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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)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO DISTRIBUTOR AGREEMENT

THE DISTRIBUTOR AGREEMENT

On 25 October 2024, DD Gaming Media, a wholly-owned subsidiary of the Company, and ADATA, a substantial Shareholder and a connected person of the Company, entered into the Distributor Agreement, pursuant to which DD Gaming Media has been appointed as the exclusive general distributor of ADATA to promote, market, sell and distribute the XPG Products to third party customers in the Territories, such that only DD Gaming Media or its affiliates may distribute such products as general distributor in the Territories during the term of the Distributor Agreement, which shall commence on the Effective Date, being the date on which the Independent Shareholders approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps), and will end on 31 December 2026, unless earlier terminated.

For the purposes of carrying on the distribution business, DD Gaming Media shall purchase the XPG Products from ADATA from time to time for sale and distribution to third party customers in the Territories. All such supplies and purchases shall be carried out in accordance with the principal terms of the Distributor Agreement while the specific terms of the purchases, such as product model, quantity, price and other terms and conditions of delivery of the relevant products shall be specified in the Product Contract(s) and subject to acceptance and confirmation by ADATA from time to time.

LISTING RULES IMPLICATIONS

As at the date of this announcement, based on notices from ADATA, ADATA and its subsidiary are interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued share capital of the Company. Accordingly, ADATA is a substantial Shareholder and connected person of the Company, and the Distributor Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Annual Caps exceeds 5.0%, the entering into of the Distributor Agreement and the Continuing Connected Transactions are subject to annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The SGM will be convened by the Company for the Independent Shareholders to consider and, if thought fit, approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps).

The Independent Board Committee comprising all the independent non-executive Directors has been established to consider, and make recommendations to the Independent Shareholders regarding, amongst other things, whether the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Ballas Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps).

A circular containing, amongst others, (i) further information on the Continuing Connected Transactions and the Distributor Agreement; (ii) a letter of recommendation from the Independent Board Committee regarding the Continuing Connected Transactions (including the Proposed Annual Caps) to the Independent Shareholders, (iii) a letter of advice from the Independent Financial Adviser regarding the Continuing Connected Transactions (including the Proposed Annual Caps) to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the SGM will be despatched to the Shareholders on or before 26 October 2024 in accordance with the Listing Rules.

DISTRIBUTOR AGREEMENT

Date

25 October 2024

Parties

DD Gaming Media, a wholly-owned subsidiary of the Company, which is principally engaged in trading business.

ADATA, a substantial Shareholder and connected person of the Company.

Principal Terms

Exclusive Distributorship

ADATA appoints DD Gaming Media as the exclusive general distributor of ADATA to promote, market, sell and distribute the XPG Products to third party customers in the Territories, such that only DD Gaming Media or its affiliates may distribute such products as general distributor in the Territories. However, to facilitate a smooth and orderly transition of ADATA's existing customers in the Territories to DD Gaming Media, ADATA may, with the prior consent of DD Gaming Media, continue to sell the XPG Products to certain existing customers in the Territories during the transition period in case DD Gaming Media does not have sufficient capacity and resources to handle sales to those customers initially. DD Gaming Media aims to be able to fully service all customers of ADATA in the Territories by end of 2027. For the avoidance of doubt, ADATA shall not appoint any other third party as a general distributor for distributing the XPG Products in the Territories during the term of the Distributor Agreement.

Licence Fee

DD Gaming Media is required to pay an annual Licence Fee of US\$500,000 (equivalent to approximately HK\$3,900,000) per calendar year, or a pro-rated amount for periods of less than one calendar year to ADATA for the exclusive distributorship, which rate is to continue to apply upon the first renewal of the initial term.

The Licence Fee was agreed between DD Gaming Media and ADATA after arm's length negotiations, having taken into consideration that (i) the licence fees for exclusive distribution rights of comparable transactions identified, based on the criteria that the transactions involved the granting of exclusive licence for distribution to companies in the sectors of consumer electronics, household goods and home appliances that are listed on the Stock Exchange and the transactions were announced by the listed companies during the period from 1 January 2023 to 23 October 2024 (being the latest practicable date for the purpose of ascertaining such information contained in this announcement), were more than 3% of the relevant companies' net sales, while the annual Licence Fee accounts for less than 1% of the projected annual sales of the XPG Products to be generated from the distributorship by DD Gaming Media; (ii) no minimum guaranteed amount of purchases from ADATA is required to be committed by DD Gaming Media for securing the exclusive distributorship in the Territories, despite it being customary for principals to request distributors to commit to such an amount when granting exclusive rights; and (iii) ADATA's existing customers will be transitioned to DD Gaming Media at no additional costs to DD Gaming Media.

