owners of the Company from continuing operations for the Review Period was HK\$103,796,000 (2020: HK\$107,455,000). The loss for the Review Period was HK\$121,791,000 (2020: HK\$146,442,000). The loss for the Review Period from continuing operations amounted to HK\$121,791,000 (2020: HK\$116,886,000) was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
 - (a) equity-settled share-based payments for the share options granted between 2014 and 2020 to the value of HK\$1,235,000 (2020: HK\$6,418,000);
 - (b) amortisation and depreciation expenses (excluding depreciation related to Right-of-use Assets) to the value of HK\$30,248,000 (2020: HK\$43,227,000);
 - (c) share of losses of associates of HK\$17,743,000 (2020: HK\$7,721,000); and
 - (d) fair value loss on financial assets measured at fair value through profit or loss of HK\$16,394,000 (2020: HK\$Nil);
- (ii) administrative and other project expenses; and
- (iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the Review Period, this segment from continuing operations recorded a revenue of HK\$414,663,000 (2020: HK\$332,100,000) and incurred a loss of HK\$81,177,000 (2020: HK\$97,280,000). The loss included the research and development costs incurred and expensed during the Review Period relating to virtual human technology.

“The earnings before interest, tax, depreciation and amortisation (EBITDA)” of the media entertainment segment from continuing operations for the six months ended 30 June 2021 was a loss of HK\$36,854,000 (2020: HK\$56,720,000). 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, previsualisation, postvisualisation, visual effects, computer graphics (“CG”), animation, motion capture, virtual production and design for major motion picture studios, networks, streaming services, advertisers, brands and games.

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

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

The Telly Awards

VFX Supervisor Mr. Matt DOUGAN, Director Mr. Aladino DEBERT, CG Supervisor Mr. David LIU, Executive Producer Mrs. Nicole FINA and Sr. Producer Rachel MARISCAL CREASEY were awarded a Gold Telly Award for Visual Effects on Ghost of Tsushima - "A Storm is Coming."

VFX Supervisor Mr. Piotr KARWAS, Executive Creative Director Mr. Kevin LAU, CG Supervisor Mr. David LIU, Executive Producer Mrs. Nicole FINA and Sr. Producer Rachel MARISCAL CREASEY were awarded a Silver Telly Award for Visual Effects on Perfect Dark’s official game announcement trailer.

VFX Supervisor Mr. Dan BARTOLUCCI, Executive Creative Director Mr. Kevin LAU, Executive Producer Mrs. Nicole FINA, Executive Producer Mr. John CANNING and Senior Producer Mrs. Alexandra MICHAEL were awarded a Silver Telly Award for Immersive & Mixed Reality on the National Football League (NFL)'s Super Bowl LV Commercial “AS ONE.”

The Emmy Awards

Supervised by Mr. Marion SPATES, Marvel Studios’ “WandaVision” was nominated for “Outstanding Special Visual Effects in a Season or Movie.”

The Visual Effects Society Awards

Mr. Aladino DEBERT, Mr. Matt DOUGAN, Mr. Eric BEAVER and Mr. David LIU received a nomination for Outstanding Virtual Cinematography in a CG Project for their work on Ghost of Tsushima “A Storm is Coming.”

Mr. Aruna INVERSIN, Mr. Peter NELSON, Mr. Kevin WILLIAMS and Mr. Sean KEALEY received a nomination for Outstanding Visual Effects in a Special Venue Project for their work on “The March.”

The Lumiere Awards

VHG’s Mr. Lucio MOSER, Mr. Dimitry KACHKOVSKI, Mr. Darren HENDLER and Mr. Doug ROBLE were awarded the Technical Achievement Award at the 11th Annual Entertainment Technology Lumiere Awards.

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

- ***“Shang-Chi and the Legend of the Ten Rings”*** – Visual Effects Supervisor Mr. Hanzhi TANG and his team began work on the Marvel Studios film scheduled for release in September 2021.
- ***“Doctor Strange in the Multiverse of Madness”*** – Visual Effects Supervisor Mr. Joel BEHRENS and his team worked on the film which follows Endgame and Dr. Strange’s research on the Time Stone. The film is due to release in May 2022.
- ***“Fantastic Beasts and Where to Find Them 3”*** – Visual Effects Supervisor Mr. Jay BARTON and his team began work on Warner Bros.’ third installment in the “Fantastic Beasts” series. The film is expected to be released in July 2022.
- ***“Spider-Man: No Way Home”*** – Visual Effects Supervisors Mr. Kelly PORT, Mr. Scott EDELSTEIN and his team began work on the third instalment of the Spider-Man franchise due to release in December 2021.
- ***“Black Adam”*** – Visual Effects Supervisor Mr. Nikos KALAITZIDIS and his team worked on the “Shazam!” spin off starring Dwayne “The Rock” Johnson. The film is due out July 2022.
- ***“Morbius”*** – Visual Effects Supervisors Mr. Matthew BUTLER, Mr. Joel BEHRENS and their team worked on the highly anticipated film Sony Pictures film directed by Daniel ESPINOSA, and is set to release in January 2022.
- ***“Chaos Walking”*** – Visual Effects Supervisor Mr. Mitch DRAIN and his team continue work on director Doug LIMAN’s film about dystopian world where there are no women and all living creatures can hear each other’s thoughts in a stream of images, words, and sounds called Noise. The film released in 2021.

- Visual Effects Supervisor Mr. Dave HODGINS and his team is working on an undisclosed Marvel film due for release in 2023.
- DDNA team also provided visual effects services on a horror film that was released in June 2021.
- Visual Effects Supervisor Mr. Mitch DRAIN is working with Netflix Studios client side on an undisclosed film.
- Visual Effects Supervisor Mr. Mitch DRAIN and his team delivered visual work on an upcoming, undisclosed horror film to be released in late 2021.

