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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 2024

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 2024 (the “Review Period”) together with comparative figures for the corresponding period in 2023 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2024

		For the six months ended 30 June	
	Notes	2024 HK\$'000	2023 HK\$'000
Revenue	4	264,888	414,577
Cost of sales and services rendered		(226,377)	(342,746)
Gross profit		38,511	71,831
Other income and gains or losses		10,151	28,653
Selling and distribution expenses		(1,767)	(1,819)
Administrative expenses and other net operating expenses		(164,669)	(339,464)
Finance costs	5	(14,524)	(18,206)
Fair value gain/(loss) on financial assets measured at fair value through profit or loss	11	13,150	(12,068)
Gain on disposal of financial assets		8,526	-
Impairment loss on trade receivables		(1,556)	(3,061)
Reversal of impairment loss on other receivable		-	8,050
Impairment loss on amounts due from associates		(1,121)	(2,322)
Impairment loss on amount due from a joint venture		-	(167)
Share of losses of associates		-	(1)
Loss before taxation	6	(113,299)	(268,574)
Taxation	7	(1,712)	(3,109)
Loss for the period		(115,011)	(271,683)
Loss attributable to:			
Owners of the Company		(109,428)	(197,557)
Non-controlling interests		(5,583)	(74,126)
		(115,011)	(271,683)
Loss per share attributable to the owners of the Company:			(Re-presented)
		HK cents	HK cents
Basic and diluted	8	(1.378)	(3.691)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	For the six months ended	
	30 June	
	2024	2023
	HK\$'000	HK\$'000
Loss for the period	(115,011)	(271,683)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	1,827	5,122
Share of other comprehensive income of associates	<u>-</u>	<u>2</u>
Other comprehensive income for the period, net of tax	<u>1,827</u>	<u>5,124</u>
Total comprehensive income for the period	<u>(113,184)</u>	<u>(266,559)</u>
Total comprehensive income attributable to:		
Owners of the Company	(108,484)	(191,828)
Non-controlling interests	<u>(4,700)</u>	<u>(74,731)</u>
	<u>(113,184)</u>	<u>(266,559)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

		Unaudited	Audited
		30 June	31 December
		2024	2023
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		24,191	34,562
Right-of-use assets		58,527	76,711
Goodwill and intangible assets	9	344,524	340,857
Interests in associates		27,770	28,406
Interests in joint ventures		-	-
Loan to a joint venture	10	916	916
Financial assets measured at fair value through profit or loss (“FVTPL”)	11	129,382	31,719
Deposits and consideration receivable	13	12,058	18,279
Deferred tax assets		1,637	1,746
		<u>599,005</u>	<u>533,196</u>
Current assets			
Inventories		14,295	-
Trade receivables, other receivables and prepayments	13	88,217	76,958
Contract assets		4,385	7,915
Cash and cash equivalents and pledged bank deposits	14	528,678	635,854
		<u>635,575</u>	<u>720,727</u>
Current liabilities			
Trade payables, other payables and accruals	15	187,036	198,521
Lease liabilities		39,389	38,797
Contract liabilities		25,131	51,668
Borrowings		207,744	104,719
Tax payable		5,024	4,229
		<u>464,324</u>	<u>397,934</u>
Net current assets		<u>171,251</u>	<u>322,793</u>
Total assets less current liabilities		<u>770,256</u>	<u>855,989</u>
Non-current liabilities			
Borrowings		170,669	246,019
Lease liabilities		37,355	58,159
Deferred tax liabilities		43,058	44,478
		<u>251,082</u>	<u>348,656</u>
NET ASSETS		<u>519,174</u>	<u>507,333</u>
Capital and reserves			
Share capital	16	79,792	73,792
Reserves		607,329	597,681
		<u>687,121</u>	<u>671,473</u>
Equity attributable to owners of the Company		<u>687,121</u>	<u>671,473</u>
Non-controlling interests		<u>(167,947)</u>	<u>(164,140)</u>
TOTAL EQUITY		<u>519,174</u>	<u>507,333</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2024

	For six months ended	
	30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities		
Loss before taxation	(113,299)	(268,574)
Adjustments for:		
Depreciation of property, plant and equipment	10,843	12,849
Depreciation of right-of-use assets	17,535	20,175
Amortisation of intangible assets	15,307	149,823
Gain on disposal of property, plant and equipment	-	(1)
Loss on deregistration of a subsidiary	893	-
Gain on disposal of financial assets	(8,526)	-
Net exchange losses	3,790	7,840
Share of losses of associates	-	1
Impairment loss on trade receivables	1,556	3,061
Reversal of impairment loss on other receivable	-	(8,050)
Impairment loss on amounts due from associates	1,121	2,322
Impairment loss on amount due from a joint venture	-	167
Fair value (gain)/loss on financial assets measured at FVTPL	(13,150)	12,068
Interest income	(8,378)	(1,897)
Finance costs	14,524	18,206
	<hr/>	<hr/>
Operating loss before working capital changes	(77,784)	(52,010)
Increase in inventories	(14,295)	-
(Increase)/decrease in trade receivables, other receivables and prepayments	(6,099)	1,290
Decrease/(increase) in contract assets	3,531	(12,817)
(Decrease)/increase in trade payables, other payables and accruals	(15,190)	1,830
(Decrease)/increase in contract liabilities	(26,537)	43,361
	<hr/>	<hr/>
Cash used in operations	(136,374)	(18,346)
Income tax paid	(690)	(1,712)
Interest paid	(6,513)	(9,291)
	<hr/>	<hr/>
Net cash used in operating activities	(143,577)	(29,349)

	For the six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Cash flows from investing activities		
Interest received	8,088	521
Purchases of property, plant and equipment	(751)	(4,398)
Proceeds from disposal of property, plant and equipment	-	1
Additions to intangible assets	(20,002)	(17,404)
Advance to associates	(492)	(1,542)
Advance to a joint venture	(2)	(1,122)
Loan to a joint venture	-	(23,510)
Investment in financial assets measured at FVTPL	(78,024)	-
Placement of pledged bank deposits	(70,372)	(537)
Net cash used in investing activities	(161,555)	(47,991)
Cash flows from financing activities		
Proceeds from issue of ordinary shares, net of issuing expenses	124,132	445,994
New bank borrowings	81,905	11,454
Repayment of bank borrowings	(8,649)	(7,276)
Repayment of other loans	(45,335)	(17,208)
Repayment of principal portion of lease liabilities	(19,481)	(18,599)
Repayment of interest portion of lease liabilities	(4,105)	(5,954)
Net cash generated from financing activities	128,467	408,411
Net (decrease)/increase in cash and cash equivalents	(176,665)	331,071
Effect of foreign exchange rate changes	(749)	(668)
Cash and cash equivalents at 1 January	464,038	36,480
Cash and cash equivalents at 30 June	286,624	366,883
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	286,624	366,883

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2024 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 D2 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 value.

These unaudited condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2023 annual consolidated financial statements. Details of any changes in accounting policies are set out in note 2. The adoption of the amended Hong Kong Financial Reporting Standards (the “HKFRSs”) had no material effect on these unaudited condensed consolidated interim financial statements. The Group has not early adopted any other new or amended 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 2023 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 HKFRSs and should be read in conjunction with the 2023 annual consolidated financial statements.

2. CHANGES IN HKFRSs

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

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, Non-current Liabilities with Covenants
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The Group has adopted all the amended HKFRSs that are relevant to its operations and effective for the current accounting period of the Group. The adoption of the amended HKFRSs that are effective from 1 January 2024 did not have any significant impact on the Group's accounting policy.

