2014 ANNUAL REPORT

DIGITALDOMAIN

Digital Domain Holdings Limited
數字王國集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 547)

* For identification purposes only

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Seah Ang *(Chairman and Chief Executive Officer)*
Mr. Fan Lei *(Deputy Chairman)*

Independent Non-executive Directors
Mr. Duan Xiongfei
Ms. Lau Cheong
Mr. Wong Ka Kong Adam

AUDIT COMMITTEE

Mr. Duan Xiongfei *(Chairman)*
Ms. Lau Cheong
Mr. Wong Ka Kong Adam

REMUNERATION COMMITTEE

Mr. Duan Xiongfei *(Chairman)*
Mr. Fan Lei
Ms. Lau Cheong
Mr. Wong Ka Kong Adam

NOMINATION COMMITTEE

Mr. Duan Xiongfei *(Chairman)*
Mr. Fan Lei
Ms. Lau Cheong
Mr. Wong Ka Kong Adam

COMPANY SECRETARY

Ms. Fok Lai Yan

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

SOLICITOR

Reed Smith Richards Butler

WEBSITE

www.ddhl.com

STOCK CODE

547

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 1818-1823, 18th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

With effect from 16 April 2015, will relocate to:

Suite 7003, 70/F.
Two International Finance Centre
8 Finance Street
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
China Minsheng Banking Corp., Ltd.
East West Bank
Industrial and Commercial Bank of China (Asia) Limited
OCBC Wing Hang Bank Limited
Royal Bank of Canada
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank Limited

CONTENTS

CORPORATE PROFILE

Mr. SEAH Ang (Daniel)
Chairman and Chief Executive Officer

Mr. Daniel SEAH said, "We are thrilled that our Group's ground breaking visual effects work has once again earned recognition from the prestigious memberships of the Motion Picture Academy and the Visual Effects Society. It's our artist's continued ground breaking work that is paving the way to new frontiers and endless opportunity.

While we at Digital Domain have an exciting future, we also feel that the future is now. We premiered the first-of-its-kind virtual reality short film "Evolution of Verse" at the 2015 Sundance Film Festival to great acclaim. Thanks to our best in the business work on virtual humans, Teresa Teng will soon be performing again for adoring fans old and new. We teamed up with the legendary Stan Lee and POW! to bring the next generation of exciting characters to the world and our partnerships with Immersive Media opens up countless possibilities as to where we will take audiences next.

This is an exciting time in the visual effects world with new technologies pushing the boundaries of visual effects, virtual reality and immersive entertainment. So even with our award winning visual effects work in movies, television, advertising and games we are pushing even further and harder to be at the very front of this entertainment revolution".

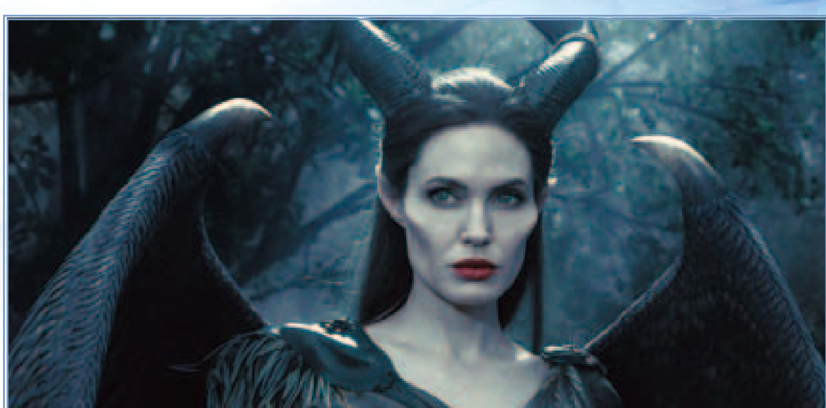
CORPORATE PROFILE

Digital Domain Holdings Limited (the "Company" together with its subsidiaries, the "Group") is a diversified investment holding company with its operating and investment businesses spanning Hong Kong, United States, Canada, Mainland China and others, which embrace such businesses as media entertainment, visual effects, co-production of movies, property investment, trading, etc.

