
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Digital Domain Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

(1) CONTINUING CONNECTED TRANSACTIONS UNDER THE DISTRIBUTOR AGREEMENT AND (2) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company



Crescendo Capital Limited

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



Capitalised terms used in this cover page have the same meanings as those defined in this circular. To the extent that there is any inconsistency between the English version and the Chinese version of this circular, the English version shall prevail.

A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 14 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 29 of this circular.

A notice convening the special general meeting of the Company to be held at the Conference Room, Suite 2005, 20/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, at 10:30 a.m. on Monday, 11 November 2024, or any adjournments of the meeting, at which the above proposal will be considered, is set out on pages 35 to 36 of this circular.

Whether or not you intend to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such event, the form of proxy shall be deemed to be revoked.

There will be no distribution of corporate gifts or serving of refreshments at the meeting.

26 October 2024

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“ADATA”	ADATA Technology Co., Ltd., a company incorporated in Taiwan, the shares of which are listed on The Taiwan Stock Exchange Corporation (stock code: 3260)
“Announcement”	the announcement of the Company dated 25 October 2024 in relation to the Distributor Agreement and the Continuing Connected Transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Digital Domain Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 547)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Distributor Agreement in relation to, amongst other things, the appointment of DD Gaming Media as the exclusive general distributor of ADATA for distributing the XPG Products in the Territories and the sale and purchase of XPG Products between ADATA and DD Gaming Media
“DD Gaming Media”	Digital Domain Gaming Media Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Director(s)”	director(s) of the Company
“Distributor Agreement”	the distributor agreement entered into between DD Gaming Media and ADATA on 25 October 2024 in relation to the appointment of DD Gaming Media as an exclusive general distributor in respect of the XPG Products in the Territories by ADATA
“Effective Date”	the date on which the Independent Shareholders approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in respect of the terms of the Distributor Agreement and the Continuing Connected Transactions contemplated thereunder (including the Proposed Annual Caps)
“Independent Financial Adviser” or “Ballas Capital”	Ballas Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Distributor Agreement and the Continuing Connected Transactions contemplated thereunder (including the Proposed Annual Caps)
“Independent Shareholders”	Shareholders other than those who are required to abstain from voting at the SGM to approve the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps)
“Independent Third Party(ies)”	an entity(ies) or person(s) who, to the best knowledge of the Directors, is/are independent of the Company and its connected persons
“Latest Practicable Date”	23 October 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Licence Fee”	the annual licence fee payable by DD Gaming Media to ADATA for the exclusive distributorship of the XPG Products in the Territories
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“NT\$”	New Taiwan dollars, the lawful currency of Taiwan
“PRC”	The People’s Republic of China
“Product Contract(s)”	the relevant purchase order(s) or sales contract(s) to be concluded or entered into between DD Gaming Media and ADATA in respect of sale and purchase of the XPG Products
“Proposed Annual Caps”	the proposed annual caps for each of the period/financial years ending 31 December 2024, 2025 and 2026 for the Continuing Connected Transactions under the Distributor Agreement, for the purpose of Chapter 14A of the Listing Rules, as set out in this circular

DEFINITIONS

“Purchase Amount”	the amount payable by DD Gaming Media to ADATA for the purchases of the XPG Products from ADATA
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“SGM”	the special general meeting of the Company to be convened at 10:30 a.m. on Monday, 11 November 2024, or any adjournment thereof, to consider and, if thought fit, to approve the Distributor Agreement and the Continuing Connected Transactions contemplated thereunder (including the Proposed Annual Caps)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the registered holder(s) of the Share(s) from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Territories”	Greater China and the Americas
“XPG Products”	all existing and future products under the “XPG” (Xtreme Performance Gear) brand, including but not limited to computer memory, storage devices, computer and gaming peripherals and accessories, laptops, lifestyle gears and other similar or associated products and ancillary services
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

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

LETTER FROM THE BOARD



DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

Executive Directors:

Mr. SEAH Ang

(Chairman and Chief Executive Officer)

Dr. SUN Ta-Chien

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Directors:

Ms. Alla Y ALENIKOVA

Mr. Brian Thomas MCCONVILLE

*Head Office and Principal Place of
Business in Hong Kong:*

Suite 2005, 20/F.

West Tower, Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Independent Non-executive Directors:

Mr. DUAN Xiongfei

Ms. LAU Cheong

Dr. Elizabeth Monk DALEY

Mr. WOO King Hang

26 October 2024

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE DISTRIBUTOR AGREEMENT

INTRODUCTION

We refer to the Announcement relating to the Distributor Agreement and the Continuing Connected Transactions.

The purpose of this circular is to provide you with information regarding, among other things, (i) details of the Distributor Agreement and the Continuing Connected Transactions; (ii) the recommendation of the Independent Board Committee regarding the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) to the Independent Shareholders; and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps), and to give you notice of the SGM at which the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) will be considered, and if thought fit, approved.