The Group has not early adopted the following amended 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 amended HKFRSs. The Group is not yet in a position to state whether these amended HKFRSs will result in substantial changes to the Group's accounting policies and financial statements:

Amendments to HKAS 21	Lack of Exchangeability ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

¹ Effective for annual periods beginning on or after 1 January 2025

² No mandatory effective date determined but available for adoption

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2023 annual consolidated financial statements.

4. 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. In the prior year, the Group commenced the business engaging in sales of semiconductor memory chips in Hong Kong, and it is considered as a new operating and reportable segment by the chief operating decision-makers.

The following summary describes the operations in the Group's two reportable segments, media entertainment and trading:

- provision of visual effects production and post production services and virtual human services ("Media entertainment")
- sales of semiconductor memory chips ("Trading")

(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	
	2024	2023
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Provision of		
– visual effects production and post production services	200,696	411,629
– virtual human services	7,583	2,948
Sales of goods	56,609	-
	<u>264,888</u>	<u>414,577</u>

(b) Disaggregation of revenue from contracts with customers

Segment	Media entertainment		Trading		Consolidated	
	2024 HK\$'000	2023 HK\$'000	2024 HK\$'000	2023 HK\$'000	2024 HK\$'000	2023 HK\$'000
Types of goods or service						
Provision of						
– visual effects production and post production services	200,696	411,629	-	-	200,696	411,629
– virtual human services	7,583	2,948	-	-	7,583	2,948
Sales of goods	-	-	56,609	-	56,609	-
Total revenue from contracts with customers	208,279	414,577	56,609	-	264,888	414,577

	For the six months ended 30 June	
	2024 HK\$'000	2023 HK\$'000
Geographical markets		
Hong Kong	56,609	-
The People's Republic of China	26,229	39,855
The United States of America	85,650	144,836
Canada	87,958	225,375
United Kingdom	-	1,840
India	8,132	2,590
Other countries/regions	310	81
Total revenue from contracts with customers	264,888	414,577
Timing of revenue recognition		
A point in time	56,973	372
Over time	207,915	414,205
Total revenue from contracts with customers	264,888	414,577

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

	Media entertainment		Trading		Consolidated	
	For the six months ended 30 June					
	2024	2023	2024	2023	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers and reportable segment revenue	208,279	414,577	56,609	-	264,888	414,577
Reportable segment (loss)/profit	(79,879)	(195,872)	3,389	-	(76,490)	(195,872)

	Media entertainment		Trading		Consolidated	
	As at 30 June 2024	As at 31 December 2023	As at 30 June 2024	As at 31 December 2023	As at 30 June 2024	As at 31 December 2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	656,275	682,080	63,885	26,827	720,160	708,907
Reportable segment liabilities	232,678	285,263	28	11	232,706	285,274

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

	For the six months ended	
	30 June	
	2024	2023
	HK\$'000	HK\$'000
Loss before taxation		
Segment loss	(76,490)	(195,872)
Reversal of impairment loss on other receivable	-	8,050
Impairment loss on amounts due from associates	(1,121)	(2,322)
Impairment loss on amount due from a joint venture	-	(167)
Fair value gain/(loss) on financial assets measured at FVTPL	13,150	(12,068)
Gain on disposal on financial assets	8,526	-
Share of losses of associates	-	(1)
Auditor's remuneration	(1,480)	(1,340)
Depreciation of unallocated property, plant and equipment, and depreciation of unallocated right-of-use assets	(1,086)	(1,096)
Professional fees	(19,268)	(32,089)
Unallocated finance costs	(10,566)	(10,467)
Unallocated short-term lease expenses	(80)	(81)
Unallocated other income and gains or losses	9,140	15,477
Other unallocated corporate expenses*	(34,024)	(36,598)
Consolidated loss before taxation	<u>(113,299)</u>	<u>(268,574)</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.

	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	720,160	708,907
Interests in associates	27,770	28,406
Loan to a joint venture	916	916
Financial assets measured at FVTPL	129,382	31,719
Unallocated cash and cash equivalents and pledged bank deposits	333,437	460,525
Unallocated corporate assets	<u>22,915</u>	<u>23,450</u>
Consolidated total assets	<u>1,234,580</u>	<u>1,253,923</u>

	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Liabilities		
Reportable segment liabilities	232,706	285,274
Tax payable	5,024	4,229
Deferred tax liabilities	43,058	44,478
Borrowings	378,413	350,738
Unallocated corporate liabilities	56,205	61,871
	<hr/>	<hr/>
Consolidated total liabilities	715,406	746,590
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(e) Revenue

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

	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Trade receivables	32,498	37,397
Contract assets	4,385	7,915
Contract liabilities	25,131	51,668
	<hr/>	<hr/>

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 provision of visual effects production and post production services. 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 visual effects production and post production 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 visual effects production and post production services that had an original expected duration of one year or less.

5. FINANCE COSTS

	For the six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Imputed interest on lease liabilities	4,105	5,954
Interest on bank and other loans	10,419	12,252
	<u>14,524</u>	<u>18,206</u>

6. LOSS BEFORE TAXATION

	For the six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is arrived at after crediting/charging:		
<i>Crediting:</i>		
Interest income	8,378	1,897
<i>Charging:</i>		
Staff costs (including directors' remuneration)	200,618	351,450
Depreciation of property, plant and equipment	10,843	12,849
Depreciation of right-of-use assets	17,535	20,175
Amortisation of intangible assets	15,307	149,823
Loss on deregistration of a subsidiary	893	-
Short-term lease expenses	221	308
	<u>221</u>	<u>308</u>

7. TAXATION

Taxation credited to the unaudited condensed consolidated income statement represents:

	For the six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation – Hong Kong profits tax	-	-
Current taxation – Overseas tax		
– provision for the period	1,347	1,214
– under-provision in respect of prior years	259	2,092
Deferred taxation	106	(197)
	<u>1,712</u>	<u>3,109</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.

8. 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	
	2024	2023
	HK\$'000	HK\$'000
Loss for the period attributable to the owners of the Company	<u>(109,428)</u>	<u>(197,557)</u>

	For the six months ended 30 June	
	2024	2023
	Number of shares	Number of shares
		(Re-presented)
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted (<i>Note</i>)	<u>7,940,726,146</u>	<u>5,352,103,350</u>

Note: The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the bonus elements in the issue of shares through share subscriptions during the six months ended 30 June 2024 and the year ended 31 December 2023.

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.