The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 547). The following is a simplified chart of major businesses of the Group as at the date of this report:

Note: For details and full names of these businesses/projects/companies, please refer to "Management Discussion and Analysis" section of this report on pages 4 to 16.

MANAGEMENT DISCUSSION AND ANALYSIS



Maleficent

X-Men: Days of Future Past

FINANCIAL AND BUSINESS REVIEW

For the year ended 31 December 2014, the Group achieved a revenue of HK$849,952,000 (2013: HK$467,311,000), showing an increase of approximately 82% compared to that of last year. The increase in revenue was mainly attributable to the consolidation of the full year of the media entertainment segment (visual effects ("VFX") production) and growth in the trading segment. Profit for the year ended 31 December 2014 was approximately HK$33,481,000 (2013: loss of HK$265,788,000). The profit for the year was mainly caused by (i) a gain on modification of terms of convertible notes in view of the extension of the maturity date of those convertible notes to 3 July 2017, (ii) fair value gains on investment properties, (iii) no impairment loss on an intangible asset (in respect of the Group's participation right in a movie) and (iv) improved performance of media entertainment segment. Profit attributable to owners of the Company was HK$43,323,000 (2013: loss of HK$192,215,000) for the year ended 31 December 2014.

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

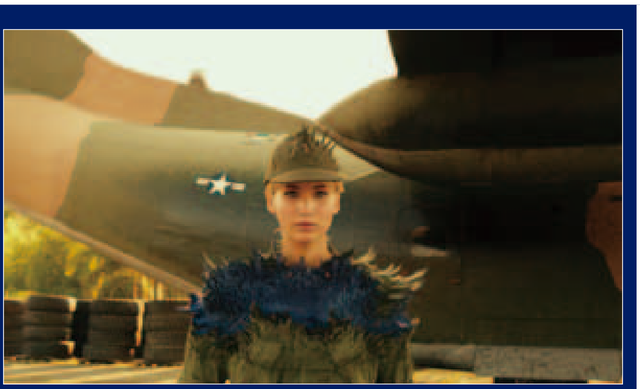
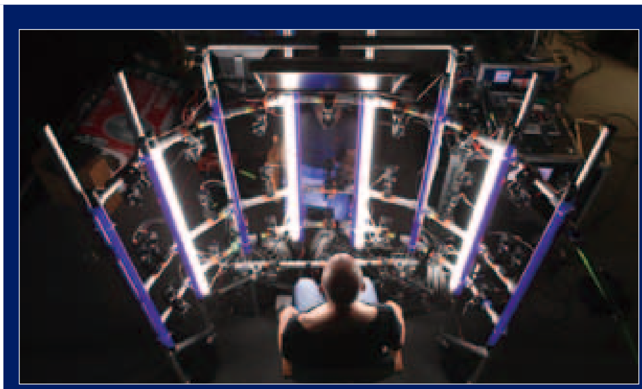
MANAGEMENT DISCUSSION AND ANALYSIS

Media Entertainment Segment

In order to diversify the business portfolio of the Group and to broaden its source of income, the Group has acquired the VFX production business in July 2013. The media entertainment segment mainly provides VFX for major motion picture studios, advertisers and games. The Group had provided VFX production services for feature films, such as "X-Men: Days of Future Past", "Maleficent" and "Night at the Museum: Secret of the Tomb". In addition it produced VFX in advertising for major brands such as Nissan, United Airlines, Kia's Super Bowl commercial, the video games "Destiny", "Assassin's Creed" and Microsoft's "Halo" and "Tomb Raider". The following list of recent awards and nominations is a recognition for the Group's VFX technology:

1. "X-Men: Days of Future Past" Nominated for Academy of Motion Picture Arts and Sciences (Oscars) for Best Achievement in Visual Effects.

