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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)

SUBSCRIPTIONS OF NEW SHARES UNDER THE SPECIFIC MANDATE

PROPOSED SUBSCRIPTIONS OF NEW SHARES UNDER THE SPECIFIC MANDATE

On 19 October 2023, the Company and each of the Subscribers entered into three separate Subscription Agreements in relation to the proposed issue and subscription of new Subscription Shares. Subject to the fulfilment of conditions precedent of the relevant Subscription Agreement, the Company has agreed to allot and issue and the Subscribers have agreed to subscribe for up to 1,745,450,000 Subscription Shares at the Subscription Price of HK\$0.207 per Subscription Share.

The Subscription Shares represent approximately 28.00% of the total number of Shares in issue as at the date of this announcement and approximately 21.87% of the total number of Shares in issue as enlarged by the issue of the Subscription Shares (assuming (a) all the Subscription Agreements have been completed and (b) there will be no other change in the total number of Shares in issue from the date of this announcement and up to the date of Completion).

The Subscription Shares shall, when allotted and issued, rank *pari passu* in all respects among themselves, and with all other Shares in issue as at the date of Completion save in respect of any entitlements the record date for which falls on or before the date of Completion.

SPECIFIC MANDATE

The Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM. The issuance of the Subscription Shares is subject to, among other things, approval by the Shareholders at the SGM. Resolution(s) will be proposed to the Shareholders at the SGM to consider and, if thought fit, approve, among other things, the grant of the Specific Mandate to allot and issue the Subscription Shares and the transactions contemplated under the Subscription Agreements.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

A circular containing, among other things, (i) further details of the Subscriptions and the Subscription Agreements; and (ii) a notice of SGM, is expected to be despatched to the Shareholders on or before 10 November 2023 in compliance with the applicable requirements under the Listing Rules, that is, within 15 Business Days from date of this announcement.

USE OF PROCEEDS

The total net proceeds from the issue of the maximum number of Subscription Shares, after the deduction of the relevant expenses, will be approximately HK\$360.9 million. The Group intends to apply the net proceeds as to (i) approximately HK\$312 million towards the continued development of the research projects of DD Lab, including research and development expenses, data acquisition costs, hardware and software investments, salaries for research personnel, and collaborative partnerships with external institutions and (ii) the remainder of approximately HK\$48.9 million towards the general working capital of the Group.

GENERAL

Shareholders who are involved in or interested in the Subscriptions will be required to abstain from voting in respect of the resolution(s) to approve the grant of the Specific Mandate to allot and issue the Subscription Shares pursuant to the Subscription Agreements and the transactions contemplated under the Subscription Agreements at the SGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolution(s) approving the aforesaid matters.

Completion of the issue of the Subscription Shares is subject to the satisfaction (or waiver, where applicable) of conditions precedent under the Subscription Agreements and therefore may or may not take place. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

On 19 October 2023, the Company entered into the Subscription Agreements in relation to the issue and subscription of new Subscription Shares at the Subscription Price.

Save for the identity of the subscribers and number of Subscription Shares, the principal terms of the three Subscription Agreements are substantially the same.

Subscription Agreement A

Subscriber	:	Meiyin Investment Co., Ltd. 美音投資有限公司 (“Subscriber A”)
Number of Subscription Shares to be issued	:	580,000,000 (representing approximately 9.30% of the total number of Shares in issue as at the date of this announcement and approximately 7.27% of the total number of Shares in issue as enlarged by the issue of these Subscription Shares) (assuming (a) all the Subscription Agreements have been completed and (b) there will be no other change in the total number of Shares in issue from the date of this announcement and up to the date of Completion)

Subscription Agreement B

Subscriber	:	Irobot Innovation Co., Ltd. 華采國際股份有限公司 (“Subscriber B”)
Number of Subscription Shares to be issued	:	565,450,000 (representing approximately 9.07% of the total number of Shares in issue as at the date of this announcement and approximately 7.09% of the total number of Shares in issue as enlarged by the issue of these Subscription Shares) (assuming (a) all the Subscription Agreements have been completed and (b) there will be no other change in the total number of Shares in issue from the date of this announcement and up to the date of Completion)

Subscription Agreement C

Subscriber	:	Whole Share Capital Inc.* 宏享投資開發股份有限公司 (“ Subscriber C ”)
Number of Subscription Shares to be issued	:	600,000,000 (representing approximately 9.62% of the total number of Shares in issue as at the date of this announcement and approximately 7.52% of the total number of Shares in issue as enlarged by the issue of these Subscription Shares) (assuming (a) all the Subscription Agreements have been completed and (b) there will be no other change in the total number of Shares in issue from the date of this announcement and up to the date of Completion)

The Subscription Price payable by each of the Subscriber A, Subscriber B and Subscriber C under the relevant Subscription Agreement shall be paid in cash to the Company at Completion.