9. GOODWILL AND INTANGIBLE ASSETS

	Proprietary Participation					Film	Total
	Goodwill	Trademarks	software	rights	Patents	rights	
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
COST							
As at 1 January 2024	689,907	19,525	280,228	323,493	109,346	130,211	1,552,710
Additions	-	-	19,564	438	-	-	20,002
Exchange realignment	203	(4)	(2,677)	(53)	(1,969)	(27)	(4,527)
As at 30 June 2024	<u>690,110</u>	<u>19,521</u>	<u>297,115</u>	<u>323,878</u>	<u>107,377</u>	<u>130,184</u>	<u>1,568,185</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS							
As at 1 January 2024	440,454	-	208,349	323,493	109,346	130,211	1,211,853
Amortisation for the period	-	-	15,307	-	-	-	15,307
Exchange realignment	-	-	(1,450)	(53)	(1,969)	(27)	(3,499)
As at 30 June 2024	<u>440,454</u>	<u>-</u>	<u>222,206</u>	<u>323,440</u>	<u>107,377</u>	<u>130,184</u>	<u>1,223,661</u>
CARRYING AMOUNT							
As at 30 June 2024	<u>249,656</u>	<u>19,521</u>	<u>74,909</u>	<u>438</u>	<u>-</u>	<u>-</u>	<u>344,524</u>
As at 31 December 2023	<u>249,453</u>	<u>19,525</u>	<u>71,879</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>340,857</u>

10. LOAN TO A JOINT VENTURE

During the year ended 31 December 2023, the Group granted a loan to Digital Eve Technology Limited (“Digital Eve”), a joint venture of the Group amounting to US\$3,000,000 (equivalent to HK\$23,510,000). The loan to a joint venture is unsecured, interest bearing at 8% to 12% per annum and repayable in three years from grant of the loan. Details of the loan to a joint venture are per the Company’s announcement dated 13 February 2023.

Digital Eve early repaid US\$2,883,000 (equivalent to HK\$22,518,000) to the Group during the year ended 31 December 2023. The outstanding principal amount of loan to a joint venture is US\$117,000 (equivalent to HK\$916,000) as at 30 June 2024 and 31 December 2023.

11. 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 e-commerce 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 shares represented approximately 19% of the total issued common shares of asknet on 3 February 2021.

In November 2021, asknet proposed to increase its capital from 1,307,530 shares to 3,268,825 shares. Therefore the shares held by the Group was diluted which represented approximately 7.6% of the total issued common shares of asknet since then.

On 30 May 2022, asknet announced that its Executive Board with the approval of the Supervisory Board decided to delist its shares on the Frankfurt Stock Exchange with effective from 31 August 2022, because the economic benefit of the inclusion of its shares in the Regulated Unofficial Market of the Frankfurt Stock Exchange no longer justifies the associated expenses.

On 31 August 2022, the common shares of asknet were delisted from the Frankfurt Stock Exchange. Immediately before the delist, the fair value of the Group's interests in asknet, based on quoted market price, amounted to HK\$881,000. In the opinion of the Directors, upon the delist of asknet the fair value of the Group's interests in asknet becomes minimal and accordingly a further fair value loss of HK\$881,000 was recognised in profit or loss during the year ended 31 December 2022.

On 26 February 2021 and 6 May 2021, the Group acquired 260,000 and 5,000, respectively, bearer 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 shares represented approximately 2.91% and 0.06% of the total issued bearer shares of HLEE on 26 February 2021 and 6 May 2021, respectively. Upon the completion of these two acquisitions, the total shares represented approximately 3.01% of the total issued bearer shares of HLEE on 6 May 2021.

In November 2023, HLEE increased its capital from 9,460,000 shares to 12,960,000 shares. Since then and as at 31 December 2023 and 30 June 2024, the shares held by the Group was diluted which represented approximately 2.04% of the total issued bearer shares of HLEE.

In June 2024, Digital Domain Capital Partner S.à r.l. ("DDCP"), a wholly owned subsidiary of the Company, subscribed 10,000,000 bearer shares of Youngtimers AG ("YTME"), a publicly traded Swiss special situation investment firm focused on the international media, e-commerce and lifestyle goods sectors, the shares of which are traded on the Swiss Stock Exchange (ticker code: YTME.SW) for an aggregate consideration of US\$7,000,000 (equivalent to approximately HK\$54,571,000).

In June 2024, DDCP sold its shares in asknet and 4,000 interest bearing notes which were acquired in February 2024 at the purchase price of US\$3,000,000 (equivalent to approximately HK\$23,453,000) in return for share consideration of 4,000,000 bearer shares of YTME. The fair value of the share consideration was EUR3,331,808 (equivalent to approximately HK\$28,171,000) on the completion date of 27 June 2024.

As at 30 June 2024, the YTME shares held by the Group represented approximately 22.576% (14,000,000 shares) of the total issued bearer shares of YTME.

The above investments are classified as non-current because the management expects to realise these financial assets after twelve months after the reporting period.

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.

	As at	
	30 June	31 December
	2024	2023
	HK\$'000	HK\$'000
Listed equity securities outside Hong Kong, at fair value	129,382	31,719

The movements of the Group's financial assets measured at FVTPL were as follows:

	<i>HK\$'000</i>
As at 1 January 2024	31,719
Addition	106,195
Fair value gain recognised in profit or loss	13,150
Disposal	(19,645)
Exchange realignment	(2,037)
As at 30 June 2024	<u>129,382</u>

12. FAIR VALUE

a. Carrying amount versus fair value

The Group considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

- i. Trade receivables, other receivables and deposits
- ii. Trade payables, other payables and accruals
- iii. Bank balances and cash
- iv. Lease liabilities
- v. Borrowings

b. 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:

- i. Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- ii. 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)
- iii. Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Financial assets at FVTPL			
	– Listed equity investments			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2024	129,382	–	–	129,382
As at 31 December 2023	31,719	–	–	31,719

During the six months ended 30 June 2024, 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.

13. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at	
	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Non-current portion:		
Consideration receivable	3,904	7,831
Deposits	<u>8,154</u>	<u>10,448</u>
	<u>12,058</u>	<u>18,279</u>
Current portion:		
Trade receivables	32,498	37,397
Consideration receivables	11,712	7,831
Other receivables	17,904	17,627
Deposits	2,553	670
Prepayments	<u>23,550</u>	<u>13,433</u>
	<u>88,217</u>	<u>76,958</u>
Total trade receivables, other receivables and prepayments	<u><u>100,275</u></u>	<u><u>95,237</u></u>

The Group normally allows an average credit period of 30 days (as at 31 December 2023: 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:

	As at	
	30 June 2024 HK\$'000	31 December 2023 HK\$'000
0 to 30 days	13,928	22,499
31 to 60 days	3,828	933
61 to 90 days	3,636	1,482
91 to 365 days	9,307	9,894
Over 365 days	<u>1,799</u>	<u>2,589</u>
	<u>32,498</u>	<u>37,397</u>

14. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at	
	30 June 2024 HK\$'000	31 December 2023 HK\$'000
Cash and cash equivalents	286,624	464,038
Pledged bank deposits	<u>242,054</u>	<u>171,816</u>
	<u>528,678</u>	<u>635,854</u>

15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	30 June 2024 HK\$'000	As at 31 December 2023 HK\$'000
Trade payables	34,423	28,955
Other payables	69,934	83,420
Interest payables	33,661	34,038
Accruals	<u>49,018</u>	<u>52,108</u>
Total trade payables, other payables and accruals	<u>187,036</u>	<u>198,521</u>

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

	30 June 2024 HK\$'000	As at 31 December 2023 HK\$'000
0 to 30 days	8,944	4,585
31 to 60 days	3,473	3,144
61 to 90 days	1,643	1,151
91 to 365 days	15,155	12,925
Over 365 days	<u>5,208</u>	<u>7,150</u>
	<u>34,423</u>	<u>28,955</u>

16. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2023 and 30 June 2024	<u>75,000,000,000</u>	<u>750,000</u>
Issued and fully paid:		
As at 31 December 2023	7,379,248,625	73,792
Issue of shares on subscription	<u>600,000,000</u>	<u>6,000</u>
As at 30 June 2024	<u>7,979,248,625</u>	<u>79,792</u>

17. SHARE-BASED PAYMENT TRANSACTIONS

On 27 April 2012, a 10-year share option scheme was adopted and amended on 3 April 2014 (the “2012 Option Scheme”). Pursuant to the 2012 Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards. The 2012 Option Scheme has been expired on 27 April 2022.