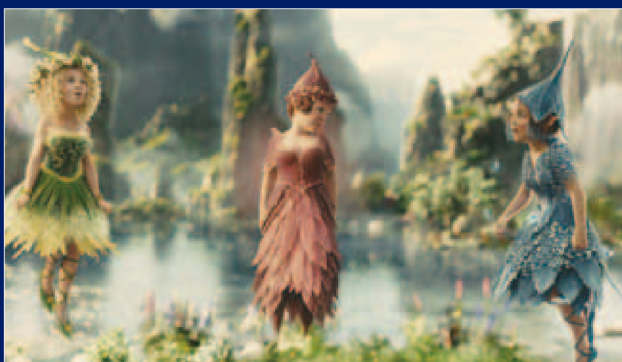
2. Academy of Motion Pictures Arts and Sciences, Science and Technical Awards for MOVA and Drop technologies.

87th (2015) Academy Awards (Oscars)	Academy of Motion Pictures Arts and Sciences, Science and Technical Awards
	
Nominee for Best Visual Effects - X-Men: Days of Future Past	MOVA

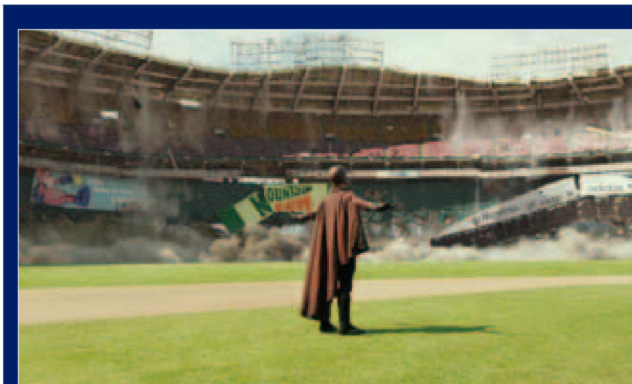
MANAGEMENT DISCUSSION AND ANALYSIS

3. Digital Domain artists nominated for 6 Visual Effects Society (VES) awards for their VFX work on “Maleficent”, “X-Men: Days of Future Past”, the video game “Destiny” and Kia’s Super Bowl advertisement.

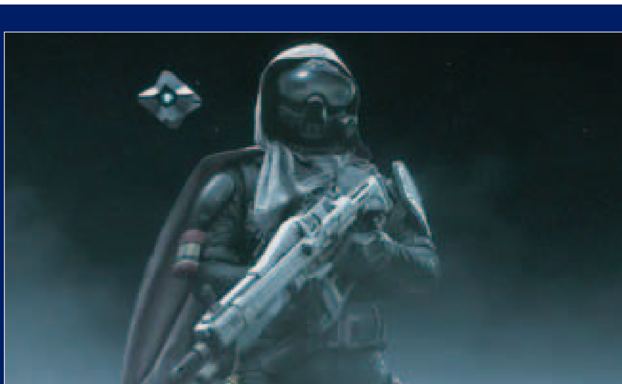
Six VES Awards nominated



Maleficent



X-Men: Days of Future Past



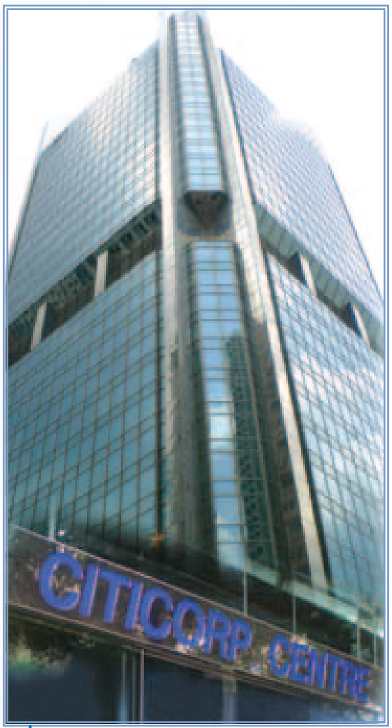
Destiny

Kia’s Super Bowl

MANAGEMENT DISCUSSION AND ANALYSIS

For the co-production film, "Ender's Game", the first theatrical release took place in November 2013 in the United States of America ("U.S."). The film continues to generate income from non-box office channels both within and outside the U.S. "Ender's Game" is based on the best-selling, award winning novel. "Ender's Game" is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, with Abigail Breslin and Ben Kingsley. It is distributed by Summit Entertainment in association with OddLot Entertainment and is a Chartoff Productions/Taleswapper/OddLot Entertainment/K/O Paper Products/ Digital Domain 3.0, Inc. production. Digital Domain 3.0, Inc. is a 70% indirectly owned subsidiary of the Company.