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

- **“WandaVision”** – Visual Effects Supervisor Mr. Marion SPATES and his team completed 350 VFX shots for the streaming series, consisting of full-body scans of Paul BETTANY performing as both the Red and White Vision, facial captures and more.
- **“Loki”** – Visual Effects Supervisor Mr. Jean-Luc DINSDALE and his team created almost 500 shots over two episodes for the series.
- **“Ms. Marvel”** – the DDNA team began work on the new Marvel Studios series, scheduled for release in late 2021.
- **“She Hulk”** – Visual Effects Supervisor Mr. Phil CRAMER is leading a team of artists to create the visual effects for the series, which is due to release in 2022.
- Visual Effects Supervisor Mr. Aladino DEBERT and Digital Domain artists worked on an undisclosed Netflix series, and also an undisclosed Amazon series.
- DDNA team was awarded work on an upcoming Netflix series.

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

- Marvel Studios, **“Spider-Man: No Way Home”**
- Marvel Studios, **“Black Panther 2”**
- Marvel Studios, **“She-Hulk”**

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

- SMG, “*Quarry*”
- Machine Games, “*Relic*”

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

- For **WENDY’S**, the advertising/games team delivered :30 and :15 spots, as well as four social posts for the company’s Jalapeno Poppers campaign, in addition to creating a CG hamburger for the reveal.
- For **APPLE’s** NBA 2K21, the studio produced a :30 spot complete with cutdowns and also handled the shoot.
- Digital Domain teamed up with 72andSunny to complete (1-2) CG shoots for a live-action spot of **Activision Blizzard’s** “World of Warcraft,” as well as all tagging and finishing for 150 deliverables.
- Also, for **Activision Blizzard**, the team completed the finishing for 121 deliverables for the popular “Call of Duty” franchise.
- For **New Line**, the team led Flame deliverables for New Line Cinema’s “The Conjuring 3.”
- For **NBC/Universal**, Digital Domain completed four VFX shots for destruction series for NBC La Brea Promo, including one full CG and 3 live action/VFX integrations.
- For **EA/Respawn**, the team completed an eight-minute short for “Apex Legends.”
- For **Activision Blizzard**, the team completed VFX and finishing for four :30 spots for “Diablo 2: Resurrected.”

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 (“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. Specifically, US Subsidiaries clients asked the court to summarily decide that the Claimant could not recover any portion of the profits that they earned from the distribution of the seven (7) films that are at issue in the lawsuit. The court granted this motion in part and denied it in part, concluding that the Claimant could attempt to prove at trial that is entitled to a portion of US Subsidiaries clients’ profits for only three (3) of the seven (7) films. No trial date is presently scheduled.

In its production services agreements for the projects 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 Lawsuit. The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary’s clients in the Other Lawsuits.

Digital Domain China:

Through the investment in Lucrative Skill Holdings Limited (“Lucrative Skill”) in April 2016 – the holding company of the Post Production Office group of companies (collectively rebranded as Digital Domain China (“DD China”)), the Group made significant progress in establishing a strong operating platform in China with studios located in Beijing and Shanghai.

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

Visual effects and colour grading services delivered for feature films and TV drama series this year include *“National Interest Absolute Loyalty”*, *“WandaVision”*, *“Hi, Mom”* and *“Cliff Walkers”*, as well as the upcoming *“Realm of Terracotta”*, *“The Day We Lit Up the Sky”*, *“Water Boys”*, *“Ji Yi Mi Gong”*, *“Shanghai Tower”*, *“Ali’s Dream Castle”*, *“Samadhi Kid’s Story”*, *“Ms. Marvel”*, *“Doctor Strange in the Multiverse of Madness”* and *one undisclosed project from DDNA*.

In 2021, DD China continued to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile commercials profiling leading brands like **Apple, BYHEALTH, Coca-Cola, Estée Lauder, Evergrande Group - Ocean Flower Island Theme Park - “Greek Myths”, Häagen-Dazs, Hoegaarden, HONOR, HUAWEI, JUNLEBAO, LEXUS, Maybelline New York, Peking Opera Protection and Inheritance Center of Hunan & Hunan Museum - “Yi Nian Xin Zhui Meng”, Perfect World - “Perfect World”, RIO, Samsung, Tencent Games - 2021 Honor of Kings World Champion Cup, Universal Beijing Resort, Volvo Cars, and WULIN.**

Digital Domain India:

Since 2017, Digital Domain’s facility in Hyderabad has worked closely with our North America and China studios and has been an integral part of the Global Production Strategy as well as adding value to the growing visual effects market in India.

Digital Domain 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 has undertaken content security audits from The Motion Picture Association of America, Inc. (“MPAA”), Walt Disney Studios Motion Pictures (“Disney”) and Marvel Studios, LLC (“Marvel”). DD India is a certified and secure facility which can handle content for all A-list Hollywood and other international shows. DD India also completed the annual assessment process conducted by Trusted Partner Network (TPN), a joint venture between two major entertainment industry associations, the MPAA and the Content Delivery & Security Association (CDSA), the worldwide leaders in third-party entertainment industry assessments. DD India, in 2021, continued to perform as per expectations and successfully delivered content across platforms, both international and domestic.

B. Virtual Reality, Augmented Reality, New Media and Experiential

This segment includes augmented reality (“AR”), immersive and virtual reality (“VR”) technology services using 360 degree digital capture technology and CG.