On 21 May 2020, 478,000,000 share options (“Options”) were conditionally granted to employees of the Group under the 2012 Option Scheme. Out of which, 292,200,000 and 92,200,000 Options were vested on 21 May 2020 and 21 May 2021 respectively, the remaining 93,600,000 Options were vested on 21 May 2022. All Options are 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 of the Company’s ordinary shares on 21 May 2020. Following to the Company’s capital reorganisation completed during 2021, the exercise price was adjusted to HK\$0.46 per share with effective from 11 October 2021.

On 16 June 2022, a new share option scheme was adopted and was valid and effective for a period of 10 years (the “2022 Option Scheme”). Pursuant to the 2022 Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards.

During the six months ended 30 June 2024, 79,273,000 Options (six months ended 30 June 2023: Nil) under the 2012 Option Scheme were lapsed and no Options (six months ended 30 June 2023: Nil) were exercised.

As at 30 June 2024, the weighted average exercise price of Options outstanding was HK\$3.403 (as at 31 December 2023: HK\$2.547) and the average remaining contractual life is 3.44 years (as at 31 December 2023: 2.69 years).

The Group had no shared option expenses during the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

18. RELATED PARTY TRANSACTION

During the six months ended 30 June 2024, the Group had the following material related party transaction:

Related party relationship	Type of transaction	For the six months ended 30 June	
		2024 HK\$'000	2023 HK\$'000
Joint venture	Interest income	<u>43</u>	<u>701</u>

19. CAPITAL COMMITMENTS

The Group did not have any significant capital commitment as at 30 June 2024 and 31 December 2023.

20. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On 26 July 2024, share options were granted by the Company under the share option scheme adopted on 16 June 2022 to certain eligible participants to subscribe for 220,000,000 ordinary shares of HK\$0.01 each in the capital of the Company. Further details are disclosed in the Company’s announcement date 26 July 2024.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2024 (2023: Nil).

FINANCIAL AND BUSINESS REVIEW

During the six months ended 30 June 2024, the Group achieved a revenue of HK\$264,888,000 (2023: HK\$414,577,000), showing a decrease of approximately 36% compared to that of the previous corresponding period. The gross profit of the Group amounted to HK\$38,511,000 (2023: HK\$71,831,000) during the Review Period, showing a decrease of approximately 46%. The change in turnover and gross profit were attributable to the media entertainment segment. As at 30 June 2024, the total assets of the Group amounted to HK\$1,234,580,000 (as at 31 December 2023: HK\$1,253,923,000). The loss attributable to the owners of the Company for the Review Period was HK\$109,428,000 (2023: HK\$197,557,000). The loss for the Review Period amounted to HK\$115,011,000 (2023: HK\$271,683,000) and it was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
 - (a) amortisation and depreciation expenses excluding depreciation related to Right-of-use Assets and amortisation of film rights mentioned in (c) below amounted to the value of HK\$26,150,000 (2023: HK\$32,882,000);
 - (b) fair value gain on financial assets measured at fair value through profit or loss of HK\$13,150,000 (2023: loss of HK\$12,068,000); and
 - (c) there was no amortisation of film rights during the period (2023: HK\$129,790,000);
- (ii) administrative and other project expenses; and
- (iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the Review Period, this segment recorded a revenue of approximately HK\$208,279,000 (2023: HK\$414,577,000) and incurred a loss of approximately HK\$79,879,000 (2023: HK\$195,872,000). The loss included research and development costs incurred during the Review Period relating to virtual human technology.

“The earnings before interest, tax, depreciation and amortisation (EBITDA)” of the media entertainment segment for the six months ended 30 June 2024 was a loss of HK\$33,322,000 (2023: HK\$6,382,000). 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, facial capture, virtual production, real-time game engine production, live filing, editing, design, and finishing 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:

Telly Awards

Mr. Aladino DEBERT and his team were awarded a Gold Telly Award for the studio’s outstanding visual effects contributions to the Amazon series *“Citadel”*.

The Visual Effects Society Awards

Mr. Aladino DEBERT and Mr. Gregory TEEGARDEN were nominated for the Outstanding Supporting Visual Effects in a Photoreal Episode award for Digital Domain’s exceptional work on *“Citadel”*.

Mr. James REID, Mr. Mathew ROTMAN, Mr. Filipp ELIZAROV, and Mr. Nardeep CHANDER were nominated for the Outstanding Effects Simulations in an Episode, Commercial, Game Cinematic or Real-Time Project award for the ocean scene in the *“Citadel”* episode *“Secrets in Night Need Early Rains”*.

Mr. John-Mark GIBBONS, Mr. Allen RUILOVA, Mr. Momme CARL, and Mr. David MINOR were nominated for the Emerging Technology Award for their use of our proprietary tool Machine Learning (ML) Cloth on Warner Bros.’ *“Blue Beetle”*.

The Hollywood Professional Association Awards

Digital Domain has submitted the visual effects team’s work on the Marvel Studios series *“Echo”*, which was released on 9 January 2024, for an HPA Award in the Outstanding Visual Effects – Live Action Episode or Series Season category. Nominations will be announced in the fall of 2024.

Shorty Awards

Digital Domain submitted the team’s exceptional visual effects work on the **Citadel** “Deepfake” trailer which used proprietary Charlatan tool to recreate Franklin D. Roosevelt, John F. Kennedy, and Winston Churchill, trailer to the 16th Annual Shorty Awards, for which Mr. Matt DOUGAN, Mr. Paul “Pizza” PIANEZZA, Mr. Matt SMITH, Mr. Jason SELFE, and Mr. John BRENNICK were awarded. The work was also awarded an Audience Honor for receiving the most public votes.

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

- VFX Supervisor, Mr. Joel BEHRENS is continuing work alongside production VFX Supervisor, Mr. Matthew BUTLER on an upcoming Russo Brothers’ film, *“The Electric State”*.
- VFX Supervisor, Mr. Piotr KARWAS and his team completed work on an upcoming George NOLFI film, *“Elevation”*.
- VFX Supervisor, Mr. Scott EDELSTEIN and his team completed work on Sony Pictures film, *“Madame Web”*. The film was released in February 2024.
- VFX Supervisor, Mr. Mitch DRAIN and his team are working on the upcoming Hindi-language comedy horror film, *“Stree 2: Sarkate Ka Aatank”*.
- VFX Supervisor, Mr. Hanzhi TANG and his team are working on the upcoming Marvel film, *“Captain America: Brave New World”*.
- The Digital Domain team is also collaborating on several unreleased projects with partners including Skydance and Marvel Studios.
- An upcoming Chinese production.

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

- VFX Supervisor, Mr. Aladino DEBERT, and his skilful team completed work on the new Marvel Studios series, *“Echo”*, that was released in January 2024.
- VFX Supervisors, Mr. Kelly PORT and Mr. Michael MELCHIORRE along with their teams completed work on the upcoming Marvel Studios series, *“Agatha All Along”*, which is slated to release on 18 September 2024.
- VFX Supervisor, Mr. Nikos KALAITZIDIS, and his artistic team are working on an upcoming HBO series.
- The award-winning Digital Domain team, led by VFX Supervisor, Mr. Nikos KALAITZIDIS, completed work on the Apple TV+ sci-fi television series, *“Dark Matter”*, created by Mr. Blake CROUCH and was released on 8 May 2024.