Purchases of the XPG Products from ADATA

For the purposes of carrying on the distribution business, DD Gaming Media shall purchase the XPG Products from ADATA from time to time for sale and distribution to third party customers in the Territories. All such supplies and purchases shall be carried out in accordance with the principal terms of the Distributor Agreement while the specific terms of the purchases, such as product model, quantity, price and other terms and conditions of delivery of the relevant products shall be specified in the Product Contract(s) and subject to acceptance and confirmation by ADATA from time to time.

The terms and conditions, including product pricing, under the Product Contract(s) for supplying XPG Products to DD Gaming Media shall be determined with reference to the prevailing market terms and prices and such terms shall be more favourable to DD Gaming Media, offering discounts (the extent of which may vary depending on factors such as product type, popularity, order size, seasonality and DD Gaming Media's sales performance) to ADATA's sales price for such products to third party customers in the Territories.

Term

The initial term of the Distributor Agreement will commence on the Effective Date, being the date on which the Independent Shareholders approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps), and will end on 31 December 2026, unless earlier terminated. After the expiry of the initial term, DD Gaming Media has the right to extend the term of the Distributor Agreement for another three years, subject to compliance with the requirements of the Listing Rules, if applicable.

The Agreement may be terminated earlier (a) by either party with a prior written notice of not less than three months; or (b) by the non-breaching party by notice with immediate effect if (i) the other party has failed to rectify a breach within fifteen days after receiving written notice to do so; or (ii) specified insolvency related events occur in respect of the other party.

PROPOSED ANNUAL CAPS

The Proposed Annual Caps for the Continuing Connected Transactions for the period ending 31 December 2026 are set out as follows:

	For the period from the Effective Date to 31 December 2024 (US\$)	For the year ending 31 December 2025 (US\$)	For the year ending 31 December 2026 (US\$)
Purchase Amount	13,500,000	76,000,000	103,000,000
Licence Fee	83,333	500,000	500,000
Total	<u>13,583,333</u>	<u>76,500,000</u>	<u>103,500,000</u>

The Proposed Annual Caps in respect of Purchase Amount were arrived at based on, among other things, (i) ADATA's historical sales amount of the XPG Products in the Territories for the year ended 31 December 2023; (ii) the currently planned sales capacity and resources of DD Gaming Media for conducting the distribution business during the initial transition period; (iii) a projected annual growth rate of 15% in the sales amount of the XPG Products in the Territories for each of the three years ending 31 December 2026, having taken into consideration ADATA's historical annual growth rate of approximately 15% in sales of XPG Products in the Territories for the year ended 31 December 2023 over the year ended 31 December 2022 and the anticipated annual growth rate of over 15% of the gaming Personal Computer (PC) market during the forecast period of 2024 to 2036 projected by Research Nester, an independent market research company; (iv) the assumption that the Distributor Agreement will commence on or about 1 November 2024; and (v) the assumption that the sales amount of the XPG Products in the Territories for the two months ending 31 December 2024 may account for approximately 25% of the projected total sales amount of the XPG Products in the Territories for the year ending 31 December 2024 given that November and December are traditional peak seasons for sales of computer and gaming products.

The Proposed Annual Caps in respect of the Licence Fee were arrived at based on the fixed fee of US\$500,000 (equivalent to approximately HK\$3,900,000) per annum as stipulated in the Distributor Agreement and the assumption that the Distributor Agreement will commence on or about 1 November 2024.

INFORMATION ON ADATA AND XPG PRODUCTS

Based on the public information available to the Company, ADATA is a Taiwan-based company whose shares are listed on The Taiwan Stock Exchange Corporation (stock code: 3260). Its principal businesses are manufacturing and sales of electronics products, including the manufacture and sales of memory products, the sales of electric tricycle, cultural creative goods and catering, the lease of electric tricycle and activity venue, agricultural cultivation, and portal website operation.