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

Digital Domain’s VR, AR, New Media and Experiential team executed several livestream broadcasts, experiences and installations in the first half of 2021:

- For **Super Bowl LV**, New Media worked with the VHG and the advertising teams to create the digital human version of Vince Lombardi for a commercial that premiered during this year’s Super Bowl game.
- Digital Domain and an **undisclosed game developer** partnered up in 2019 to embark on their biggest, highest quality video game. Still in production with a scheduled 2022 release date, our team has captured over 30 hours of facial and body performance capture, as well as utilized our Masquerade 2.0 proprietary facial capture process throughout all talent acquisition on this truly massive new game project.
- For **Studio Wildcard**, Digital Domain delivered ARK II, a video game cinematic that included creating a near-photo real likeness of Vin Diesel playing Santiago, the main character, as well as the main female child character. Digital Domain was responsible for asset look development and talent acquisition. This project's teaser trailer was released to public audiences.
- In collaboration with the Advertising/Games and New Media + Experiential teams, Digital Domain applied VHG’s “Charlatan” to help add 30 years to David Beckham’s face for a powerful new campaign from client entitled **Malaria Must Die**.
- Digital Domain joined forces with powerhouse agency **R&R Partners** and **Blockchains LLC** to create the graphics for five 2-minute films on an upcoming project.
- Digital Domain teamed up with artist **Lina RASSBAKKEN** and team to create 11 unique real-time characters and assets, from human apparitions to fantastical animals that resemble a water bear, for use in the interactive VR experience entitled “NORN.”
- Digital Domain has teamed up with **TIME**, for a second time, and **Epic** for a recreation of Martin Luther King Jr. (MLK) “The March” in “Fortnite”.

Digital Domain staff from the global studio participated in several events this year:

- Mrs. Wendy MASHBURN participated on a panel for **LA ACM SIGGRAPH** where she discussed the outlook for careers in Digital Media.
- Mrs. Weri SIN participated in a live panel for **Spark CG Society's Spark FX Conference 2021** titled “Our Future Masters.”
- Mr. Stuart AINSLEY participated in a virtual event for **Foundry** on “**Creative Procedural Workflows in Mari**”.
- Mr. Phil CRAMER was interviewed on the **Cup of Joe podcast** to discuss his career in visual effects.

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

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

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

- Mr. Lucio MOSER presented at **VFXRio** sharing his insights on machine learning in VFX and how it urges us to rethink the typical approaches to old problems and allows us to solve problems that seemed impossible.
- In March 2021, Mr. Matthias WITTMAN and Mr. Doug ROBLE performed a live demo of Douglas and discussed “The Challenges In Creating An Autonomous Digital Human” at **NVIDIA’s Design and Visualizations AI Webinar**. The two were also featured on the Augmented City Podcast in an episode titled, “Crossing Multiple Uncanny Valleys: How Digital Domain Does It With Virtual Humans.”
- Mr. Matthias WITTMAN was invited to present at the **Real Time Conference** where he discussed the challenges of building an autonomous human and presented Douglas live in front of a virtual audience. He also participated in a panel discussion on digital humans.
- Mr. Doug ROBLE participated in a **VFX AI symposium** discussing how AI will be used in VFX going forward.
- Mr. Doug ROBLE and Mr. Darren HENDLER were interviewed for two separate episodes of the **Immersive X Podcast**. The episodes will be released in the second half of 2021.
- For IBC365, Mr. Darren HENDLER participated in a webinar which discussed the current role of AI in post-production and how its adoption will evolve.
- Mr. Matthias WITTMAN and Mr. John CANNING performed a live demo of Douglas at the **Cannes Film Festival**.

Digital Domain's VHG's research and development aided multiple projects and resulted in new developments in the first half of 2021

- In collaboration with the Advertising/Games and New Media + Experiential teams, VHG's "Charlatan" was applied to help add 30 years to David Beckham's face for a powerful new campaign from client **Malaria No More**.
- The team worked with New Media to create the **digital human version of Vince Lombardi** for use in ads during the Super Bowl Game.
- The VHG is currently working with the New Media team to utilize Charlatan to uprez the MLK asset for a new project that will allow players to see **Martin Luther King, Jr.** and his speech inside of the popular video game, "Fortnite".

In addition to Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (such as famous singers, movie stars or corporations) in the Greater China Region. Since 2018, the Group has created a range of its own virtual human characters/IPs including Sandra, STAR, M.E., ZEN, and Alice. The Group also deployed resources towards research and development to improve the interaction between virtual human characters and their audiences.

The Group produced or launched other types of virtual human projects in 2021, including:

- Starting from December 2020, the **Virtual Idol ZEN** designed by **Nicholas Tse** in cooperation with Digital Domain, began to operate her Weibo social platform. With interesting interactions with Nicholas Tse online, she had attracted the attention of many fans. Zen also received her clothing sponsorship from popular clothing brand. More performance opportunities will continue to expand the diversified development of virtual idols in 2021.
- In February 2021, **Foxlink Group** held an online employee recognition conference and online lottery party at its Taipei headquarters. Employees of Foxlink Group in the greater China region, Myanmar, India, the United States, and other regions participated in the event through their mobile phones. The use of virtual host designed by Digital Domain combining with real-world environment had add a lot of fun and highlights to the live broadcast. This was a successful attempt by using a virtual human as the host of internal events.
- In February 2021, **Virtual Human Sandra** became the program assistant to Professor Chang San-Cheng (our Executive Director, and chairman of the SanCode Foundation) on "**Sancode Chatroom**" online chat show.
- In March 2021, the Group applied "**ANIMATION GENERATION METHOD FOR TRACKING FACIAL EXPRESSIONS AND NEURAL NETWORK TRAINING METHOD**" had successfully submitted to be **U.S. Provisional Patent Application**. The contribution and innovation of this patent will help maintain the Digital Domain's competitive advantage in virtual human technology and continue to provide better services and products.