Based on information provided to the Company, Subscriber A is a company incorporated in Taiwan with limited liability. Its principal business is investment holding and its entire issued share capital is ultimately and beneficially owned as to over 99.9% by its chairman, Mr. Yu Li-Fu (“**Mr. Yu**”) and the remaining shareholding interest by Ms. Yu Hsiao-Ping. Mr. Yu is currently the chairman of Yueyin Technology Company Limited and Chipsource Co., Ltd. which are principally engaged in memory modules equipment business.

Based on information provided to the Company, Subscriber B is a company incorporated in Taiwan with limited liability and is principally engaged in general trading. Its entire issued share capital is ultimately and beneficially owned as to 50% by its chairman, Mr. Lu Wen-Der (“**Mr. Lu**”), and 50% by his spouse, Ms. Hsieh Shu Ying. Mr. Lu is currently the chairman of Aeagle Innovations Co., Ltd. (“**Aeagle**”) and an independent director of ATrack Technology Inc. (“**ATrack**”). Aeagle is an advertising planning company which conducts corporate sports promotion activities. ATrack is principally engaged in telematics devices and technical support services, the shares of which are listed on the Taiwan Stock Exchange (stock code: 6465).

Based on information provided to the Company, Subscriber C is a company incorporated in Taiwan with limited liability. Its principal business is investment holding and its entire issued share capital is ultimately and beneficially owned as to 99.4% by its chairman, Mr. Lee Tsong-Jung (“**Mr. Lee**”), and the remaining shareholding interest by his spouse, Ms. Huang Li-Ching. Mr. Lee is currently an independent director of Adata Technology Co., Ltd. (“**ADATA**”), the shares of which are listed on the Taiwan Stock Exchange (stock code: 3260). ADATA’s principal business is the manufacture and distribution of DRAM (Dynamic Random Access Memory) modules, flash memories and multimedia products. As at the date of this announcement, 146,250,000 Shares (representing approximately 2.35% of the issued Shares of the Company as at the date of this announcement) are held by ADATA. The chairman of ADATA is Mr. Chen Li-Pai. As disclosed in the announcement of the Company dated 20 April 2023, Mr. Chen Li-Pai and his associates hold approximately 8.39% of the issued shares of ADATA. Mr. Lee was previously the vice president of ASUSTeK Computer Inc.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of Subscriber A, Subscriber B and Subscriber C and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subscription Price

The Subscription Price is HK\$0.207 per Subscription Share.

The Subscription Price was determined after arm's length negotiations between the Company and each of the Subscribers with reference to the average closing price per Share for the five consecutive trading days immediately preceding the date of the Subscription Agreements.

The Subscription Price represents:

- (1) a premium of approximately 5.61% to the closing price of HK\$0.196 per Share as quoted on the Stock Exchange on the date of the Subscription Agreements; and
- (2) no premium or discount to the average closing price of HK\$0.207 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Subscription Agreements.

Based on the closing price of the Shares of HK\$0.196 per Share on the date of the Subscription Agreements, the Subscription Shares have an aggregate market value of HK\$342,108,200. The aggregate nominal value of the Subscription Shares is HK\$17,454,500.

The gross proceeds and the net proceeds (after the deduction of the relevant expenses) from the issue of the maximum number of Subscription Shares will be approximately HK\$361.3 million and approximately HK\$360.9 million, respectively. The net subscription price is approximately HK\$0.2068 per Subscription Share.

Conditions precedent

Completion of each of the Subscription Agreements is conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

- (i) the listing of and permission to deal in, the Subscription Shares being granted (either unconditionally or subject only to conditions to which the Company does not reasonably object) by the Stock Exchange (and such listing and permission not subsequently revoked prior to Completion) on or before 15 December 2023 (or such later date as the parties to the relevant Subscription Agreement may agree);
- (ii) the passing by the Shareholders of all necessary resolutions at the SGM in compliance with applicable laws and the Listing Rules to approve the grant of the Specific Mandate to allot and issue the relevant Subscription Shares to the relevant Subscriber and the transactions contemplated under the relevant Subscription Agreement;

- (iii) all the representations, warranties and undertakings given by the Company under the relevant Subscription Agreement remaining true and accurate in all material respects; and
- (iv) all the representations, warranties and undertakings given by the relevant Subscriber under the relevant Subscription Agreement remaining true and accurate in all material respects.