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

- Marvel Studios’ *“Captain America: Brave New World”*
- A Warner Bros. horror film
- An upcoming Marvel Studios film
- The Russo Brothers’ *“The Electric State”*
- Season 2 of an upcoming HBO Max series

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

- The upcoming action-adventure game *“Marvel 1943: Rise of Hydra”* in collaboration with Skydance Games.
- A new game in collaboration with a Japanese game developer.

We provided VFX services for advertisements, special venue projects and games. Work completed in first half of 2024 includes:

- For the Wisconsin Lottery, the Digital Domain advertising team created 15-second and 30-second spots for the Wisconsin Lottery titled “*Winning Streak*”.
- Digital Domain has partnered with **Madison Square Garden (MSG)** and **Sphere Entertainment** for several events including the **2024 National Hockey League (NHL) Draft** and the **Hewlett Packard Enterprise (HPE) Discover 2024**.

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 (the “Other Lawsuits”). The US Subsidiary’s clients filed a number of separate motions to dismiss all or portions of 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 with respect to only one of the seven motion pictures (the “Picture”) that were originally part of the lawsuit for unspecified monetary damages. The case concerning the other six motion pictures was stayed pending the conclusion of the trial of the Other Lawsuits concerning the Picture.

The jury trial of the Other Lawsuits concerning only the Picture commenced on 4 December 2023. In accordance with the jury’s verdict after the close of evidence, in April 2024 the court issued Findings of Fact and Conclusions of the Law, stating that Claimant was entitled to US\$250,638 in compensatory damages and US\$345,098 for disgorgement of the Picture’s profits. On 26 August 2024, ruling on a post-trial motion brought by US Subsidiary’s client, the trial court decided that the jury did not have sufficient evidence to render a verdict that US Subsidiary’s client was liable to Claimant and ruled that the judgment will be entered in favour of US Subsidiary’s client and that Claimant would not be entitled any relief.

Claimant has initiated an appeal of the decision to the United States Court of Appeal for the Ninth Circuit, which is now pending. On 3 June 2024, Claimant and US Subsidiary’s clients concluded a confidential settlement which resulted in the dismissal of the Other Lawsuits to the extent that it concerned the other six motion pictures. Accordingly, the Other Lawsuits now only concerns the Picture.

On 21 April 2022, the Claimant filed a lawsuit against one of the US Subsidiary's clients and its affiliates' copyright infringement against those entities with respect to two films that are not part of the Other Lawsuits (the "New Lawsuit"). However, the US Subsidiary did not use the Disputed IP on either of these films. On 21 February 2023, the court dismissed the New Lawsuit on the grounds that the facts, as pleaded, in the lawsuit did not give rise to legally-actionable claims, but gave Claimant an opportunity to amend the New Lawsuit to rectify the defects that it has identified. Claimant has now had four opportunities to amend the New Lawsuit in order to state legally-actionable claims. The court is now considering whether to again dismiss the New Lawsuit again (and whether to give Claimant no further opportunities to amend it) in response to the motion to dismiss filed by US Subsidiary's Clients.

In its production services agreements for the films 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 Lawsuits. On 23 May 2024, US Subsidiary filed a lawsuit against the insurance company seeking a judicial declaration that the insurance company is required to provide insurance coverage for the indemnity claims brought against it with respect to the Other Lawsuits and monetary damages (the "Insurance Coverage Lawsuit").

In its production services agreements for the films that are subject of the New Lawsuit, 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 New Lawsuit. The US Subsidiary has denied that it is obligated to indemnify these clients on the grounds that the US Subsidiary did not use the Disputed IP during the production of the motion pictures that are subject of the New Lawsuit and thus did not breach a warranty to the clients. US Subsidiary also submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it with respect to the New Lawsuit, but the request for insurance coverage was denied on the grounds that all claims arising from the Disputed IP were specifically excluded from coverage. In the Insurance Coverage Lawsuit, US Subsidiary is also seeking a judicial declaration that the insurance company is required to provide insurance coverage for the indemnity claims brought against it with respect to the New Lawsuit and monetary damages.

Digital Domain China:

With the establishment of Digital Domain China ("DD China"), the Group had a strong operating platform in China.

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 commercials and feature films.

Visual effects and colour grading services delivered for feature films and episodic this year include ***"The Princess Royale"*** and ***"Lost You Forever Season 2"***.

DD China continues to provide post-production and production services (e.g. shooting, editing, colour grading and music production) for various high-profile clients, including: *3i, AITO, Aptamil, BYD, Durex, ELIXIR, Estée Lauder, Extra, Helena Rubinstein, HONOR, HUAWEI, L'ORÉAL, Lux, Perfect Dairy, Polestar, Roborock, Yangwang Auto*, and Tencent Games “*Need for Speed Mobile*”.

Digital Domain’s visual artistry and technology innovation have been recognised by the following recent awards:

- In April 2024 - The winners of the **China Virtual Human Industry Fist Awards** hosted by **iiMedia Research**, were announced, with Digital Domain being honored with the “**2024 China Best Business Model Innovation Award**”.

Digital Domain India:

In the first half of 2024, Digital Domain India (“DD India”) mainly focused on the local market and successfully delivered VFX services for a feature film, “*Devara*”, scheduled to be released in September 2024. DD India is currently working on another Indian feature called “*Stree 2: Sarkate Ka Aatank*” and is the lead VFX studio on the show working on 900+ shots. For both these features, DD India achieved the goal of having local resources work with our North American teams on a common platform with improved efficiency and establishing a global ‘Round The Clock’ production model.

As part of the revised global strategy and to counter the slow North America VFX market, DD India will continue to focus on developing sales efforts in the local and Asian markets offering Digital Domain’s varied services and technical expertise to secure a diverse clientele. This will be in addition to catering to our insourcing needs and as part of the overall DD India growth plan.

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 is a certified facility under the Trusted Partner Network (TPN), a joint venture between two major entertainment industry associations, The Motion Picture Association of America, Inc. (MPAA) and the Content Delivery & Security Association (CDSA), the worldwide leaders in third-party entertainment industry assessments. This is in addition to Walt Disney Studios Motion Pictures (Disney) and Marvel Studios, LLC (Marvel) content security certification.

B. New Media and Experiential and Virtual Human Business

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.

North America Region:

- Digital Domain has partnered with **Madison Square Garden (MSG)** and **Sphere Entertainment** for several events including the **2024 National Hockey League (NHL) Draft** and the **Hewlett Packard Enterprise (HPE) Discover 2024**.

Digital Domain’s Virtual Human Group (“VHG”) in North America - research and development aided multiple projects and resulted in new developments in the first half of 2024:

- **Masquerade3:** In April 2024, the Virtual Human team unveiled its latest proprietary tool, Masquerade3. Building upon the technology for Masquerade 2.0, Masquerade3 eliminates the need for markers on performers’ faces, revolutionising the facial capture process. The tool is being used for the first time on an upcoming feature film that the DD visual effects team is currently working on.
- **Charlatan:** In 2023, VHG partnered with the advertising and games team, utilising Charlatan to recreate John F. Kennedy, Franklin D. Roosevelt and Winston Churchill for a promo for the Amazon Studios *“Citadel”* series. This year, the series’ *“Myth”* promo has earned awards for its stunning visual effects, creativity and innovative technology. These awards include a Shorty Award and a Gold Telly Award.