During the year under review, this segment recorded a revenue of approximately HK$524,595,000 (2013: HK$238,185,000). The significant increment was due to the consolidation of the full year of this segment in 2014. The revenue of this segment accounted for approximately 62% of the Group's revenue for the year under review. This segment incurred loss of approximately HK$36,019,000 (2013: HK$254,015,000). The loss was reduced significantly as the margins have improved since the Group's acquisition of the VFX production business in July 2013, the amortisation expense of an intangible asset, participation right in the film "Ender's Game", was reduced significantly and also no more impairment loss provided for this intangible asset. The adjusted segment profit before deduction of (a) depreciation of property, plant and equipment and amortisation of intangible assets and (b) impairment loss on an intangible asset was HK$51,341,000 (2013: loss of HK$17,922,000).



The Group owns 2 shops and 10 car parks in the Citicorp Centre

Property Investment Segment

The Group owns two shops at the ground floor and ten car parks in the Citicorp Centre, Causeway Bay, Hong Kong. All shops and most of the car parks were leased out as at 31 December 2014. For the year ended 31 December 2014, this segment reported a revenue and profit of approximately HK$5,650,000 (2013: HK$5,710,000) and HK$4,519,000 (2013: HK$4,554,000) respectively both with a mild decrease of approximately 1% compared to the prior year. The decrease was caused by a short vacant period during the change of tenants. The revenue accounted for approximately 1% of the Group's overall revenue during the year under review.

Trading Segment

In 2014, this segment was engaged in the trading of metal scraps (e.g. copper wire) among Hong Kong, Mainland China and other countries/ regions. For the year ended 31 December 2014, this segment recorded a revenue of approximately HK$319,707,000 (2013: HK$223,416,000), reflecting an uplift of approximately 43% over last year and a contribution of approximately 37% of the revenue of the Group. The profit of the trading segment also rose by approximately 55% to HK$21,843,000 (2013: HK$14,129,000).

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST IN JOINT VENTURE

During the year under review, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 700)) was HK$94,000. The co-operation started in September 2013. The joint venture has not conducted any material business activity since its incorporation and will explore potential investment opportunities.

SIGNIFICANT EVENTS

Formation of a joint venture company for 3D-Teresa Teng Business

On 20 October 2014, an indirectly wholly-owned subsidiary of the Company and TNT Production Limited ("TNT") entered into a co-operation joint venture framework agreement ("Framework Agreement") for the formation of a joint venture company to engage in the production and utilisation of certain holograms of Miss Teresa Teng subject to the conditions precedent contained in the Framework Agreement. The joint venture company is to be owned as to 60% by the Group and 40% by TNT. The joint venture company's business will be production of new holograms of Miss Teresa Teng using digital 3-Dimensional technology and the exploitation of such new holograms in the entertainment business, including and not limited to concerts, albums, movies, advertisements etc., around the world.

TNT warrants the exclusivity of rights conferred to the joint venture company under the Framework Agreement and the authenticity of the certificates and licences of the intellectual property rights ("IP Rights"), and TNT and 財團法人鄧麗君文教基金會 ("Teresa Teng Foundation" for identification purpose) and/or 鄧麗君文化事業有限公司 ("Teresa Teng Culture Corporation Limited" for identification purpose) not having made any transfer, franchise, licence, pledge or any other disposals in relation to the IP Rights which may affect or restrain TNT from fulfilling its obligations under the Framework Agreement.