The conditions set out in paragraphs (i) and (ii) above are not capable of being waived and the condition set out in paragraph (iii) is capable of being waived by the relevant Subscriber only and the condition set out in paragraph (iv) is capable of being waived by the Company only. If the conditions set out in paragraphs (i) and (ii) above are not satisfied on or before 15 December 2023 (or such later date as the parties to the relevant Subscription Agreement may agree), the relevant Subscription Agreement shall terminate and neither party shall be liable to the other or have any claim against the other party for damages, compensation or otherwise save and except any liability for antecedent breaches of either party.

Completion

Completion of each of the Subscription Agreements is not inter-conditional on the completion of the other Subscription Agreements.

Completion of each of the Subscription Agreements is to take place within 10 Business Days immediately following the fulfilment of the conditions precedent in the relevant Subscription Agreement (to the extent not waived).

Ranking of the Subscription Shares

The Subscription Shares shall, when allotted and issued, rank *pari passu* in all respects among themselves, and with all the other Shares in issue as at the date of Completion, save in respect of any entitlements the record date for which falls on or before the date of Completion.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the date of this announcement and (ii) immediately upon Completion (assuming that (a) all the Subscription Agreements have been completed and (b) there will be no other change in the total number of Shares in issue and shareholding in the Company from the date of this announcement and up to the date of Completion other than the allotment and issue of the Subscription Shares) is:

	As at the date of this announcement		Immediately upon Completion	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Director				
Seah Ang (Note 1)	50,213,479	0.81	50,213,479	0.63
Substantial Shareholders				
Digital Knight Finance S.à r.l. (Note 2)	838,806,000	13.46	838,806,000	10.51
Poly Culture Group Corporation Limited	532,360,000	8.54	532,360,000	6.67
One Music Investment Co., Ltd. (Note 3)	646,430,000	10.37	646,430,000	8.10
Allied Talent Global Limited (Note 4)	528,966,000	8.49	528,966,000	6.63
Delight On Group Limited (Note 5)	510,000,000	8.18	510,000,000	6.39
The Subscribers				
Subscriber A	-	-	580,000,000	7.27
Subscriber B	-	-	565,450,000	7.09
Subscriber C	-	-	600,000,000	7.52
Public Shareholders (Note 6)	3,127,023,146	50.16	3,127,023,146	39.19
Total:	6,233,798,625	100.00	7,979,248,625	100.00

Notes:

- Mr. Seah Ang holds these Shares through his wholly-owned company, Global Domain Investments Limited. Mr. Seah Ang also holds 10,000,000 outstanding share options granted under the Company's share option scheme adopted on 27 April 2012 and amended on 3 April 2014.*
- Digital Knight Finance S.à r.l. is indirectly wholly-owned by Mr. Ng Clive Cheang Neng.*
- One Music Investment Co., Ltd. is owned as to over 90% by Mr. Chen Li-Pai and remaining by his spouse.*
- Allied Talent Global Limited is wholly owned by Mr. Huang Chi-Cheng.*
- Delight On Group Limited is wholly owned by Mr. Ding Jiann-Shing.*
- Among the public Shareholders, 146,250,000 Shares (representing approximately 2.35% of the issued Shares of the Company as at the date of this announcement and approximately 1.83% of the issued Shares of the Company immediately upon Completion) are held by ADATA, the chairman of which is Mr. Chen Li-Pai. As disclosed in the announcement dated 20 April 2023, Mr. Chen Li-Pai and his associates hold approximately 8.39% of the issued shares of ADATA.*
- As at the date of this announcement, the Company has in issue 6,233,798,625 Shares and options to subscribe for 224,465,324 Shares granted pursuant to the share option scheme of the Company adopted on 27 April 2012 and amended on 3 April 2014.*
- The aggregate of the percentage figures in the above table may not add up to 100% due to rounding of the percentage figures to two decimal places.*

REASONS FOR, AND THE BENEFITS OF, THE ISSUE OF THE SUBSCRIPTION SHARES AND USE OF PROCEEDS

The Company is an investment holding company. Its subsidiaries are principally engaged in media entertainment business, including visual effects (VFX) production, post production service and virtual human (VH) business.