- In March 2021, **BMW Taiwan** invited Digital Domain CEO Daniel Seah to co-star with our **Virtual Human Elbor** in “THE NEW 5” commercial. The advertisement strives for a new definition of technology and the changes that technology has brought to the world, therefore Digital Domain uses real-time capture and real-time rendering technology which allows both of them to interact in the same frame. During the shoot, the director can review Elbor’s wonderful performance on the monitoring screen in real-time.
- In April 2021, **Virtual Human M.E.** became the main character of the **Drifter 360° online game** on **JJ Paradise** website <https://www.jjparadise.com/>. The use of 360-degree video has brought the audience to the Drifter’s world. The participants can share the rewards they gained in the game on the internet.
- In May 2021, Digital Domain CEO Daniel Seah and **Virtual Human Elbor** were invited as special guests to “**Sancode Chatroom**” online chat show Anniversary Special Episode, and had real-time interactions with Professor Chang San-Cheng.
- In June 2021, **Virtual Idol ZEN** officially had a live streaming show at Nicholas Tse’s online program “**Chef Nic**”. The interesting interaction and wonderful performance content attracted lots of viewers watched online.

D. Formation of a joint venture company and investment(s) in Europe

Formation of DDCP

The Company’s indirectly wholly-owned subsidiary, Digital Domain Broadcasting (Hong Kong) Limited (“DDBL”), has formed Digital Domain Capital Partners S.à r.l. (“DDCP”), a company incorporated in the Grand Duchy of Luxembourg on 18 January 2021 with a joint venture partner, a wholly-owned company, Digital Knight Finance S.à r.l. (“DKF”), of Mr. Clive NG Cheang Neng (“Mr. Ng”), pursuant to the agreement that was the subject of the Company’s announcements dated 11 December 2020 and 27 December 2020. DDCP is an indirect non-wholly owned subsidiary (60% owned) of the Company.

Pursuant to the JV formation agreement, the Company (through DDBL) and the Subscriber (through DKF) subscribed for shares in DDCP and holds 60% and 40% interests in DDCP, respectively in consideration of the subscription price of approximately HK\$187,800,000 (equivalent to EUR20,000,000) and approximately HK\$125,200,000 (equivalent to EUR13,333,333) in cash.

On 16 August 2021, the Company announced a discloseable and connected transaction in relation to acquisition of 40% equity interest in DDCP. For details, please refer to the below section named “Events after the Reporting Period”, and the Company’s announcement dated 16 August 2021.

Investment in asknet

On 3 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 248,431 common shares (“asknet Sale Shares”) of asknet Solutions AG, a publicly traded German e-commerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) (“asknet”) for an aggregate consideration of EUR3,709,000 (approximately HK\$34,586,000), i.e. amounting to approximately EUR14.93 (approximately HK\$140.79) per asknet Sales Share. The asknet Sale Shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021.

Founded in 1995, asknet is an established procurement, e-commerce and payment specialist with a strong position in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors. Areas of collaboration between the Group and asknet under consideration include the deployment of the Group’s virtual human technology in the form of a virtual teaching assistant for the education and lifelong learning sectors in the European market, the development of learning solutions that leverage mixed reality content and the distribution of the Group’s software and hardware products to the education market in Europe. Considering the COVID-19 pandemic situation, the Group expects that the demand in education technology services is likely to increase. For details, please refer to the Company’s announcement dated 3 February 2021.

Investment in HLEE

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

INTERESTS IN ASSOCIATES

3Glasses Group

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

3Glasses Group was the first official certified partner of the Qualcomm XR SIMPLEVIEW program, and is also working with other famous corporations such as BOE Technology Group Co., Ltd. on the development of ultra-thin VR optical components to move the VR industry forwards. Furthermore, with the laying of 5G networks by telecommunication operators in the PRC, 3Glasses X1 and the new X1S, as carriers of 5G applications tethered to 5G smartphones, will serve as key consumer VR hardware for families and individual users to provide immersive and seamless VR experiences over 5G.

At the beginning of 2021, 3Glasses officially entered the industry of panoramic short video, and achieved outstanding results. As at 30 June 2021, 3Glasses’ account on the Chinese short video platform Kuaishou has accumulated more than 310,000 followers, 2 hot videos with over 30 million views, and cumulative total views over 200 million, and the number of panoramic short video views ranks second on Kuaishou’s hot video ranking list in June. On 14 April 2021, 3Glasses X1S smart glasses won the “German iF Design Award”, one of the world’s top industrial design awards, and became the only iF award-winning product in China for split VR, demonstrating 3Glasses’ innovative design capabilities and profound R&D capabilities. In addition, 3Glasses has independently created an open technology system – 3Link, and completed the direct connection of X1S with 15 5G mobile phones, opening up the connection between multiple terminals and multiple systems. At present, 3Glasses has established strategic partnerships with major operators to jointly deploy 5G+VR. By starting with the “X1S+VR panoramic live broadcast” model, 3Glasses has empowered industry applications and provided smart courts, classroom education, and distance hospital visits. Other landing plans will boost the overall layout of the industry's ecological chain and extend the reach of VR to more industries.

As at 30 June 2021, 3Glasses Group has applied for 423 VR independent core patents. As an innovative technology company, while maintaining its technological leading edge in the area of hardware products such as VR headsets, 3Glasses Group is also actively expanding its solutions services (including VR hardware, VR games and content services and industry applications).