LETTER FROM THE BOARD

DISTRIBUTOR AGREEMENT

Date

25 October 2024

Parties

- (i) DD Gaming Media, a wholly-owned subsidiary of the Company, which is principally engaged in trading business
- (ii) ADATA, a substantial Shareholder and connected person of the Company

Principal Terms

Exclusive Distributorship

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

Licence Fee

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

LETTER FROM THE BOARD

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

Purchases of the XPG Products from ADATA

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

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

Term

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

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

LETTER FROM THE BOARD

PROPOSED ANNUAL CAPS

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

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

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

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

LETTER FROM THE BOARD

INTERNAL CONTROL PROCEDURES FOR THE CONTINUING CONNECTED TRANSACTIONS

The Company will monitor and enter into the Continuing Connected Transactions by adopting the following internal control procedures:

- prior to entering into any Product Contract with ADATA, the procurement team of DD Gaming Media shall (a) compare the terms offered by ADATA with (i) the market data published in reputable industry research websites such as DRAMeXchange, a semiconductor research department focusing on the supply chains of memory and semiconductor products of TrendForce, which is an independent global information provider of the latest development, insight and analysis of the technology industry; and (ii) ADATA's invoices issued to Independent Third Parties and/or other supporting documents, if necessary, to ensure that the terms offered by ADATA are fair and reasonable and more favourable to DD Gaming Media than those terms offered by ADATA to Independent Third Parties in the Territories; and (b) take into consideration the customers order on hand, historical sales volume or (in the case of any new products) expected market demand from its sales team as well as any published product reviews and analyse whether the supply price would allow DD Gaming Media to generate a reasonable operating margin having regard to the portfolio of XPG Products being sold and the costs of operations and allow DD Gaming Media to appropriately manage risks;
- dedicated personnel from the procurement team will be designated to closely monitor the actual transaction amount incurred under the Continuing Connected Transactions on a weekly basis. If the actual transaction amount reaches 80% or more of the relevant annual caps at any time of the year, the dedicated personnel will inform the finance department and the Board as soon as possible. The Board would then consider taking appropriate measures in accordance with the requirements of the Listing Rules, including, but not limited to, publishing announcement for an increased annual cap amount and seeking approval from the Shareholders, if applicable;
- monthly review on the Product Contracts and supporting documents for pricing comparison performed by the procurement team will be conducted by the finance department of the Company to ensure that the transactions are conducted in accordance with the terms and conditions of the Distributor Agreement, and that the approved annual caps are not exceeded;
- external auditors of the Group will be engaged to report on the Continuing Connected Transactions entered into by the Group during the year, with their findings and conclusions being reported to the Board in accordance with the relevant standards and practice notes;
- the independent non-executive Directors will also conduct an annual review of the Continuing Connected Transactions and provide an annual confirmation to ensure that, in accordance with the Listing Rules, the Continuing Connected Transactions are conducted in accordance with the terms of the Distributor Agreement and on normal commercial terms and fair and reasonable to the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

By implementing the above procedures and internal control measures, the Directors consider that the Group has established sufficient internal control measures to ensure the Continuing Connected Transactions will be on normal commercial terms and fair and reasonable to the Group and the Shareholders as a whole.

INFORMATION ON ADATA AND XPG PRODUCTS

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

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

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

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

REASONS FOR AND BENEFITS OF THE DISTRIBUTOR AGREEMENT

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

LETTER FROM THE BOARD

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

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

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

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

The Directors (including independent non-executive Directors) are of the view that the Distributor Agreement is entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms after arm's length negotiations between the parties; and (iii) are on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

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

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

SGM

The SGM is being convened by the Company for the Independent Shareholders to consider and, if thought fit, approve the resolution to be proposed at the SGM, amongst other things, the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps). The notice convening the SGM to be held at the Conference Room, Suite 2005, 20/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong at 10:30 a.m. on Monday, 11 November 2024 is set out on pages 35 to 36 of this circular.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder, together with his/her/its associate(s), who has a material interest in the Distributor Agreement and the Continuing Connected Transactions, shall abstain from voting on the resolution regarding the same at the SGM. As at the Latest Practicable Date, based on notices from ADATA, ADATA and its subsidiary, namely Zhao-Xing Investment Co., Ltd., were interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued share capital of the Company. ADATA and Zhao-Xing Investment Co., Ltd. shall therefore abstain from voting on the resolution for approving the Distributor Agreement and the Continuing Connected Transactions. To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, save for ADATA and its subsidiary, no other Shareholders are required to abstain from voting at the SGM on the proposed resolution regarding the Distributor Agreement and the Continuing Connected Transactions as set out in this circular and the notice of the SGM.

A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

Pursuant to Rule 13.39(4) of the Listing Rules, voting on the resolution to be proposed at the SGM will be taken by poll. After the conclusion of the SGM, the results of the poll will be announced in accordance with Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

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

None of the members of the Independent Board Committee has any interest or involvement in the Distributor Agreement and the Continuing Connected Transactions.