3D Miss Teresa Teng

In 2013, the Group employed the latest "Virtual Image Reconstruction Technology" from Hollywood, the U.S. to create 3-D images, bringing back the late international superstar Miss Teresa Teng to sing with Mr. Jay Chou on stage in "The Opus Jay 2013 World Tour". The performances have been so enchanting that more than 100,000 people have attended the concerts. Supported by the renowned VFX service provider under the Group, Miss Teng became the first Chinese singer to be "resurrected" through virtual image reconstruction technology. A professional team stationed in Hollywood was responsible for transforming the initial concept into reality. This success has laid a solid foundation for the Group to enter the high-end media entertainment and film production market.

MANAGEMENT DISCUSSION AND ANALYSIS

Miss Teng is generally considered to be the all-time greatest Asian singing star. The name "TNT" originates from the first letter of the English first name and family name of Miss Teresa Teng, "T" and "T". TNT is mainly responsible for Miss Teresa Teng's video and audio entertainment business and related copyright licensing matters worldwide, with projects covering concerts, musicals, television dramas, movies, etc.

For details, please refer to the Company's announcements dated 20 October 2014 and 29 January 2015.

Acquisition of a trading/e-commerce business in Mainland China

On 30 December 2014, an indirect wholly-owned subsidiary ("Purchaser") of the Company entered into an acquisition agreement ("Acquisition Agreement") for the purchase by the Group of the entire issued share capital of a target company ("Target Company") and all related shareholder's loan for a total consideration of HK$312.5 million, subject to reduction if Target Company's subsidiary (which will be 51% owned by the Target Company at completion date) does not meet the 2015 target profit as stated in the Acquisition Agreement. Completion will only take place after the fulfillment (to the extent not waived by the Purchaser) of certain conditions precedent described in the Acquisition Agreement. The initial consideration payable for the acquisition is to be settled at completion by the issue of HK$312.5 million in principal amount of convertible bonds. The convertible bonds are not transferrable or convertible during the restricted period described in the Acquisition Agreement.

Target Company's subsidiary, 北京嘉玲國際電子商務有限公司 ("Beijing Carina International E-Commerce Co. Ltd. ("Carina International")" for identification purpose), is engaged in the distribution of "嘉玲" ("Carina" for identification purpose) branded skin care products. Carina International has been licensed the right to use the image and name of Ms. Carina Lau, an established and reputable celebrity in Hong Kong and Mainland China, for the promotion of Carina branded skin care products.

As of the date of this report, the acquisition has not been completed yet. For details, please refer to the Company's announcement dated 30 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER BALANCE SHEET DATE

Formation of an U.S. joint venture company with POW!

On 19 January 2015, an indirectly wholly-owned subsidiary of the Company and POW! Entertainment, LLC ("POW!", a wholly-owned subsidiary of POW! Entertainment, Inc. ("POW! Entertainment") whose common stock is quoted on the OTCQB Market in the U.S.) entered into a term sheet ("Term Sheet") for the formation of an U.S. joint venture company ("US Joint Venture Company") with respect to the development, production, and distribution of projects based on certain characters and other content developed by POW! or by the two parties jointly for distribution throughout the world. The US Joint Venture Company is to be owned as to 75% by the Group and 25% by POW!.

It is also contemplated that POW! will make Mr. Stan Lee available for a digital facial scan for the exploitation by the US Joint Venture Company of contents exhibiting Stan Lee's likeness in virtual human format based on such scan, on terms to be agreed by the parties to the Term Sheet.

Mr. Stan Lee, founder of POW!, is the chairman of the board, director and chief creative officer of POW! Entertainment. POW! Entertainment is a multimedia production and licensing company that creates and licenses animated and live-action fantasy and superhero entertainment content and merchandise, leveraging the creative output and branded image of Stan Lee. Mr. Lee currently remains chairman emeritus of Marvel Entertainment, LLC, as well as a member of the editorial board of Marvel Comics. Mr. Lee was employed on a full time basis by Marvel Comics or its predecessor entities for over 50 years. He started in the comic book industry in 1940 when he started with Timely Comics which eventually became Marvel Comics. Mr. Lee's co-creations include Spider-Man™ [1], The Incredible Hulk™ [1], X-Men™ [1], The Fantastic Four™ [1], Iron Man™ [1] and hundreds of others. He introduced Spider-Man™ * as a newspaper strip which became the most successful of all syndicated adventure strips having appeared in more than 500 newspapers worldwide.