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

In order to speed up business development in the field of virtual humans, the Group continues to seek opportunities for financing and collaboration with strategic partners. In January 2019, the Group invited strategic investors to commit funds to specific virtual human business initiatives in the Greater China Region and these companies have been reclassified as associates of the Company since 1 February 2019.

Virtual Human Teresa Teng

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

- Starting from April 2021, the Group keep on developing the latest virtual human technology, combining deep learning and real time rendering technology, we developed a new version of the Virtual Human Teresa Teng, which can be controlled live by the **Mystique Live** system and perform in various types of show, such as Teresa Teng live streaming concert, hologram show etc.
- In April 2021, **Virtual Human Teresa Teng’s Holographic Concert** officially landed in **Digital Domain Haikou Cyberpunk Digital Paradise**. With holographic immersive performances and interactive sessions, it provided Haikou people and tourists with a brand new experience of visual, hearing, and senses.
- In May 2021, **Teresa Teng’s Holographic Concert** officially landed in **Beijing Heping Guoju**, showing Teresa’s elegant charm in holographic form, creating an immersive and refreshing cultural experience for the audience.
- **Handan Merlot City Global Centre, Virtual Human Teresa Teng’s exhibition and hologram show:** The setup and rehearsal of the exhibition and hologram show was completed in May 2021, and the show has been running successfully since then with high levels of audience attendance.
- In June 2021, Virtual Human Teresa Teng attended the **China (Chongqing) Home Appliances Distribution Channel TOP Summit** via video conference system, and brought wonderful performances at the event.
- In June 2021, Virtual Human Teresa Teng participated in **The Overseas Community Affairs Council** event. Due to the pandemic, the Asian City Tours is expected to start in 2022.

- January to June 2021, The **Hongyadong Teresa Teng Holographic Concert “Looking for Teresa Teng”** in **Chongqing Hongyadong** has been showing continuously since its landing in 2020, bringing a holographic experience to the audience in the Hongyadong scenic spot. In the first half of 2021, the daily average number of audiences of Teresa Teng Theatre is 440, the number in a single day is as high as 2,000 during Labour Day holiday.
- In June 2021, Virtual Human Teresa Teng participated in the shooting of the **COVID-19 prevention advertisement**, which has been broadcasted on the Internet since July 2021.

Beijing Xu Gu

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

- January 2021, **Nonoka, Alice x Wang Lo Kat 2021 Virtual E-Commerce Live Broadcast:** the virtual IP **Nonoka** and children's virtual IP **Alice** cooperated with **Wong Lo Kat** to carry out the “Chinese New Year Special” live broadcast for the launch of new products and blind box products, with fun interaction and charming Enthusiasm for the brand’s live broadcast. The time brought huge traffic, which boosts the sales of Wong Lo Kat’s new products.
- January 2021, **Nonoka, Alice x CELSIUS New Year Gift Box Marketing Campaign:** the virtual IP **Nonoka** and children’s virtual IP **Alice** collaborated with **CELSIUS** to produce a series of promotional videos for the New Year gift box, from “Microcosmic New Year Celebration”, “What’s Going on with Zero Sugar Drinks”, and “How to Choose Your Energy Drink” and other aspects to help the brand increase its exposure through a creative way.
- February 2021, **8th China Youth Online Spring Festival Gala 2021:** the children’s virtual IP **Alice** became the first virtual host of the Chinese Communist Youth League Youth Network Spring Festival Gala over the years. Appeared in the **8th China Youth Online Spring Festival Gala 2021** as the host for the entire show. During the event, Alice, on-site hosts, and the guests interacted with each other in real-time, as her interactions are exactly like real human, everyone was amazed, and she became the new highlight to the whole party.
- March 2021, **Chinese New Year Customized Red Envelope:** **Alice** released 6 customized red envelope covers during this Chinese New Year Festival, total of 1,180 were purchased and issued. With over 700,000 exposures, and over 260,000 red envelopes were opened, it brought a lot of exposure to the IP.

- Since March 2021, Digital Domain has cooperated with **Alibaba Damo Academy** to carry out the **“Intelligent Virtual Live Streamer”** project, leveraging the extensive experience of 3D modelling and live controlled virtual human of Digital Domain, combined with the Artificial Intelligent System developed by Alibaba Damo Academy, a new generation virtual live streamer service was launched in June this year, which can carry out 24-hour Live commerce. At the same time, Digital Domain is ahead of competitors, and became the first team to successfully integrate into the Damo Academy Intelligent Virtual Live Streamer Platform in mainland China.
- April 2021, in the ninth episode of the sixth season of CCTV’s classic poetry program **“Chinese Poetry Conference”**, which **Alice** participated in was broadcast in prime time on CCTV’s integrated channel. She served as the first “Virtual Questioner” of the “Chinese Poetry Conference”. As soon as she appeared, she took everyone on a magical transformation and journey through and interacted with the on-site contestants and tutors. Perfectly fused traditional Chinese poetry culture and virtual technology and presented the audience with a refreshing cross-dimensional poetic moment. In addition to the official “Chinese Poetry Conference”, this project also attracted the attention of well-known media in the industry, with a cumulative exposure of over 15 million.
- April 2021, Alice has appeared multiple times on **CCTV Children’s Channel “Whimsical”**, with a cumulative exposure of over 9 million. In the program, Alice explained the scientific experiments to the audience as a “CCTV Children's Science Interpreter”, which not only bring the highlight to the program, but also gives the audiences a brand new visual experience.
- June 2021, Digital Domain cooperated with **Alibaba Damo Academy** on the **“Sign Language Motion Capture (Mocap)” Project**, after a variety of technical evaluations, we combined optical motion capture system with the cutting-edge mocap gloves to initially capture hundreds of sign language motion, and the plan is to extend to thousands in the future. The goal is to “Make a Visual Dictionary” and contribute to the diverse communication of human society.
- First half of 2021, **Alice** continues to produce original children’s science content on platforms such as Wechat Channels, live.qq.com, TikTok, Kuaishou, Bilibili, Xigua Video, Weibo, CCTV, etc., which includes common knowledge of common sense, animal world, plants encyclopaedia, human body, historical anecdotes, universe exploration, human geography, festival customs, culture and technology, safety protection, health education, etc., as well as social hot spots, emotion ties between parents and children. As at 30 June 2021, Alice’s video account has released a total of 247 videos, with a total exposure of up to 3.58 million, ranking Top 14 in the maternal and infant parenting chart.
- Currently, **Alice** has cooperated with children’s clothing brands, children’s education, Relay Publishing, Dangdang.com, CITIC Press Group, children’s publishing house, etc., with the identity of “children's book recommendation officer” and “fine goods promotion officer”, helps the brand to promote goods and pull new customers to help the brand expand its exposure.