INDEPENDENT FINANCIAL ADVISER

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Wednesday, 6 November 2024 to Monday, 11 November 2024 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the SGM, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 4:30 p.m. on Tuesday, 5 November 2024.

RECOMMENDATION

Your attention is drawn to the Letter from the Independent Board Committee as set out on page 14 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Distributor Agreement and the Continuing Connected Transactions.

Your attention is also drawn to the letter of advice received from Ballas Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders as set out on pages 15 to 29 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Distributor Agreement and the Continuing Connected Transactions, the casting of votes for or against the resolution approving the above, as well as the principal factors and reasons considered by it in concluding its advice.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, and conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolution relating to the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
DIGITAL DOMAIN HOLDINGS LIMITED
Seah Ang
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is a full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this circular.



DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

26 October 2024

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE DISTRIBUTOR AGREEMENT

We refer to the circular of Digital Domain Holdings Limited dated 26 October 2024 (the “**Circular**”), of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in relation to the Distributor Agreement and the Continuing Connected Transactions. Ballas Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in respect of the Distributor Agreement and the Continuing Connected Transactions. The letter of advice from the Independent Financial Adviser is set out on pages 15 to 29 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 13 of the Circular and the additional information set out in the appendix to the Circular.

Having taken into account the advice and recommendations of the Independent Financial Adviser, we are of the view that the terms of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, and conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution relating to the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) to be proposed at the SGM.

Yours faithfully,
Independent Board Committee

DUAN Xiongfei

LAU Cheong

Elizabeth Monk DALEY

WOO King Hang

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BALLAS

C A P I T A L

A subsidiary of Crosby

5/F, Capital Centre
151 Gloucester Road
Wan Chai
Hong Kong

26 October 2024

*To the Independent Board Committee and
the Independent Shareholders of Digital Domain Holdings Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS UNDER THE DISTRIBUTOR AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 26 October 2024, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 25 October 2024, DD Gaming Media, a wholly-owned subsidiary of the Company, entered into the Distributor Agreement with ADATA for an initial term commencing on the Effective Date and up to 31 December 2026.

As set out in the Letter from the Board, as at the Latest Practicable Date, based on notices from ADATA, ADATA and its subsidiary were interested in 1,547,940,000 Shares, representing approximately 19.40% of the total issued share capital of the Company. Accordingly, ADATA is a substantial Shareholder and connected person of the Company, and the Distributor Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

INDEPENDENCE DECLARATION

We are not associated or connected with the Company, DD Gaming Media, the counterparty of the Distributor Agreement or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, save for this appointment as the independent financial adviser in relation to the Distributor Agreement, we did not have any other relationship with or interests in the Company, DD Gaming Media, the counterparty of the Distributor Agreement or their respective core connected persons or associates. Accordingly, we consider we are eligible to give independent advice on the Distributor Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Company.

The Directors have declared in a responsibility statement set out in the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Company. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, DD Gaming Media, the counterparty of the Distributor Agreement or any of their respective subsidiaries or associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

A. Background information of the Group, DD Gaming Media and ADATA

The Group

The Group is principally engaged in (i) media entertainment business (the “**Media Entertainment Segment**”), including visual effects production, post-production services and virtual human business; and (ii) trading business (the “**Trading Segment**”).

For the year ended 31 December 2023, the Media Entertainment Segment recorded a revenue of approximately HK\$709.7 million, accounting for approximately 96.4% of the Group’s total revenue and the Trading Segment recorded a revenue of approximately HK\$26.8 million, accounting for approximately 3.6% of the Group’s total revenue. For the six months ended 30 June 2024, the Media Entertainment Segment and the Trading Segment recorded a revenue of approximately HK\$208.3 million and HK\$56.6 million respectively, accounting for approximately 78.6% and 21.4% respectively of the Group’s total revenue.

DD Gaming Media

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

ADATA

ADATA is a Taiwan-based company whose shares are listed on The Taiwan Stock Exchange Corporation (stock code: 3260). According to its consolidated financial statements for the six months ended 30 June 2024, ADATA and its subsidiaries are primarily engaged in the manufacturing and sales of electronics products, including the manufacture and sales of memory products, the sales of electric tricycles, cultural creative goods and catering, the lease of electric tricycle and activity venue, agricultural cultivation and portal website operation.

ADATA’s main product lines comprise Dynamic Random Access Memory (“**DRAM**”) modules, USB flash drives, hard disk drives, solid state drives (SSD), memory cards and mobile accessories. Its products are used in computers, industrial computers, servers, workstations, printers, media players, televisions and game consoles and are sold domestically and internationally. ADATA also sells personal computer (“**PC**”) gaming hardware and accessories under the brand of “**XPG**” (Xtreme Performance Gear).