Notes:

1 These are the registered trademarks and characters of Marvel Characters, Inc.

* All trademarks are owned by Marvel Entertainment, LLC.

For details, please refer to the Company's announcement dated 19 January 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment in Immersive and formation of a Canadian joint venture company with Immersive

On 17 February 2015 (US time), an indirect wholly-owned subsidiary of the Company ("DDVR") and Immersive Ventures Inc. ("Immersive") entered into the subscription agreement, pursuant to which the Group will subscribe 3,333,333 subscription shares (representing approximately 12.91% of the issued share capital of Immersive as enlarged by the subscription) for a subscription price of US$3,000,000 ("Subscription"). In connection with the Subscription, DDVR has also entered into a shareholders' agreement with Immersive and the single largest shareholder of Immersive in relation to the governance of their relationship as shareholders of Immersive.

Immersive is principally engaged in the business of interactive media technology including 360 captures, multi-camera stitching, dynamic streaming, digital live optimisation, multicamera and multi-input synchronisation, digital transmission and observation, multi-channel, capturing multi-panoramic views, camera to image identification, internal GPS to capture data capturing.

360 degree camera

On 17 February 2015 (US time), DDVR, Immersive and a Canadian company ("Joint Venture Company") entered into a joint venture shareholders' agreement in relation to the governance of rights and obligations of the two shareholders. Upon completion of the subscription of shares in the Joint Venture Company by the Group and Immersive, the Joint Venture Company is to be owned as to 51% (US$3,000,000) by the Group and 49% (US$2,882,351.50) by Immersive and the Joint Venture Company becomes an indirect non-wholly owned subsidiary of the Company. The Joint Venture Company is intended to engage in business of the application of virtual reality technology (including the 360 digital captures technology) in the media and entertainment field.

Immersive (together with its subsidiaries) have granted the Joint Venture Company certain exclusive (in media and entertainment product and services) and non-exclusive license rights with respect to the licensed technology pursuant to a technology license agreement.

DDVR and the Joint Venture Company have also entered into a loan and security agreement, pursuant to which DDVR will provide a three-year revolving line of credit in the maximum principal amount of US$3,000,000 to the Joint Venture Company. Such credit line is to be secured by the property of the Joint Venture Company and a non-recourse guaranty provided by Immersive under a non-recourse guaranty and pledge agreement.

For details, please refer to the Company's announcements dated 15 January 2015 and 18 February 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL

As at 31 December 2014, the total number of shares of HK$0.01 each of the Company (the "Shares") in issue was 9,832,685,768 Shares.

On 27 November 2014, with the approval of the holder of all of the convertible notes ("Convertible Notes"), the Company executed an amendment deed ("Amendment Deed") to extend the maturity date of the Convertible Notes by two years, from 3 July 2015 to 3 July 2017. No other terms and conditions of the Convertible Notes have been amended. Such extension was approved by shareholders of the Company at the special general meeting of the Company held on 29 December 2014. For details, please refer to the Company's announcements dated 27 November 2014 and 29 December 2014 and the circular dated 9 December 2014 respectively.

As at 31 December 2014, the aggregate outstanding principal amount of the Convertible Notes was HK$392 million. Based on the initial conversion price of HK$0.04 per conversion share, a number of 9,800,000,000 conversion shares will be allotted and issued if the conversion rights attaching to the Convertible Notes are exercised in full. During the year under review, no convertible right attaching to the Convertible Notes had been exercised.

On 28 May 2014, a total of 980,060,000 share options were granted under the share option scheme of the Company to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new Shares at an exercise price of HK$0.098 per Share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014 and the circular dated 2 July 2014 respectively. During the year under review, no share option had been exercised and 9,820,000 share options had been cancelled or lapsed.