As a leading VFX studio in the world, the Group has a history of developing and using proprietary technology to deliver award winning VFX and VH services. In order to continue delivering cutting-edge solutions that both optimize production efficiency (both in terms of production costs and turnaround time) and elevate the quality of its VFX and VH offerings, the Group has established the Digital Domain Research Lab (“**DD Lab**”), which will enable the Group to scale up its efforts in an efficient manner as its needs require to harness the power of artificial intelligence and machine learning (Generative AI) for use in character animation, VH production, props and scenes creation and post production work. DD Lab has developed an initial 4-year research programme that includes projects for automating complex repetitive production tasks or processes and developing tools for creating virtual characters and environments that will improve production time and cost efficiency as well as make available for commercial exploitation user-friendly software applications (including Software as a Service (SaaS)) which DD Lab anticipates it will expand the potential uses of VH across diverse industries. These research projects will be undertaken by the Group’s in-house team (comprising current research team and other professional staff with expertise in deep learning, computer vision, graphics and related fields to be recruited) and also through collaboration with academic institutions and their technology departments.

The gross proceeds from the issue of the maximum number of Subscription Shares will be approximately HK\$361.3 million. The net proceeds from the issue of the maximum number of Subscription Shares, after the deduction of the relevant expenses, will be approximately HK\$360.9 million. The size of the Subscriptions was mainly determined by reference to specific funding needs of the DD Lab project and general working capital needs of the Group, given that the net proceeds from the First Subscription, Second Subscription and Third Subscription have been and/or will be fully utilised as explained in more details below.

The Group intends to apply (i) approximately HK\$312 million of the net proceeds towards the continued development of the research projects of DD Lab, including research and development expenses, data acquisition costs, hardware and software investments, salaries for research personnel, and collaborative partnerships with external institutions and (ii) the remainder of approximately HK\$48.9 million towards the general working capital of the Group. As (i) the DD Lab project is focused on developing technologies of direct application to the Group’s core business operations and, upon successful development, will add value to the business of the Group as a whole and help maintain or increase its competitive advantage; and (ii) the Subscribers being operators in tech/ tech related industries (who may therefore be more open to risks and rewards inherent in tech-based research and development projects) are willing to invest in the Company, the Directors consider that the proposed fund raising through the issue of the Subscription Shares to be necessary and beneficial for the Group’s continuing operations and development, in the interest of the Company and its Shareholders as a whole.

The Company has explored and assessed other financing alternatives, including both debt and equity financing, before entering into the Subscription Agreements with the Subscribers. The Company has not been able to secure terms of debt financing which are commercially acceptable to the Group, as available financing terms are typically for short tenors and/or at high financing costs (given the prevailing high interest rate environment) which would significantly increase pressure on the financial position of the Group. The Company also notes that the depressed equity market environment in Hong Kong means that execution risks for equity financing exercises such as a rights issue to be high and availability of underwriter at commercially acceptable underwriting commission (or at all) is low while transaction costs to launch and close such an exercise is significantly higher than for the Subscription Agreement. Based on the above, the Directors consider that the Subscriptions represent a cost-effective means and a more suitable option for the Group to raise the level of financing it needs.

The Directors are of the view that the Subscription Agreements are entered into upon normal commercial terms and that the terms of the Subscription Agreements (including the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

On 2 February 2023, the Company completed the First Subscription and net proceeds of approximately HK\$69.76 million was raised from two subscribers. The net proceeds from the First Subscription have been fully utilised in accordance with the proposed use (approximately HK\$60 million has been used for development of the Group's media entertainment segment, and approximately HK\$9.76 million has been applied towards the general working capital of the Group).

On 3 May 2023, the Company completed the Second Subscription and net proceeds of approximately HK\$143.1 million was raised from one subscriber. The net proceeds from the Second Subscription have been fully utilised in accordance with the proposed use (approximately HK\$120 million has been used for development of the Group's media entertainment segment, and approximately HK\$23.1 million has been applied towards the general working capital of the Group).

On 20 June 2023, the Company completed the Third Subscription and net proceeds of approximately HK\$232.5 million was raised from two subscribers. The use of proceeds from the Third Subscription is set out below:

Proposed use	Actual use
<ul style="list-style-type: none"> • approximately HK\$175 million towards development of the Group’s media entertainment segment; and • approximately HK\$57.5 million towards the general working capital of the Group. 	<ul style="list-style-type: none"> • approximately HK\$30 million has been used for development of the Group’s media entertainment segment (of which HK\$3.9 million has been used for the development and integration of generative artificial intelligence technology into the Group’s business and production process) and the remaining amount of approximately HK\$145 million (of which HK\$9.4 million has been earmarked for use in the development and integration of generative artificial intelligence technology into the Group’s business and production process) is expected to be utilised on or before 29 February 2024; and • approximately HK\$28.2 million has been applied towards the general working capital of the Group and the remaining amount of approximately HK\$29.3 million is expected to be used on or before 29 February 2024.