According to ADATA’s published financial results, ADATA recorded an audited consolidated revenue of approximately NT\$33.68 billion (equivalent to approximately HK\$8.23 billion) and net profit of approximately NT\$1.49 billion (equivalent to approximately HK\$0.36 billion) for the year ended 31 December 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

B. Reasons for and benefits of the Distributor Agreement

As disclosed in the Letter from the Board, the Group anticipated that advancements in artificial intelligence (“AI”) and related technologies will drive increased demand for DRAM in various AI applications, in addition to those relevant to the media industry. Given the unstable operating environment in the media industry in recent years, including the events affecting Hollywood since 2023, the Group has been vigilant in exploring opportunities to expand the Group’s income stream. The management of the Group believes that demand for DRAM will continue to grow and aims to further expand the trading segment by partnering with reputable business partners. ADATA is a reputable hardware manufacturer specialising in memory products and their products are well-received in both Greater China and the Americas. Aligning with such a manufacturer enhances the Group’s brand image and credibility in the market and allows the Group to expand its market presence and reach new customer segments. When all existing customers of ADATA in the Territories are transitioned to DD Media Gaming which will then become the sole and exclusive general distributor of the XPG Products in the Territories, the Group can secure a competitive advantage by offering unique products not available through other channels in the Territories and the direct relationship with ADATA can streamline supply chain operations, reducing costs and improving delivery times. Access to a wider range of high-demand products like DRAM and other gaming hardware can also broaden the Group’s product mix and boost the Group’s revenue and profitability. These benefits can strategically position the Group for growth in the evolving tech landscape.

Taking into account that (i) the Distributor Agreement allows the Group to expand its market presence and reach new customer segments; (ii) the Distributor Agreement enables the Group to expand its product mix and boost the Group’s revenue and profitability; (iii) the nature of the Distributor Agreement falls within the scope of the trading business of the Group; and (iv) our analysis and view on the major terms of the Distributor Agreement (as explained below), we consider the entering into of the Distributor Agreement is within the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

C. Principal terms of the Distributor Agreement

Major terms of the Distributor Agreement are set out below.

Date: 25 October 2024

Parties: (i) DD Gaming Media
(ii) ADATA

Term: The initial term is from the Effective Date to 31 December 2026.

After the expiry of the initial term, DD Gaming Media has the right to extend the term of the Distributor Agreement for another three years, subject to compliance with the requirements of the Listing Rules, if applicable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

DD Gaming Media shall purchase the XPG Products from ADATA from time to time for sale and distribution to third party customers in the Territories.

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

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

Payment term: 45 days starting from the first day of the subsequent month following the delivery of the XPG Products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our view on the major terms of the Distributor Agreement

Licence Fee

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

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

In assessing the fairness and reasonableness of the Licence Fee, we have endeavoured to identify comparable transactions which (i) involved the grant of licence for distribution by or to companies listed on the Stock Exchange within the "computers and peripherals" category (to which the XPG Products are related) based on AASTOCKS.com; (ii) were announced by those companies since 1 January 2021 up to the Latest Practicable Date; and (iii) have disclosed the pricing basis and amount of the licence fee charged for distribution. However, we were not able to identify any comparable transactions among the 22 companies under this category. Therefore, we expanded the company categories to include "consumer electronics", "household goods" and "home appliances" and identified two comparable transactions (the "**Comparable Transactions**") based on the above criteria for comparison purpose. Although the circumstances relating to the Comparable Transactions, and therefore the licensing arrangement, may be different from those relating to the Company, we consider that the Comparable Transactions provide us with general market information of licence fee arrangement conducted by companies listed on the Stock Exchange for our assessment. Details of the Comparable Transactions are set out below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name (stock code)	Transaction details	Pricing basis of the licence fee
19 June 2024	Crosstec Group Holdings Limited (3893)	The grant of an exclusive licence by a third party to the company to reproduce, distribute and publish the licensed game in the licensed territories	(i) Fixed licence fee of US\$500,000 for 5 years; and (ii) Monthly licence fee equivalent to 15% of the gross revenue generated by the company
31 July 2023	JS Global Lifestyle Company Limited (1691)	A connected person granted to the group the non-exclusive rights to obtain, produce and source, and the exclusive rights to distribute and sell, SN brands of products in the Asia Pacific Region and Greater China	Expected to be approximately 3% of net sales

We noted that the licence fee for one of the Comparable Transactions comprised a fixed portion of US\$100,000 per annum and a variable portion equivalent to 15% of gross revenue while the licence fee for the other Comparable Transaction comprised only a variable portion equivalent to 3% of net sales. In the case of the Distributor Agreement, the Licence Fee is a fixed amount of US\$500,000 per annum and there was no variable portion based on sales revenue. For illustration purpose, assuming that the Group achieves a sales revenue under the Distributor Agreement of an amount of US\$76 million for the year ending 31 December 2025 (being the Proposed Annual Cap for the purchase amount for the year), the fixed annual Licence Fee of US\$500,000 represents approximately 0.66% of such sales revenue, which is significantly lower than the variable portion (i.e. 3% of net sales and 15% of gross revenue) of the licence fee for the Comparable Transactions.