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 secured basis, non-bank loans on unsecured basis and non-regular contributions (such as placement of shares or issuance of convertible notes or financing by shareholder's loans) from the shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

During the financial year under review, the Group had banking facilities in form of instalment loans in principal amount of approximately HK$60,838,000, and a working capital loan in principal amount of approximately HK$6,354,000. These banking facilities were secured by (a) the Group's investment properties with the aggregate net book value of HK$189,600,000 as at 31 December 2014, (b) future receipts from a participation right in the film "Ender's Game" and (c) equity interests of two indirectly 70% owned subsidiaries in media entertainment segment (VFX production).

MANAGEMENT DISCUSSION AND ANALYSIS

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group, among the entertainment media segment which discontinued in end of December 2010, had 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 Years 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 had provided 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, operation of the aforesaid subsidiary had discontinued since end of December 2010. This Five Years Loan was fully classified as current liability.

The Group had an other loan of approximately HK$30,949,000 as at 31 December 2014. This other loan was denominated in United States dollars, unsecured, interest-free and not repayable within thirteen months from 31 December 2014.

As at 31 December 2014, the Group also had obligations under finance leases of approximately HK$10,823,000 and which were denominated in United States dollars. These obligations were for certain computer equipment and software (leased assets) and secured by the lessor's charge over the leased assets. The average term was 3 years. Interest rates underlying all obligations were fixed at respective contract dates. All obligations were on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

The cash and bank balances as at 31 December 2014 was approximately HK$140,998,000. As at 31 December 2014, the Group had banking facilities of approximately HK$72,101,000. These bank loans were at floating interest rate. Among these bank loans, loans amounting to HK$65,747,000 are denominated in Hong Kong dollars and loans amounting to HK$6,354,000 are denominated in United States dollars. During the financial year under review, all bank loans of the Group (except the Five Years Loan mentioned above) were classified as current liability and non-current liability according to the agreed scheduled repayments dates. According to the agreed scheduled repayments dates, the maturity profile of the Group's bank borrowings (except the Five Years Loan that was entirely classified as current liability) as at 31 December 2014 was spread over a period of 18 years, with approximately 10% repayable within one year, 13% repayable between one to two years, 12% repayable between two to five years and 65% repayable over five years.

The Group's current assets were approximately HK$229,031,000 while the current liabilities were approximately HK$87,840,000 as at 31 December 2014. As at 31 December 2014, the Group's current ratio was 2.6 (as at 31 December 2013: 2.2).

As at 31 December 2014, the Group's gearing ratio, representing the Group's bank loans, other loan, convertible notes and obligations under finance leases divided by the equity attributable to owners of the Company was 153% (as at 31 December 2013: 220%).

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's revenue, expenses, assets and liabilities were denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB"), United States dollars ("USD") and Canadian dollars ("CAD"). The exchange rates of USD against HKD remained relatively stable during the financial year under review. As some of the financial statements of the business operations in the North America were reported in CAD, if CAD strengthens relative to HKD, reported earnings for Canadian portion would increase. Certain expenses of the Group incurred in RMB had fluctuated in a relatively greater extent in the financial year under review. However, the amount of RMB expenses incurred were immaterial, the fluctuation of RMB against HKD did not have material adverse effect on the operations of the Group for the financial year under review.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB and CAD. However, the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2014, the total headcount of the Group was 532. 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 bonus, share option scheme and retirement schemes.

PROSPECT

During the year, the Group already re-entered the media and entertainment business (VFX market). The Group has provided VFX production services for feature films, including some of the most recognisable and successful ones, such as "X-Men: Days of Future Past" which was nominated for Best Visual Effects in 2015 Academy Awards (Oscars). Furthermore, the Group has produced visual effects for "Maleficent", "X-Men: Days of Future Past", "Destiny: Become Legend" and "Kia: The Truth", which have received six nominations in four different categories in the Visual Effects Society's 13th Annual VES Awards, which recognises outstanding visual effects artistry and innovation in film, animation, television, commercials and video games. In addition, the Group's work is featured on the BAFTA Award nominated "X-Men: Days of Future Past". At the same time, the Group will continue to ride on the Group's track record and substantial experience in the VFX industry and be proactive in seeking new projects and business opportunities, although its markets remain highly competitive. The Group already adopted cost control measures (including outsourcing, where appropriate, discreet parts of its VFX work to external vendors and minimise the number of unutilised production employees, etc.) and improved the profit margins of the VFX business. The effectiveness of financial and operational improvements will be reflected in our results in the coming years.