Save as disclosed above, the Company has not conducted any equity fund raising activity in the 12 months immediately preceding the date of this announcement.

SPECIFIC MANDATE

The Subscription Shares will be issued pursuant to the Specific Mandate to be sought from the Shareholders at the SGM. The issuance of the Subscription Shares is subject to, among other things, approval by the Shareholders at the SGM. Resolution(s) will be proposed to the Shareholders at the SGM to consider and, if thought fit, approve, among other things, the grant of the Specific Mandate to allot and issue the Subscription Shares and the transactions contemplated under the Subscription Agreements.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

A circular containing, among other things, (i) further details of the Subscriptions and the Subscription Agreements; and (ii) a notice of SGM, is expected to be despatched to the Shareholders on or before 10 November 2023 in compliance with the applicable requirements under the Listing Rules, that is, within 15 Business Days from date of this announcement.

GENERAL

Shareholders who are involved in or interested in the Subscriptions will be required to abstain from voting in respect of the resolution(s) to approve the grant of the Specific Mandate to allot and issue the Subscription Shares pursuant to the Subscription Agreements and the transactions contemplated under the Subscription Agreements at the SGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolution(s) approving the aforesaid matters.

WARNING

Completion of the issue of the Subscription Shares is subject to the satisfaction (or waiver, where applicable) of conditions precedent under the Subscription Agreements and therefore may or may not take place. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday and Sunday) on which banks in Hong Kong are open for business and on which the Stock Exchange is open for the business of dealing in securities
“Company”	Digital Domain Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 547)
“Completion”	completion of the issue of the Subscription Shares pursuant to the Subscription Agreements
“connected person(s)”	has the same meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“First Subscription”	subscription of an aggregate of 219,375,000 Shares (representing approximately 4.83% of the then issued share capital of the Company) on 2 February 2023 at HK\$0.32 per Share

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Second Subscription”	subscription of an aggregate of 646,430,000 Shares (representing approximately 12.44% of the then issued share capital of the Company) on 3 May 2023 at HK\$0.222 per Share
“SGM”	the special general meeting of the Company to be held in due course to consider and, if thought fit, approve the grant of the Specific Mandate and the transactions contemplated under the Subscription Agreements
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate to allot and issue the Subscription Shares to be sought from the Shareholders at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber A”	has the meaning ascribed to it in the section headed “Introduction – Subscription Agreement A” of this announcement
“Subscriber B”	has the meaning ascribed to it in the section headed “Introduction – Subscription Agreement B” of this announcement
“Subscriber C”	has the meaning ascribed to it in the section headed “Introduction – Subscription Agreement C” of this announcement
“Subscribers”	the subscribers subscribing for the Subscription Shares under the Subscriptions, that is, Subscriber A, Subscriber B and Subscriber C, each a “ Subscriber ”

“Subscription Agreements”	the three subscription agreements each dated 19 October 2023 entered into by the Company and each of Subscriber A, Subscriber B and Subscriber C in respect of the subscription of Subscription Shares, and each a “ Subscription Agreement ”
“Subscription Price”	subscription price as stated in the Subscription Agreements, being HK\$0.207 per Share
“Subscription Shares”	up to 1,745,450,000 new Shares to be issued by the Company to the Subscribers in accordance with the terms of the Subscription Agreements
“Subscriptions”	the subscriptions of the Subscription Shares by the Subscribers in accordance with the terms and conditions of the Subscription Agreements
“Third Subscription”	subscription of an aggregate of 1,038,966,000 Shares (representing approximately 16.67% of the then issued share capital of the Company) on 20 June 2023 at HK\$0.224 per Share
“%”	per cent

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

Hong Kong, 19 October 2023

** For identification purpose only*

As at the date of this announcement, Mr. Seah Ang and Dr. Sun Ta-Chien are the executive Directors; Mr. Li Weiqiang, Mr. Cui Hao, Ms. Alla Y Alenikova and Mr. Brian Thomas McConville are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Dr. Elizabeth Monk Daley and Mr. Woo King Hang are the independent non-executive Directors.