ADATA's main product line consists of Dynamic Random Access Memory (DRAM) modules, USB flash drives, hard disk drives, solid state drives (SSD), memory cards and mobile accessories. Its products are used in computers, industrial computers, servers, workstations, printers, media players, televisions and game consoles and are sold domestically and internationally. ADATA also sells Personal Computer (PC) gaming hardware and accessories under the brand of "XPG" (Xtreme Performance Gear), which targets to produce fun content, products and services for gamers to enhance their gaming experience, since 2008. The existing XPG products include, amongst others, DRAM, SSD, power supply units, PC chassis, cooling equipment, monitors, laptops, keyboards, mice, mousepads, headsets and lifestyle gears.

According to ADATA's published financial results, ADATA recorded an audited consolidated revenue of approximately NT\$33.68 billion (equivalent to approximately HK\$8.23 billion) and net profit of approximately NT\$1.49 billion (equivalent to approximately HK\$0.36 billion) for the year ended 31 December 2023. As at 31 December 2023, ADATA's equity attributable to owners of the parent amounted to approximately NT\$14.55 billion (equivalent to approximately HK\$3.56 billion).

ADATA subscribed for 146,250,000 Shares pursuant to a subscription agreement with the Company dated 17 January 2023, which represented approximately 3.38% of the Shares then in issue. According to the disclosure of interest notices received by the Company, ADATA increased its interest in Shares during April 2024 to August 2024 and became a substantial Shareholder on 20 August 2024. As at the date of this announcement, based on notices from ADATA, ADATA and its subsidiary are interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued Shares of the Company.

REASONS FOR AND BENEFITS OF THE DISTRIBUTOR AGREEMENT

The Company is an investment holding company. Its subsidiaries are principally engaged in media entertainment business, including visual effects production (VFX), post-production services, virtual human (VH) business and trading of semiconductor memory chips.

As disclosed in the Company's announcement dated 19 October 2023 and circular to Shareholders dated 14 November 2023, in order to continue delivering cutting-edge solutions that both optimise 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 for the research and development into harnessing the power of artificial intelligence generated content (AIGC) for use in its work and has been deploying funds raised in 2023 from Independent Third Parties at the time (including ADATA) to fund partly or wholly its research and development activities.

The Group anticipated that advancements in AI and related technologies will drive increased demand for DRAM in various AI applications, in addition to those relevant to the media industry. Given the unstable operating environment in the media industry in recent years, including the events affecting Hollywood since 2023, the Group has been vigilant in exploring opportunities to expand the Group's income stream. Consequently, the Group resumed its trading business, particularly in DRAM, in 2023. For the year ended 31 December 2023, the Group's trading segment recorded a turnover of approximately HK\$26.8 million and a segment profit of approximately HK\$3.30 million. The management of the Group believes that demand for DRAM will continue to grow and aims to further expand this business segment by partnering with reputable business partners.

With the successful launch in June 2024 at "COMPUTEX 2024" of XPG's brand ambassador AI Virtual Human, Mera produced by the Group, the Group also forged a partnership with XPG in August 2024 to further explore AI VH applications in its gaming hardware business and to secure sales distribution rights in Greater China and the Americas for the Group. The Distributor Agreement is the first fruit of this partnership.

ADATA is a reputable hardware manufacturer specialising in memory products and their products are well-received in both Greater China and the Americas. Aligning with such a manufacturer enhances the Group's brand image and credibility in the market and allows the Group to expand its market presence and reach new customer segments. When all existing customers of ADATA in the Territories are transitioned to DD Gaming Media which becomes a sole and exclusive general distributor of the XPG Products in the Territories, the Group can secure a competitive advantage by offering unique products not available through other channels in the Territories and the direct relationship with ADATA can streamline supply chain operations, reducing costs and improving delivery times. Access to a wider range of high-demand products like DRAM and other gaming hardware can also broaden the Group's product mix and boost the Group's revenue and profitability. These benefits can strategically position the Group for growth in the evolving tech landscape.

The Directors (other than the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the advice from the Independent Financial Adviser) are of the view that the Distributor Agreement is entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms after arm's length negotiations between the parties; and (iii) are on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

No Directors are deemed to be materially interested in the transactions contemplated under the Distributor Agreement, and therefore no Directors was required to abstain from voting on the Board resolution to approve the Distributor Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

LISTING RULES IMPLICATIONS

As at the date of this announcement, based on notices from ADATA, ADATA and its subsidiary are interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued share capital of the Company. Accordingly, ADATA is a substantial Shareholder and connected person of the Company, and the Distributor Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Annual Caps exceeds 5.0%, the entering into of the Distributor Agreement and the Continuing Connected Transactions are subject to annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The SGM will be convened by the Company for the Independent Shareholders to consider and, if thought fit, approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps).