Based on the above analysis and the fact that (i) the Licence Fee was determined after arm's length negotiations between the Group and ADATA; and (ii) the Licence Fee is significantly lower than the variable portion of the licence fee of the Comparable Transactions, we consider that the Licence Fee is on normal commercial terms and is fair and reasonable so far as the Company is concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Purchases of the XPG Products from ADATA

Pursuant to the Distributor Agreement, all supplies and purchases of the XPG Products shall be carried out in accordance with the principal terms of the Distributor Agreement while the specific terms of the purchases, such as product model, quantity, price and other terms and conditions of delivery of the relevant products, shall be specified in the Product Contract(s) and subject to acceptance and confirmation by ADATA from time to time. The terms and conditions, including product pricing, under the Product Contract(s) for supplying XPG Products to DD Gaming Media shall be determined with reference to the prevailing market terms and prices and such terms shall be more favourable to DD Gaming Media, offering discounts (the extent of which may vary depending on factors such as product type, popularity, order size, seasonality and DD Gaming Media's sales performance) to ADATA's sales price for such products to third party customers in the Territories.

As set out in the Letter from the Board, the Company will put in place internal control procedures to monitor and the entering into of the Continuing Connected Transactions. In particular, prior to entering into any Product Contract with ADATA, the procurement team of DD Gaming Media shall (a) compare the terms offered by ADATA with (i) the market data published in reputable industry research websites such as DRAmEXchange, a semiconductor research department focusing on the supply chains of memory and semiconductor products of TrendForce, which is an independent global information provider of the latest development, insight and analysis of the technology industry; and (ii) ADATA's invoices issued to Independent Third Parties and/or other supporting documents, if necessary, to ensure that the terms offered by ADATA are fair and reasonable and more favourable to DD Gaming Media than those offered by ADATA to Independent Third Parties in the Territories; and (b) take into consideration the customer order on hand, historical sales volume or (in the case of any new products) expected market demand from its sales team as well as any published product reviews and analyse whether the supply price would allow DD Gaming Media to generate a reasonable operating margin having regard to the portfolio of XPG Products being sold and the costs of operations and allow DD Gaming Media to appropriately manage risks.

With the above procedures, we consider that the Company has sufficient and effective internal control measures in place to ensure that the purchase price of the Group under the Distributor Agreement will be fair and reasonable and more favourable to DD Gaming Media than those offered by ADATA to Independent Third Parties in the Territories.

Our view

Based on the above, we concur with the view of the Directors that the terms of the Distributor Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

D. The Proposed Annual Caps

The table below sets out the Proposed Annual Caps for the period ending 31 December 2026.

	Proposed Annual Caps		
	For the period from the Effective Date to 31 December 2024 ("PE2024") US\$	For the year ending 31 December 2025 US\$	For the year ending 31 December 2026 US\$
Purchase Amount	13,500,000	76,000,000	103,000,000
Licence Fee	83,333	500,000	500,000
Total	13,583,333	76,500,000	103,500,000

As stated in the Letter from the Board, the Proposed Annual Caps in respect of the Purchase Amount were arrived at based on, among other things:

- (i) ADATA's historical sales amount of the XPG Products in the Territories for the year ended 31 December 2023 ("FY2023");
- (ii) the currently planned sales capacity and resources of DD Gaming Media for conducting the distribution business during the initial transition period;
- (iii) a projected annual growth rate of 15% in the sales amount of the XPG Products in the Territories for each of the three period/years ending 31 December 2026, having taken into consideration ADATA's historical annual growth rate of approximately 15% in sales of XPG Products in the Territories for FY2023 over the year ended 31 December 2022 ("FY2022") and the anticipated annual growth rate of over 15% of the gaming PC market during the forecast period of 2024 to 2036 projected by Research Nester, an independent market research company;
- (iv) the assumption that the Distributor Agreement will commence on or about 1 November 2024; and
- (v) the assumption that the sales amount of the XPG Products in the Territories for the two months ending 31 December 2024 may account for approximately 25% of the projected total sales of the XPG Products in the Territories for the year ending 31 December 2024 ("FY2024") given that November and December are traditional peak seasons for sales of computer and gaming products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our work done

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have reviewed and discussed with management of the Company on the underlying calculation, including the basis and assumptions, in formulating the same.

Assessment of the reasonableness of the Proposed Annual Caps of the Purchase Amount

(a) PE2024

We understand from the management of the Company that the Proposed Annual Cap for PE2024 is determined after taking into consideration (i) a projected annual growth rate of 15% as compared to the historical sales amount of the XPG Products for FY2023; (ii) the sales amount of the XPG Products by DD Gaming Media for November and December 2024 will account for approximately 25% of the total projected sales amount of the XPG Products for FY2024 as November and December are traditional peak seasons for sales of computer and gaming products; and (iii) the planned sales capacity and resources of DD Gaming Media for conducting the distribution business during PE2024. We noted from ADATA's published monthly sales data for FY2023 that the aggregate sales contributed by November and December 2023 represented approximately 21% of the total sales amount for FY2023. Therefore, we concur with the management that it is fair and reasonable to assume 25% of the projected sales of FY2024 for the Proposed Annual Cap for PE2024.