VHG of the North America region participated in several events, including:

- Chief Technology Officer, Mr. Hanno BASSE participated in the Variety Entertainment Summit at CES where he engaged in a panel discussion on **“The Tipping Point for AI”**.
- At **Film & Media Exchange (FMX) 2024**, Chief Technology Officer, Mr. Hanno BASSE took part in the Digital Humans Panel moderated by Mike Seymour. Mr. BASSE also participated in a presentation where he discussed Digital Domain’s history and future in the digital human space, and announced our latest proprietary tool, Masquerade3.
- Chief Technology Officer, Mr. Hanno BASSE and VHG’s Mr. Peter RABEL were invited to be part of VES London’s AI Chapter 2 Event where they discussed several of Digital Domain’s Machine Learning and AI tools including ML Cloth, Masquerade3, and Charlatan.

The Greater China Region:

The virtual human team of the Greater China region participated in many events or projects (including those with business partners):

- In April 2024, Digital Domain participated in Taiwan’s largest AI ecosystem event, **AI EXPO**, showcasing a variety of innovative AI virtual human solutions. This showcase particularly highlighted the flexibility of Digital Domain’s proprietary Momentum Cloud in system integration, capable of connecting multiple devices and different large language models (LLMs).

Among the eye-catching solutions were the AI Fortune Teller, widely popular among audiences of all ages, and the debut of the AI Health Advisor. The AI Health Advisor can interpret InBody reports and provide health advice in both Mandarin and Taiwanese, demonstrating the significant potential of AI virtual humans in the health sector.

Additionally, the event featured an AI Virtual Receptionist and an AI Fairy in a fairytale setting, offering the industry more imaginative applications in services, education, and companionship.

- **ADLINK** was hosting the **ADLINK EdgeOpen™ Consortium 2024** at its headquarters in Taoyuan, Taiwan on 30 May 2024. The event gathered more than 140 global ADlink agents, key accounts, and strategic partners. In addition to partner breakout meetings and seminars, it showcased various possibilities of the Kiosk combination of ADlink edge AI IPC and AUO Display Plus. Among the exhibits was a demonstration of the Digital Domain’s Virtual Human integrating with ADLINK and AUO Display Plus hardware to become a more user-friendly AI interface. The presentation received numerous positive responses from ADLINK’s global strategic partners.
- In June 2024, **COMPUTEX 2024** was held in Taipei. As one of the top-tier visual effects companies rooted in Hollywood, Digital Domain teamed up with **ADATA Technology**, a global leader in memory modules and flash memory, to create ADATA and XPG’s brand ambassador **Virtual Human Mera**. This collaboration brought groundbreaking innovations in AI-driven virtual human technology to the application and development of brand-related products, presenting a fresh surprise to the general public.
- Digital Domain’s virtual human software, **Momentum Cloud**, efficiently generated content via Generative AI and enhanced brand recognition through customised multimedia. This time, Digital Domain also joined hands with Litemax, leveraging Litemax’s years of experience in high-brightness and customised multimedia display equipment to run “AI Virtual Human” technology in the “Whirl of Wonder – WoW”, a circular multimedia touch table. They demonstrated applications of multilingual AI (Chinese/English/Japanese) in service scenarios, providing a more comprehensive consumer service experience.
- **Interop Tokyo** is an event for internet technology. Since its first launch in Japan in 1994, hundreds of companies and organisations from both domestic and international markets have participated annually. Through demonstrations and seminars at the venue, it has conveyed technology and business application trends. WAS Corporation, a distribution partner of Digital Domain in Japan, together with Toppan Holdings’ scanning technology and Readspeaker’s (a Hoya Corporation) speech synthesis technology, demonstrated the latest application scenario of Conversational AI virtual human customer service system.
- In May 2024, **APMF 2024** was held in Bali, showcasing cutting-edge technologies and innovations, offering attendees a glimpse into the future of marketing and media. This exhibition focused on integrating advanced technology with practical applications. Indonesian partner V2 presented the **Virtual Human Vivi**, installed in **Momentum Cloud**, with impressive performances. Virtual Human Vivi not only recorded captivating animation shorts but also used motion capture technology to interact with the audience and demonstrated smart customer service in Proto Hologram, providing participants with an exemplary vision of how AI can enhance consumer engagement and service delivery.
- On 30 May 2024, the **Intel AI Summit 2024** was grandly held in Jakarta. With the theme “Bringing AI Everywhere”, industry experts and innovators from around the world gathered to discuss how AI can transform various industries and enhance global competitiveness. The **Virtual Human Vivi**, from Indonesian partner V2, used Momentum Cloud to connect with the AI technology, serving as an AI customer service representative. Virtual Human Vivi provided interactive answers to the audience through digital signage, becoming a highlight of the event and attracting widespread attention.

C. Digital Domain staff from the global studio participated in several events:

North America Region:

- With extensive expertise and experience in the fields of production and digital technology, Digital Domain VFX Supervisor, Mr. Piotr KARWAS, joined Production Resource Group’s (PRG) VP of Production Services, Mr. Jeroen HALLAERT, to present a keynote at **Scena Jutra 2024** on the topic of real-time content and its impact on how consumers experience content.

- Head of CG, Mr. Bob WHITE, attended **FMX 2024**, where he participated in a presentation and panel discussion. Mr. WHITE’s presentation, “V-Ray, Solaris, and Multishot Workflows: A Peek Behind the Curtain at Digital Domain” highlighted the studio’s rendering process and how we’re harnessing the power of V-Ray and Solaris in our ever-evolving multishot workflow. His panel discussion “Bridging the Gap: Pre-viz and post into the LED stage production era” provided insight on LED production and the impact on visual effects.
- Head of Visualisation, Mr. Matthew MCCLURG, had a successful live presentation at Gnomon College in Los Angeles, where he highlighted Digital Domain’s impressive visualisation work, as well as his background and career path for students and VFX enthusiasts.

The Greater China Region:

- In March 2024, Chief Executive Officer, Mr. Ang SEAH, discussed how generative artificial intelligence is revolutionising the creation of landscape, through **Caixin Weekly’s March Edition**.

D. DDCP AND INVESTMENTS IN EUROPE

Formation of DDCP

Digital Domain Capital Partners S.à r.l. (“DDCP”), an indirect wholly-owned subsidiary of the Company, was incorporated in the Grand Duchy of Luxembourg in 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 (“asknet”), a publicly traded German e-commerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) for an aggregate consideration of approximately EUR3,709,000 (approximately HK\$34,586,000), i.e. amounting to approximately EUR14.93 (approximately HK\$140.79) per asknet Sale 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 in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors. On 30 May 2022, asknet announced that its executive board with the approval of the supervisory board decided to delist its shares on the Frankfurt Stock Exchange with effect from 31 August 2022 because the economic benefit of the inclusion of its shares in the Regulated Unofficial Market of the Frankfurt Stock Exchange no longer justifies the associated expenses. By order of the Karlsruhe District Court, insolvency proceedings were opened against asknet’s assets on 1 December 2023 due to asknet’s application for insolvency. The insolvency proceedings are still in progress. As at 31 December 2023, the asknet Sale Shares represented approximately 7.6% of the total issued common shares of asknet. The investment has already been fully impaired. In June 2024, the Group sold its shares in asknet and other debt securities held for sale, in return for 4,000,000 bearer shares of Youngtimers AG (“YTME”), a publicly traded Swiss special situation investment firm focused on the international media, e-commerce and lifestyle goods sectors, the shares of which are traded on the Swiss Stock Exchange (ticker code: YTME.SW).