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder, together with his/her/its associate(s), who has a material interest in the Distributor Agreement and the Continuing Connected Transactions, shall abstain from voting on the resolution regarding the same at the SGM. As at the date of this announcement, based on notices from ADATA, ADATA and its subsidiary, namely Zhao-Xing Investment Co., Ltd., are interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued share capital of the Company. ADATA and Zhao-Xing Investment Co., Ltd. shall therefore abstain from voting on the resolution for approving the Distributor Agreement and the Continuing Connected Transactions.

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Duan Xiongfei, Ms. Lau Cheong, Dr. Elizabeth Monk Daley and Mr. Woo King Hang, has been established to consider, and make recommendations to the Independent Shareholders regarding, amongst other things, whether the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Ballas Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps).

A circular containing, amongst others, (i) further information on the Continuing Connected Transactions and the Distributor Agreement; (ii) a letter of recommendation from the Independent Board Committee regarding the Continuing Connected Transactions (including the Proposed Annual Caps) to the Independent Shareholders, (iii) a letter of advice from the Independent Financial Adviser regarding the Continuing Connected Transactions (including the Proposed Annual Caps) to the Independent Board Committee and the Independent Shareholders; and (iv) the notice of the SGM will be despatched to the Shareholders on or before 26 October 2024 in accordance with the Listing Rules.

DEFINITIONS

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

“ADATA”	ADATA Technology Co., Ltd., a company incorporated in Taiwan, the shares of which are listed on The Taiwan Stock Exchange Corporation (stock code: 3260)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Distributor Agreement in relation to, amongst other things, the appointment of DD Gaming Media as the exclusive general distributor of ADATA for distributing the XPG Products in the Territories and the sale and purchase of XPG Products between ADATA and DD Gaming Media
“DD Gaming Media”	Digital Domain Gaming Media Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Distributor Agreement”	the distributor agreement entered into between DD Gaming Media and ADATA on 25 October 2024 in relation to the appointment of DD Gaming Media as an exclusive general distributor in respect of the XPG Products in the Territories by ADATA
“Effective Date”	the date on which the Independent Shareholders approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Group”	the Company and its subsidiaries from time to time

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in respect of the terms of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Independent Financial Adviser” or “Ballas Capital”	Ballas Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Independent Shareholders”	Shareholders other than those who are required to abstain from voting at the SGM to approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Independent Third Party(ies)”	an entity(ies) or person(s) who, to the best knowledge of the Directors, is/are independent of the Company and its connected persons
“Licence Fee”	the annual licence fee payable by DD Gaming Media to ADATA for the exclusive distributorship of the XPG Products in the Territories
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“NT\$”	New Taiwan dollars, the lawful currency of Taiwan
“PRC”	The People’s Republic of China
“Product Contract(s)”	the relevant purchase order(s) or sales contract(s) to be concluded or entered into between DD Gaming Media and ADATA in respect of sale and purchase of the XPG Products

“Proposed Annual Caps”	the proposed annual caps for each of the period/financial years ending 31 December 2024, 2025 and 2026 for the Continuing Connected Transactions under the Distributor Agreement, for the purpose of Chapter 14A of the Listing Rules, set out in this announcement
“Purchase Amount”	the amount payable by DD Gaming Media to ADATA for the purchases of the XPG Products from ADATA
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the registered holder(s) of the Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Territories”	Greater China and the Americas
“XPG Products”	all existing and future products under the “XPG” (Xtreme Performance Gear) brand, including but not limited to computer memory, storage devices, computer and gaming peripherals and accessories, laptops, lifestyle gears and other similar or associated products and ancillary services
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For reference purposes only and unless otherwise specified, the exchange rates of US\$1.0 = HK\$7.8 and NT\$1.0 = HK\$0.2445 are applied in this announcement. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in US\$ and NT\$ have been, could have been or may be converted at such or any other rate or at all.

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

Hong Kong, 25 October 2024

As at the date of this announcement, Mr. Seah Ang and Dr. Sun Ta-Chien are the executive Directors; 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.