To ascertain if the projected annual growth rate of 15% is determined on a fair and reasonable basis, we have reviewed the historical growth rate of the sales amount of the XPG Products by ADATA for FY2023 as compared to that of FY2022 which was 15% and we have performed independent research regarding the projected annual growth rate of 15%. According to Research Nester (an independent market research company) (<https://www.researchnester.com/reports/gaming-pc-market/6035>), the gaming PC market was valued at US\$53 billion in 2023 and is anticipated to grow at an annual growth rate of over 15% during the forecast period of 2024 to 2036. In the year 2024, the industry size of gaming PC is evaluated at US\$60 billion, representing an increase of approximately 13.2% as compared to that of 2023. Besides, according to World Semiconductor Trade Statistics (a non-profit mutual benefit corporation to define services for the world semiconductor industry) (<https://www.wsts.org/76/Recent-News-Release>), the global semiconductor market is expected to grow by approximately 12.5% in 2025 primarily driven by the memory and logic sectors. Hence, we consider that applying 15% as the projected annual growth rate is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) FY2025

We noted that the Proposed Annual Cap for FY2025 represented an increase of approximately 41% over the projected sales of the XPG Products for FY2024. We understand from the management of the Company that the Proposed Annual Cap for FY2025 is determined (i) based on a projected annual growth rate of 15% as compared to the projected sales of the XPG Products for FY2024; and (ii) assuming that DD Gaming Media can service more customers of ADATA in the Territories during FY2025. Please refer to the paragraph headed “(a) PE2024” under “D. The Proposed Annual Caps” for our due diligence on the projected annual growth rate of 15%.

(c) FY2026

We noted that the Proposed Annual Cap for FY2026 represented an increase of approximately 36% over the Proposed Annual Cap for FY2025. Such increase is mainly attributable to the projected annual growth rate of 15% as explained above under paragraph headed “(a) PE2024” under “D. The Proposed Annual Caps” and the management’s expected increase in sales capacity and resources of DD Gaming Media in servicing more customers of ADATA in the Territories.

Assessment of the reasonableness of the Proposed Annual Caps of the Licence Fee

The Licence Fee represents approximately 0.6%, 0.7% and 0.5% of the total Proposed Annual Caps for PE2024, FY2025 and FY2026, respectively. The Proposed Annual Caps of the Licence Fee are determined at the fixed annual rate for FY2025 and FY2026 or a pro-rated amount for PE2024 which we consider fair and reasonable according to our analysis and view under the above paragraph headed “C. Principal Terms of the Distributor Agreement”.

Our view

Based on the factors, reasons and our analysis explained above and our review of the underlying calculations from the Company, we concur with the view of the management of the Company that the Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

E. Internal Control Measures

For details of the Group's internal control measures, please refer to the paragraph headed "Internal Control Procedures for the Continuing Connected Transactions" in the Letter from the Board.

Our view

Based on our discussion with the management of the Company on the internal control measures for the transactions contemplated under the Distributor Agreement and our review of the internal control procedures that include:

- (i) the Group has measures in place to ensure that the pricing of the XPG Products offered to the Group shall be more favourable than the selling price offered to the independent customers by ADATA. Prior to entering into any Product Contract with ADATA, the procurement team of DD Gaming Media shall (a) compare the terms offered by ADATA with (i) the market data published in reputable industry research websites such as DRAMeXchange, a semiconductor research department focusing on the supply chains of memory and semiconductor products of TrendForce, which is an independent global information provider of the latest development, insight and analysis of the technology industry; and (ii) ADATA's invoices issued to Independent Third Parties and/or other supporting documents; and (b) take into consideration the customers order on hand, historical sales volume or (in the case of any new products) expected market demand from its sales team as well as any published product reviews and analyse whether the supply price would allow DD Gaming Media to generate a reasonable operating margin having regard to the portfolio of XPG Products being sold and the costs of operations and allow DD Gaming Media to appropriately manage risks. Hence, the Group will be able to ensure that the pricing terms offered by ADATA to DD Gaming Media are fair and reasonable and more favourable than those offered by ADATA to Independent Third Parties in the Territories; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the Group has measures in place to ensure that the annual transaction amounts under the Distributor Agreement will not exceed the proposed annual caps of respective period/years. Such measures include (a) dedicated personnel from the procurement team will be designated to closely monitor the actual transaction amount incurred under the Continuing Connected Transactions on a weekly basis. If the actual transaction amount reaches 80% or more of the relevant annual caps at any time of the year, the dedicated personnel will inform the finance department and the Board as soon as possible. The Board would then consider taking appropriate measures in accordance with the requirements of the Listing Rules, including, but not limited to, publishing announcement for an increased annual cap amount and seeking approval from the Shareholders, if applicable; (b) monthly review on the Product Contracts and supporting documents for pricing comparison performed by the procurement team will be conducted by the finance department of the Company to ensure that the transactions are conducted in accordance with the terms and conditions of the Distributor Agreement, and that the approved annual caps are not exceeded; and (c) the external auditor and independent non-executive Directors will review the Continuing Connected Transactions on an annual basis, following which the independent non-executive Directors will provide an annual confirmation as to whether the Continuing Connected Transactions are conducted in accordance with the terms of the Distributor Agreement, on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole;