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 bearer shares (“HLEE Sale 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) 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 bearer shares of HLEE on 6 May 2021. HLEE announced on 24 October 2023 the publication of the prospectus for the capital increase by means of subscription rights offer and further announced on 2 November 2023, 3,500,000 new bearer shares were subscribed. Its share capital therefore increased from 9,460,000 bearer shares to 12,960,000 bearer shares with a nominal value of CHF9.00 each. As at 31 December 2023 and 30 June 2024, the HLEE Sale Shares represented approximately 2.04% of the total number of bearer shares of HLEE in issue. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

Investment in YTME

During the Review Period, DDCP as the investor entered into an investment and subscription agreement with YTME pursuant to which DDCP agreed to subscribe a total of 10,000,000 bearer shares of YTME, for an aggregate consideration of USD7,000,000 (approximately HK\$54,571,000).

As at 30 June 2024, the YTME shares held by the Group represented approximately 22.576% (14,000,000 shares) of the total issued bearer shares of YTME.

TRADING SEGMENT

2023 has been a groundbreaking year for Generative AI (Artificial Intelligence) across various fields, the Group had focused on Generative AI related to our VH and VFX businesses and also the overall AI ecosystem. With the tech industry steadfastly focused on AI, with the continued rollout of advanced AI chips leading to significant enhancement in processing speeds. This advancement is set to drive growth in DRAM (Dynamic Random Access Memory) across various AI applications, including smartphones, servers and notebooks. DRAM is a type of random-access semiconductor memory that stores each bit of data in a memory cell, usually consisting of a tiny capacitor and transistor, both typically based on a MOS (metaloxide-semiconductor) technology.

During the year 2023, with the suitable business partners (suppliers and purchasers) being identified and secured, the Group resumed its trading capabilities and started the trading DRAM the result of which are reported in the trading segment to generate supplemental income for the Group given the continued challenging operating environment. During the Review Period, the trading segment recorded a revenue of approximately HK\$56,609,000 (2023: HK\$Nil) and the profit of this segment is HK\$3,389,000 (2023: HK\$Nil). We believe the growth in demand of DRAM will continue in financial year 2024 and will adopt a steady business strategy for this product to seek to optimise the economic benefits for the Group.

INTERESTS IN ASSOCIATES

The Group invested in several associates and the review of the significant associate is summarised as below. The Group will continue to monitor the development and opportunities in this challenging operating environment with respect to the Group’s other associates.

VIRTUAL HUMAN TERESA TENG

In 2014, Digital Domain Media (HK) Limited (“DDM”, originally an indirect wholly-owned subsidiary of the Company but became 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.

- In the first half of 2024, the Virtual Human Teresa Teng’s holographic concert continued to be staged at the Hongyadong in Chongqing. As a landmark attraction of Hongyadong, it has attracted a large number of tourists to come and watch.

EVENTS AFTER THE REPORTING PERIOD

On 26 July 2024, a total of 220,000,000 share options were granted under the 2022 Option Scheme to the grantees (including Dr. Elizabeth Monk Daley, an independent non-executive Director). The share options entitle the grantees to subscribe for up to a total of 220,000,000 new Shares at an exercise price of HK\$0.245 per Share. For details, please refer to the Company’s announcement dated 26 July 2024.

220,000,000 share options under the 2022 Option Scheme were granted and no share option was exercised, cancelled or has lapsed since the grant-date (26 July 2024).

CAPITAL

Shares

Subscription of New Shares under Specific Mandate

On 19 October 2023, the Company entered into the subscription agreement with Whole Share Capital Inc. (“Whole Share”). Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 600,000,000 shares to Whole Share at the subscription price of HK\$0.207 per subscription share (the “Subscription”). The market price per share on the date of the subscription agreement (i.e. 19 October 2023) was HK\$0.196. The Subscription of such new shares under specific mandate was approved by the shareholders of the Company at the special general meeting held on 1 December 2023. The Subscription was completed on 24 January 2024. The Subscription shares were allotted and issued pursuant to the specific mandate of the Company. The Subscription shares represent approximately 9.62% of the issued share capital of the Company of 6,233,798,625 shares as at the date of announcement of Subscription (i.e. 19 October 2023) and approximately 7.52% of the issued share capital of the Company of 7,979,248,625 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are approximately HK\$124,200,000 and approximately HK\$124,100,000 respectively, and are intended to be applied towards the continued development of the research projects of DD Lab and general working capital of the Group. For details, please refer to the Company’s announcement dated 19 October 2023 and circular dated 14 November 2023.

As at 30 June 2024, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 7,979,248,625 Shares.

Share Options

The share option scheme of the Company was adopted on 27 April 2012 and amended on 3 April 2014 (the “2012 Option Scheme”). The 2012 Option Scheme was effective for a period of 10 years and expired on 27 April 2022. The adoption of a new share option scheme (the “2022 Option Scheme”) was approved by the shareholders of the Company at the special general meeting held on 16 June 2022. The 2022 Option Scheme is valid and effective for a period of 10 years commencing on 16 June 2022. For illustrative purpose, the exercise price and the number of the share options under the 2012 Option Scheme have been adjusted for the effect of capital reorganisation effective on 11 October 2021.

On 28 May 2014, a total of 98,006,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 98,006,000 new Shares at an exercise price of HK\$0.98 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 option was exercised and the remaining 79,273,000 share options were cancelled or have lapsed. 4,657,000 share options were exercised and 93,349,000 share options were cancelled or have lapsed since the grant-date (28 May 2014) to 27 May 2024.

On 6 May 2015, a total of 7,800,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 7,800,000 new Shares at an exercise price of HK\$13.20 per Share. For details, please refer to the Company’s announcement dated 6 May 2015. During the Review Period, no share option was exercised, cancelled or has lapsed. 1,000 share options were exercised and 300,000 share options were cancelled or have lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 37,950,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 37,950,000 new Shares at an exercise price of HK\$4.13 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 option was exercised, cancelled or has lapsed. No share option was exercised and 2,566,669 share options were cancelled or have lapsed since the grant-date (29 January 2016).

On 22 June 2016, a total of 10,000,000 share options were granted under the 2012 Option Scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 10,000,000 new Shares at an exercise price of HK\$4.95 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 option was exercised, cancelled or has lapsed.

On 29 July 2016, a total of 5,000,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 5,000,000 new Shares at an exercise price of HK\$5.66 per Share. For details, please refer to the Company’s announcement dated 29 July 2016. During the Review Period, no share option was exercised, cancelled or has lapsed. No share option was exercised and 1,320,007 share options were cancelled or have lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 30,000,000 share options were granted under the 2012 Option Scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 30,000,000 new Shares at an exercise price of HK\$4.69 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 option was exercised, cancelled or has lapsed.

On 24 April 2019, a total of 13,000,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 13,000,000 new Shares at an exercise price of HK\$1.30 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 option was exercised, cancelled or has lapsed.

On 21 May 2020, a total of 47,800,000 share options were granted under the 2012 Option Scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 47,800,000 new Shares at an exercise price of HK\$0.46 per Share. For details, please refer to the Company's announcement dated 21 May 2020. During the Review Period, no share option was exercised, cancelled or has lapsed. 170,000 share options were exercised and 2,000,000 share options were cancelled or have lapsed since the grant-date (21 May 2020).