Digital Domain Space (VR Theatre and DD Land)

In September 2017, Digital Domain with several strategic partners established 數字王國空間(北京)傳媒科技有限公司 (**Digital Domain Space**) in which Digital Domain has 34.42% attributable interest.

Digital Domain Space's aim is to develop and execute an innovative VR experience with new VR theatres in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space's VR theatres have already been installed inside a number of shopping malls, including locations in Guangzhou and Chongqing. Compared to existing domestic VR technologies, Digital Domain Space presents consumers with elevated VR content and total immersion in VR experiences. Digital Domain Space and Zhongdi Jiye Hainan Investment Co., Ltd. jointly built "DD Land" (known as the "Cyberpunk Digital Theme Park") which officially launched on 24 December 2020 in Friend Sunny City Shopping Centre in downtown Haikou, Hainan Province. The 4,800 square meters park provides its customers with digital entertainment services such as holographic theatre, VR cinema, MR Future Arena, Immersive Oasis and Cyber Street. The share of losses and impairment of amounts due from this associate amounted to HK\$2,227,000 (2020: HK\$6,106,000).

EVENTS AFTER THE REPORTING PERIOD

Subscription of New Shares under General Mandate

On 21 July 2021, the Company entered into a subscription agreement with Le Nouveau Holdings Inc. (the "Subscriber 2") of Mr. Norman Paul Hansen in relation to the subscription. Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 2,400,000,000 shares to the Subscriber 2 at the subscription price of HK\$0.065 per subscription share (the "Subscription 2"). The Subscription 2 was completed on 30 July 2021 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. The subscription shares represent approximately 5.87% of the issued share capital of the Company of 40,890,276,258 shares as at the date of announcement of the Subscription 2 and approximately 5.54% of the issued share capital of the Company of 43,290,276,258 shares as enlarged by the Subscription 2.

The gross proceeds and net proceeds from the Subscription 2 are HK\$156,000,000 and approximately HK\$155,500,000 respectively, and are intended to be applied to as general working capital of the Group and towards the potential restructuring of the Group's business in Europe. For details, please refer to the Company's announcements dated 21 July 2021 and 30 July 2021.

Proposed Capital Reorganisation and Change in Board Lot Size

On 21 July 2021, the Board proposed to implement the capital reorganisation and change in board lot size as follows:

- (1) **Capital Reorganisation** – share consolidation of every ten (10) issued existing shares into one (1) consolidated share whereby increasing the par value of all the then issued consolidated shares from HK\$0.01 to HK\$0.10 each (“Share Consolidation”); and following the Share Consolidation, reduction of the issued share capital whereby (i) the fractional consolidated share in the issued share capital of the Company resulting from the Share Consolidation will be cancelled in order to round down the total number of consolidated shares to a whole number, (ii) the par value of each issued consolidated share will be reduced from HK\$0.10 to HK\$0.01 each by cancelling HK\$0.09 of the paid-up capital on each issued consolidated share; and (iii) the transfer of the credit arising from the Capital Reduction to the contributed surplus account of the Company; and
- (2) **Change in board lot size** – conditional upon the Capital Reorganisation becoming effective, the change in board lot size of the Company for trading on the Stock Exchange from the current 10,000 issued existing shares to 5,000 adjusted shares.

For details, please refer to the Company’s announcement dated 21 July 2021.

Discloseable and connected transaction in relation to acquisition of 40% non-controlling interest in a subsidiary of the Company, DDCP

On 16 August 2021, DDBL (the “Purchaser”, an indirect wholly-owned subsidiary of the Company) and DKF (the “Vendor”) entered into a sale and purchase agreement (“SPA”), pursuant to which the Purchaser has agreed to purchase, and the Vendor has agreed to sell, 4,800 common shares of DDCP, representing 40% of the total equity interest in DDCP, for an aggregate cash consideration of approximately EUR13,333,000 (equivalent to approximately HK\$122,267,000). Upon completion of the acquisition, the Company’s equity interest in DDCP will increase from 60% to 100% and DDCP will become an indirect wholly-owned subsidiary of the Company.

As the highest applicable percentage ratio calculated by reference to Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the SPA is more than 5% but less than 25%, the acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Vendor is indirectly wholly-owned by Mr. Ng, who is a substantial shareholder holding, through its wholly-owned corporations, approximately 15.74% of the total issued share capital of the Company. Accordingly, the Vendor is a connected person of the Company, and the acquisition constitutes a connected transaction and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

A special general meeting (“SGM”) will be held for the shareholders to consider and, if thought fit, approve the resolution(s) in respect of the SPA and transactions contemplated thereunder.