we consider that the Company has sufficient and effective internal control measures in place to ensure that (i) the Proposed Annual Caps of the Distributor Agreement will not be exceeded (or if it is expected to be exceeded, the Company will consider measures to be taken in a timely manner, which include notifying the finance department and the Board as soon as possible or re-complying with disclosure and independent shareholders' approval requirements under the Listing Rules, if applicable); and (ii) the pricing of the XPG Products will be determined on normal commercial terms and more favourable to DD Gaming Media than those offered by ADATA to Independent Third Parties in the Territories (through adopting internal procedures to compare the terms offered by ADATA with market data or ADATA's invoices issued to Independent Third Parties).

F. Requirements by the Listing Rules regarding the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that they have been entered into:
- in the ordinary and usual course of business of the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- on normal commercial terms or better; and
 - according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
- have not been approved by the Board;
 - were not, in all material respects, in accordance with the pricing policies of the Group if the Continuing Connected Transactions involve the provision of goods or services by the Group;
 - were not entered into, in all material respects, in accordance with the terms of the relevant agreement(s) governing the Continuing Connected Transactions; and
 - have exceeded the annual caps;
- (c) the Company must allow, and ensure that the relevant counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions; and
- (d) the Company must promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) above, respectively.

In light of the reporting requirements relating to the Continuing Connected Transactions, in particular, (i) the restriction of transaction value by way of the annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company on the terms of the Continuing Connected Transactions and the Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the aforesaid principal factors, reasons and our analysis referred to above, we are of the opinion that the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps) are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the entering into of the Distributor Agreement and the Continuing Connected Transactions (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Ballas Capital Limited

Heidi Cheng
Managing Director

Michelle Tse
Director

Note: Ms. Heidi Cheng is a responsible officer of Type 6 (advising on corporate finance) regulated activities and has over 25 years of experience in advising corporate finance transactions. Ms. Michelle Tse is a licensed representative of Type 6 (advising on corporate finance) regulated activities and has over 10 years of experience in advising corporate finance transactions.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, to the best knowledge of the Directors and chief executives of the Company, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives of the Company are taken or deemed to have under such provision of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules were as follows:

Name of Director	Capacity	Number of Shares and underlying Shares held	Long/short position	Approximate percentage of issued share capital
Seah Ang	Interest of controlled corporation (<i>Note 1</i>)	200,853,132	Long position	2.52%
	Interest of controlled corporation (<i>Note 1</i>)	50,213,479	Short position	0.63%
Elizabeth Monk Daley	Beneficial owner (<i>Note 2</i>)	2,000,000	Long position	0.03%

Notes:

- Global Domain Investments Limited was deemed to be interested in 200,853,132 Shares by holding 50,213,479 Shares and taking a deemed interest in 150,639,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
- 2,000,000 share options granted on 26 July 2024 are exercisable from the date of grant.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Directors and chief executives of the Company, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which the Directors or chief executive of the Company are taken or deemed to have under such provision of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or the chief executive of the Company, the persons or companies (not being a Director or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Capacity	Number of Shares and underlying Shares held	Long/short position	Approximate percentage of issued share capital
ADATA	Beneficial interest and interest of controlled corporation (<i>Note 1</i>)	1,547,940,000	Long position	19.40%
Song Hoi See	Interest of controlled corporation (<i>Note 2</i>)	761,430,000	Long position	9.54%
Poly Culture Group Corporation Limited	Beneficiary of a trust (other than a discretionary interest)	532,360,000	Long position	6.67%
Wang Xiaohu	Beneficial interest	530,000,000	Long position	6.64%
Huang Chi-Cheng	Interest of controlled corporation (<i>Note 3</i>)	528,966,000	Long position	6.63%
Tang Elaine Yilin	Interest of controlled corporation (<i>Note 4</i>)	503,720,000	Long position	6.31%
Ding Jiann-Shing	Interest of controlled corporation (<i>Note 5</i>)	435,670,000	Long position	5.46%

Notes:

1. ADATA beneficially held 1,287,940,000 Shares and was deemed to be interested in 260,000,000 Shares held by Zhao-Xing Investment Co., Ltd., a company directly wholly-owned by ADATA, as at the Latest Practicable Date.
2. Song Hoi See was deemed to be interested in 761,430,000 Shares held by Bright Brother Global Limited, a company directly wholly-owned by Song Hoi See, as at the Latest Practicable Date.
3. Huang Chi-Cheng was deemed to be interested in 528,966,000 Shares held by Allied Talent Global Limited, which was directly wholly-owned by Hang Chi-Cheng, as at the Latest Practicable Date.
4. Tang Elaine Yilin was deemed to be interested in 503,720,000 Shares held by Jade Link Holdings Limited, which was directly wholly-owned by Tang Elaine Yilin, as at the Latest Practicable Date.
5. Ding Jiann-Shing was deemed to be interested in 435,670,000 Shares held by Delight On Group Limited, which was directly wholly-owned by Ding Jiann-Shing, as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the persons or companies (not being a Director or chief executive of the Company) had or was deemed to have any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any member of the Group.

DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any unexpired service contract with the Group, which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which had been, since 31 December 2023, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors and their respective associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited accounts of the Company were made up.

EXPERT AND CONSENT

- (a) The following is the qualification of the expert who has given opinion, letter or advice which are contained in this circular:

Ballas Capital	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
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- (b) Ballas Capital has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion of its letter, which has been prepared for inclusion in this circular, and references to its name and/or its opinion in the form and context in which they respectively appear.
- (c) As at the Latest Practicable Date, Ballas Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (d) As at the Latest Practicable Date, Ballas Capital did not have any interest, direct or indirect, in any asset which had been, since 31 December 2023, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

GENERAL

- (a) The registered office and principal place of business of the Company in Hong Kong are situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Suite 2005, 20/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong respectively.
- (b) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, which is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Fok Lai Yan. Ms. Fok is an associate member of both The Chartered Governance Institute and The Hong Kong Chartered Governance Institute.
- (d) This circular and the accompanying form of proxy are prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.digitaldomain.com) during the period of 14 days from the date of this circular up to and including the 14th day thereafter:

- (a) the Distributor Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 14 of this circular;
- (c) the letter from the Independent Financial Adviser, the text of which is set out on pages 15 to 29 of this circular; and
- (d) the written consent referred to in the paragraph headed “Expert and Consent” in this appendix.

NOTICE OF SPECIAL GENERAL MEETING



DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Digital Domain Holdings Limited (the “**Company**”) will be held at the Conference Room, Suite 2005, 20/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong at 10:30 a.m. on Monday, 11 November 2024 for the purposes of consideration and, if thought fit, passing the following resolution of the Company:–

ORDINARY RESOLUTION

1. “**THAT**

- (a) the transactions contemplated under the agreement dated 25 October 2024 (the “**Distributor Agreement**”) (a copy of which marked “A” has been produced to the meeting and signed by the chairman of the meeting for the purpose of identification) entered into between Digital Domain Gaming Media Limited (“**DD Gaming Media**”) and ADATA Technology Co., Ltd. (“**ADATA**”) in relation to, inter alia, the appointment of DD Gaming Media as an exclusive general distributor in respect of the products branded XPG in Greater China and the Americas by ADATA, and the supply and purchases of products between DD Gaming Media and ADATA, subject to such annual caps as more particularly described in the circular to the shareholders of the Company dated 26 October 2024 to which this notice is attached, be and are hereby approved; and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things and execute such further documents and take all steps which, in their opinion may be necessary, desirable, or expedient to implement and give effect to the terms of, and all transactions contemplated under, the Distributor Agreement for and on behalf of the Company and to approve any change and amendment thereto as they may consider necessary, desirable or expedient.”

By Order of the Board

DIGITAL DOMAIN HOLDINGS LIMITED

Seah Ang

Chairman and Chief Executive Officer

Hong Kong, 26 October 2024

NOTICE OF SPECIAL GENERAL MEETING

Notes:

- (1) Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting. A proxy need not be a member of the Company.
- (2) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
- (3) The form of proxy and the power of attorney or other authority, if any, under which it is signed, or certified copy of such power or authority, shall be delivered to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
- (4) Where there are joint holders of any share any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (5) A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.
- (6) The resolution is to be voted by way of poll.
- (7) The register of members of the Company will be closed from Wednesday, 6 November 2024 to Monday, 11 November 2024, both days inclusive, during such period no transfers of shares of the Company will be registered. In order to determine the identity of members of the Company who are entitled to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 5 November 2024.
- (8) If a tropical cyclone warning signal no. 8 or above is hoisted or a black rainstorm warning signal is in force at or at any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the websites of the Company and the Stock Exchange to notify members of the Company of the date, time and venue of the rescheduled Meeting.

Having considered their own situations, members of the Company should decide on their own whether or not they would attend the Meeting under any bad weather condition and if they do so, they are advised to exercise care and caution.
- (9) There will be no distribution of corporate gifts or serving of refreshments at the Meeting.
- (10) The form of proxy is enclosed.