No share option under the 2022 Option Scheme was granted, exercised, cancelled or has lapsed during the Review Period.

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 2024, the Group had banking facilities from two banks in the United States amounting to US\$19,000,000 (approximately HK\$148,356,000) and these banking facilities were fully utilised during the period. Among the above mentioned US\$19,000,000 facilities, utilised facilities of US\$6,000,000 (approximately HK\$46,849,000) has been successfully refinanced for another 3 years (to 2026). These banking facilities were secured by time deposits of the Group. The Group had banking facilities from banks in Hong Kong in the amount of US\$13,000,000 (approximately HK\$101,507,000) with US\$12,000,000 (approximately HK\$93,698,000) being utilised and was 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\$39,382,000) and the utilised portion of these banking facilities were CAD750,000 (approximately HK\$4,281,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

During the Review Period, the loan granted under emergencies loan schemes for COVID-19 is in amount of CAD60,000 (approximately HK\$354,000) which was unsecured and early repaid CAD40,000 (approximately HK\$237,000) and remaining CAD20,000 (approximately HK\$117,000) had been forgiven by Canada Authority in January 2024.

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 2024, the Group also had lease liabilities of HK\$76,744,000, which were determined at the present value of the lease payments that are payable at that date. The amount included in lease liabilities of HK\$117,000 related to office equipment (leased assets) secured by the lessor's charge over the leased assets. The terms of payments were 60 months. 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 approximately HK\$127,170,000 as at 30 June 2024. One indirect wholly-owned subsidiary has a loan in amount of US\$3,500,000 (approximately HK\$27,064,000) which is unsecured, interest-free and is not repayable within 13 months from 30 June 2024. One indirect wholly owned subsidiary had other loan in amount of US\$429,000 (approximately HK\$3,350,000), which is unsecured and with a fixed interest rate. One indirect wholly-owned subsidiary also had a term loan facility of US\$10,000,000 (approximately HK\$78,082,000) 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 2024 were US\$8,000,000 (approximately HK\$62,466,000) 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 2024. During the Review Period, there was an other loan with principal amount of US\$5,800,000 (approximately HK\$45,297,000) early repaid in January 2024. This other loan was unsecured with a fixed interest rate.

The total cash and bank balance as at 30 June 2024 was approximately HK\$528,678,000. As at 30 June 2024, the Group had banking facilities of approximately HK\$289,244,000. Utilised portions of these bank facilities were set at a floating interest rate of these bank loans, loans amounting to approximately HK\$242,054,000 are denominated in United States dollars and loans amounting to approximately HK\$4,281,000 are denominated in Canadian dollars. During the Review Period, all of the Group's bank loans (except the Five Years Loan was classified as current liabilities) were classified as either current liabilities 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 (excluded the Five Years Loan) as at 30 June 2024 was spread over a period of two years, with approximately 81% repayable within one year and 19% repayable between one to two years.

The Group's current assets were approximately HK\$635,575,000 while the current liabilities were approximately HK\$464,324,000 as at 30 June 2024. As at 30 June 2024, the Group's current ratio was 1.4 (as at 31 December 2023: 1.8).

As at 30 June 2024, 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 66% (as at 31 December 2023: 67%).

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 2024, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2024, the total headcount of the Group was 796. 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

During the Review Period, the global economy continued to face pressures from high interest rates, international trade conflicts and geopolitical risks. We anticipate that global markets will remain unstable in the second half of 2024. Geopolitical and economic developments, alongside the regulatory, fiscal and monetary policy responses adopted, are contributing to uncertainties for the Group. These uncertainties may continue to impact the costs of operations and consumer demand in the future. Our clients' perception of the demand for their products ultimately drive the demand and pricing of our products and services. For instance, global economic conditions can affect feature films' budgets and roll-out schedules. At the same time, a perceived reduction in consumer spending power can also impact our clients' product advertising budgets and campaign schedules.

Besides the macro situation we just mentioned, the Hollywood industry continues to confront the fallout from the guild-led strike in 2023, which have led to production delays for the Group's clients in 2023 and 2024 and slower than expected speed and scale of recovery in production and releases in the industry. That said, the Company anticipates its clients should be able to make up for some of the lost time in the later stage of 2024.

In view of the above unstable business environment and challenges that the Group is facing, we are adopting a prudent approach in our business strategies (including, for example, cost control, adjusting business direction and product mix) and at the same time, seek out new opportunities.

Our "Objective" is to promote business and prosperity by leveraging our unique diversity in markets, shareholders, directors and staff. This is the guiding principle behind our strategy as we concentrate on developing our visual effects and virtual human businesses. Despite the intense competition in our markets, we actively seek out new projects and business opportunities in feature films, online games, television/OTT episodes and commercials. To increase our working capacity, improve efficiency and reduce production costs in the long term, the Group will continue to assess the cost structure, function and operational performance of each studio in North America and Asia. We successfully delivered project jointly produced by our DDNA and DD India studios for a local Indian client in August 2024 and will continue to explore potential projects in Europe and India with our business partners.

In relation to the virtual human business, the Group will continue to enhance current product and service offerings and explore new services and products (such as artificial intelligence function, multi-language function, SaaS products, etc.) with strategic business partners and/or investors. We will enhance the interactivity between virtual humans and the audience in social-networking platforms, the entertainment businesses and other environments such as financial, hospitality/ customer services, education-training and/or medical sectors. In July 2024, Digital Domain launched a partnership with Mr. SONG Hoi See, founder and CEO of Plaza Premium Group which operates lounges at over 80 airports internationally. The partnership will focus on hospitality services for airports, hotels and other related industries by using the cutting-edge real-time VH technologies that developed by Digital Domain. Following Digital Domain's production of AI Virtual Human, Mera – XPG's brand ambassador for XPG the gaming lifestyle brand of ADATA Technology in "COMPUTEX 2024" in June 2024, in August 2024 we forged a partnership with XPG, to further explore AI virtual human applications in its gaming hardware business and to secure sales distribution rights for Greater China and the Americas for the Group. ADATA Technology is a company listed on Taiwan Stock Exchange, (ticker code: 3260.TW) and a leader in DRAM modules and flash memory.

Alongside most advanced technology companies, we will continue to deploy substantial financial and human resources in continuing research and development (R&D) in new technologies (such as setting up a research lab for Artificial Intelligence Generated Content (AIGC) that can further enhance the Group's production capabilities), and will seek to recruit and retain appropriate global talent to support the Group's future development. To strengthen our business ecosystem and support our R&D requirements, we will actively seek financing and collaboration opportunities with strategic partners, investors and universities.

Finally, we want to assure you that we will remain vigilant in keeping a close eye on external factors to ensure that we create a balanced approach between opportunities and risks. As management, it is important for us to act in the best interests of shareholders while expressing our gratitude for the trust you have placed in us and for your continued support of the Group. We are confident in our ability to create long-term, sustainable value for all our stakeholders – clients, shareholders, staff and management. We take this opportunity to express our appreciation to all our management and colleagues for their valuable contribution to the Group.

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 2024, the outstanding loan principal of this Facility amounted to approximately HK\$4,909,000 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 contained in Appendix C1 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 former chairman 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;

- (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. 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; and
- (c) The Company held the annual general meeting on 17 May 2024. Mr. Li Weiqiang, Mr. Cui Hao and Ms. Alla Y Alenikova, the non-executive Directors, and Ms. Lau Cheong, the independent non-executive Director, were unable to attend the above annual general meeting.

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, 29 August 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.