An independent board committee (“IBC”) comprising all the independent non-executive Directors has been established to advise the independent shareholders as to whether the terms of the SPA and transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the shareholders as a whole, and to advise the independent shareholders on how to vote in respect of the resolution(s) to be proposed at the SGM to approve the SPA and transactions contemplated thereunder. Octal Capital Limited has been appointed as the independent financial adviser (“IFA”) to advise the IBC and the independent shareholders in this regard.

A circular containing, among other things, further details of the acquisition and other disclosures required pursuant to the Listing Rules, the advice from the IBC and the IFA together with a notice to convene the SGM is expected to be despatched to the shareholders in September 2021.

For details, please refer to the Company’s announcement dated 16 August 2021.

CAPITAL

Shares

On 11 December 2020, the Company entered into a subscription agreement with HLEE Finance S.à r.l. (the “Subscriber”) of Mr. Ng in relation to the subscription. Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 6,814,760,000 shares to the Subscriber at the subscription price of HK\$0.05 per Subscription share (the “Subscription”). The Subscription was completed on 18 January 2021 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. The Subscription shares represent approximately 20% of the issued share capital of the Company of 34,073,816,258 shares as at the date of announcement of the Subscription and approximately 16.67% of the issued share capital of the Company of 40,888,576,258 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are approximately HK\$340,738,000 and HK\$340,538,000 respectively, and are intended to be applied towards the formation of the joint venture company, media entertainment segment and general working capital of the Group. For details, please refer to the Company’s announcements dated 11 December 2020, 27 December 2020 and 18 January 2021.

On 21 July 2021, the Company entered into a subscription agreement with the Subscriber 2 in relation to the Subscription 2. For details, please refer to the above section named “Events after the Reporting Period”, and the Company’s announcements dated 21 July 2021 and 30 July 2021.

On 21 July 2021, the Company announced the Capital Reorganisation and change in board lot size. For details, please refer to the above section named “Events after the Reporting Period”, and the Company’s announcement date 21 July 2021.

As at 30 June 2021, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 40,890,276,258 Shares. Upon the completion of the Subscription 2 (mentioned above) on 30 July 2021, the total number of Shares in issue was 43,290,276,258 Shares.

Share Options

On 28 May 2014, a total of 980,060,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new Shares at an exercise price of HK\$0.098 per Share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the Review Period, no share options were exercised, cancelled or have lapsed. 46,570,000 share options were exercised and 140,760,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

On 6 May 2015, a total of 78,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 78,000,000 new Shares at an exercise price of HK\$1.32 per Share. For details, please refer to the Company's announcement dated 6 May 2015. During the Review Period, no share options were exercised, cancelled or have lapsed. 10,000 share options were exercised and 3,000,000 share options were cancelled or have lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 379,500,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new Shares at an exercise price of HK\$0.413 per Share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the Review Period, no share options were exercised, cancelled or have lapsed. No share options were exercised and 25,666,665 share options were cancelled or have lapsed since the grant-date (29 January 2016).

On 22 June 2016, a total of 100,000,000 share options were granted under the Company's share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 100,000,000 new Shares at an exercise price of HK\$0.495 per Share. For details, please refer to the Company's announcement dated 22 June 2016. During the Review Period and since the grant-date (22 June 2016), no share options were exercised, cancelled or have lapsed.

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new Shares at an exercise price of HK\$0.566 per Share. For details, please refer to the Company's announcement dated 29 July 2016. During the Review Period, no share options were exercised, cancelled or have lapsed. No share options were exercised and 13,199,986 share options were cancelled or have lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 300,000,000 share options were granted under the Company's share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 300,000,000 new Shares at an exercise price of HK\$0.469 per Share. For details, please refer to the Company's announcements dated 13 February 2017 and 1 June 2017, and the circular dated 27 April 2017. During the Review Period and since the grant-date (13 February 2017), no share options were exercised, cancelled or have lapsed.

On 24 April 2019, a total of 130,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 130,000,000 new Shares at an exercise price of HK\$0.130 per Share. For details, please refer to the Company's announcement dated 24 April 2019. During the Review Period and since the grant-date (24 April 2019), no share options were exercised, cancelled or have lapsed.

On 21 May 2020, a total of 478,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 478,000,000 new Shares at an exercise price of HK\$0.046 per Share. For details, please refer to the Company's announcement dated 21 May 2020. During the Review Period, no share options were exercised, cancelled or have lapsed. 1,700,000 share options were exercised and no share options were cancelled or have lapsed since the grant-date (21 May 2020).

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 2021, the Company had banking facilities from two banks in the United States amounting to US\$12,500,000 (approximately HK\$97,058,000) and the utilised portion of these banking facilities were US\$12,192,000 (approximately HK\$94,666,000). These banking facilities were secured by time deposits of the Group. The Group had banking facilities from a bank in Canada in amount of CAD6,900,000 (approximately HK\$43,215,000) and the utilised portion of these banking facilities were CAD4,972,000 (approximately HK\$31,140,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

As at 30 June 2021, certain loans granted under emergencies loan schemes for COVID-19 are in amount of US\$8,000 (approximately HK\$62,000) and CAD60,000 (approximately HK\$376,000). These loans are unsecured and one of the loans has been forgiven by the United States Authorities in July 2021 and the other loan is not repayable within 12 months from 30 June 2021.

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 2021, the Group also had lease liabilities of HK\$97,590,000, which were determined at the present value of the lease payments that are payable at that date. Apart from lease payments related to office premises and certain office equipment, the Group had lease liabilities of RMB1,124,000 (approximately HK\$1,352,000) and CAD380,000 (approximately HK\$2,380,000) related to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. Among these leased assets, the terms of payments were 34 months and 42 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 HK\$151,581,000 as at 30 June 2021. 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 2021. One indirect wholly-owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,331,000), which is unsecured, with a fixed interest rate and repayable within 12 months from 30 June 2021. One indirect wholly-owned subsidiary also had a term loan facility of US\$10,000,000 (approximately HK\$77,646,000) 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 2021 was US\$8,000,000 (approximately HK\$62,117,000) 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 2021. There is an other loan in amount of US\$3,191,000 (approximately HK\$24,778,000) provided in relation to the production of a film with interest-bearing and secured by security interest in all right, title and interest in a film investment. During the Review Period, the Company repaid two other loans in total amount of HK\$10,020,000.

The total cash and bank balance as at 30 June 2021 was HK\$345,746,000. As at 30 June 2021, the Group had banking facilities of HK\$140,714,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to HK\$94,728,000 are denominated in United States dollars and loans amounting to HK\$31,140,000 are denominated in Canadian dollars. During the Review Period, all of the Group's bank loans were classified as either current liabilities and repayable on demand or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings as at 30 June 2021 was spread over a period of five years, with approximately 22% repayable within one year, 21% repayable between one to two years and 57% repayable between two and five years.

The Group's current assets were HK\$536,876,000 while the current liabilities were HK\$349,552,000 as at 30 June 2021. As at 30 June 2021, the Group's current ratio was 1.5 (as at 31 December 2020: 0.7).

As at 30 June 2021, 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 35% (as at 31 December 2020: 49%)

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 2021, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2021, the total headcount of the Group was 1,132. The Group believes that its employees play an important role in its success. Under the Group’s remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

PROSPECT

The global economy has been adversely affected by the outbreak of the new coronavirus (COVID-19) and associated government epidemic prevention and control measures since 2020. While the first half of 2021 saw the gradual relaxation of many government measures in different parts of the world, the outbreak and spread of the more infectious Delta variant which have drawn diverse range of responses from countries which are our key markets makes it considerably more challenging to predict demand trends in our different business segments. Demand for and the pricing of our products and services are ultimately driven by our customers’ perception of consumer demands for their media entertainment products which in some cases (e.g. in the case of feature films) would be adversely impacted by government imposed social distancing measures and travel restrictions. Given that the overall situation remains unstable and further impact may be reflected in the second half of 2021, we are adopting a prudent approach in our business strategies (including for example, cost control, business direction and production mix).

The Group continues to leverage its extensive experience in the VFX industry and proactively seeks new projects and business opportunities despite the highly competitive market environment in the US and China. Despite the partial relaxation of pandemic related government measures in the first half of 2021, the Group continues to see extensions or delays in production schedules, in particular, for VFX work for feature films and impact on launch of new projects as the industry monitors changes in government directions and policies and assesses their potential impact. At the same time, there appear to be increased opportunities to provide VFX work for other type of products (e.g. online games, episodes and commercials). The Group will continue to evaluate the cost structure, function and operation performance of each studio in North America and Asia to enhance the effectiveness and efficiency of our working capacity while reducing production costs in the long run.

The business activities of our VR business have experienced material slowdown since 2020 given the reduced expansion in Mainland of China, North America and other parts of the world which we believe has led to the reduction in the number or size of projects and/or the investment budgets. Our 360 degree digital capture and livestreaming business that had mainly served the sports, travel, concerts and mass public social events sectors continues to be adversely impacted by the limitation of such events due to the COVID-19 pandemic related social distancing and travel restrictions measures. In view of this, we are working towards expanding the non-media entertainment applications of the technology, for example, for the education related market, to expand our offerings of products. In this regard, we are discussing with clients and investors who still have confidence in our VR business models and hardware products on business opportunities in both our traditional markets as well as the European market. The Group will further review the overall strategy (investment direction, product mix, distribution channels, etc.) of our VR business.

We will continue to explore new virtual human business opportunities and products (such as artificial intelligence (AI)) with strategic business partners and/or investors. We will also continue to develop new technologies which can enhance the interactivity between virtual humans and the audience in social-networking platforms, entertainment businesses and in other environments such as education.

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

Last but not least, we will continue to build on our strengths and strive to provide quality services and products to our valued clients, especially during this challenging time, while we work towards maximising benefits for our important stakeholders (strategic partners, shareholders, staff and management) in the coming years.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE RULES GOVERNING 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 2021, the outstanding loan principal of this Facility amounted to approximately HK\$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Review Period.

CORPORATE GOVERNANCE

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

- (a) There is no separation of the roles of the chairman and the chief executive officer or chief executive during the Review Period. Mr. Seah Ang, the executive Director and chief executive officer of the Company, was appointed as the acting chairman of the Board following the resignation of Mr. Peter Chou as the chairman of the Board and the executive Director in June 2020. The Board believed that at the time of vesting of the roles of chairman and chief executive officer in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group's operation and his extensive business network and connections. The Company was seeking the suitable candidate to fill the vacancy of the position of the chairman of the Board;
- (b) The Chairman of the Board is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company's bye-laws (the "Bye-laws"). Mr. Seah Ang has entered into a service agreement for no fixed term but his appointment is terminable by either party by giving three months' prior notice;
- (c) The non-executive Directors and independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the non-executive Directors and independent non-executive Directors have a termination notice requirement of at least one month; and
- (d) Due to other pre-arranged business commitments which must be attended to by Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung, the non-executive Directors, they were not present at the annual general meeting of the Company held on 3 June 2021.

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, 27 August 2021

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