MANAGEMENT DISCUSSION AND ANALYSIS

The partnering of the two creative forces (Digital Domain and POW!) will include the development of a broad range of original content. Using the innovative and ground breaking technology of Digital Domain, the yet to be named U.S. Joint Venture Company will launch with a future live action event. In addition, Digital Domain plans to use its ground breaking and Academy Award winning MOVA technology to, with the blessing of Mr. Stan Lee, create a virtual likeness of the legendary POW! founder.

The Group considers that through the investment in Immersive and formation of a Joint Venture Company with Immersive as mentioned in the paragraph headed "**Events after Balance Sheet Date**", the Group will explore the application of 360 capture and related virtual reality technology in the media and entertainment field, which is in line with the Company's latest business strategy of further expanding the virtual reality business into the media and entertainment sector.

Utilising the industry leading, ground breaking and Academy Award winning talents of our team of artists, Digital Domain is looking to the future by tirelessly pursing new opportunities in the areas of virtual reality, digital humans and immersive entertainment. Featured at this year's Sundance Film Festival's "New Frontiers" Digital Domain created a first of its kind, fully CG rendered experimental short film, "Evolution of Verse". Taking the vision of legendary music video director, Chris Milk and partnering with Annapurna Films, Digital Domain's artists created a fully immersive, 360 degree virtual reality world that poetically takes the viewer from one beginning to another. People are able to view this piece on their phones with the assistance of "Google Cardboard" brining this dazzling experience to any consumer with a smartphone. This combination of technologies represents only the beginning of the many ways Digital Domain is leading the visual effects industry into the future.

The Group is finalising the acquisition of the trading/e-commerce business as mentioned in the paragraph headed "**Significant Events**" and believes this can allow the Group to expand its trading operations to include skin care products that have shown good launch momentum and produced encouraging financial performance. The Group would make relentless effort to boost the business and optimise the efficiency and product varieties of the trading segment so as to lay a solid foundation for the future growth of the Group. In addition, the acquisition also provides the Group with the opportunity to work with an established and reputable celebrity thereby allowing the Group to consider possibilities of cooperation in relation to its media and entertainment business.

Driven by the stable rental income, the revenue and profit of property investment segment have grown steadily and contributed as a stable income stream for the Group. The Group would review the existing investment properties portfolio constantly and continue to explore potential profitable investments in Hong Kong and/or Mainland China.

Looking ahead, the Group shall strive to explore other potential opportunities for the benefit of our valued shareholders and investors.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors of the Company (the "Directors" and the "Board" respectively) believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

During the financial year of 2014, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

1. The Chairman of the Board is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company's bye-laws (the "Bye-laws");

2. There is no separation of the roles of the chairman and the chief executive officer ("CEO") or chief executive. Mr. Zhou Jian ("Mr. Zhou") was the Chairman of the Board during the year. The Company did not have any chief executive or any officer with the title of CEO until 29 September 2014 and the roles and functions of CEO or chief executive were performed by all the executive Directors collectively in view of the current size of the Group. On 29 September 2014, Mr. Seah Ang ("Mr. Seah") was appointed as an executive Director and the CEO of the Company. Mr. Seah was also appointed as the Chairman of the Board following the resignation of Mr. Zhou as the executive Director and the Chairman of the Board with effect from 12 January 2015. Mr. Seah is currently the Chairman of the Board and the CEO of the Company. The Board will periodically review such arrangement and may adopt appropriate measures in future during the further development of the Group's businesses; and

3. The independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the independent non-executive Directors have a termination notice requirement of one month.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised in this report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2014.

INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the internal control system of the Group. It has carried out an annual review of the existing implemented system and procedures, including control measures of financial, operational and compliance and risk management functions of the Group. During the year, the Company engaged an external consultant to assist the Board in assessing the internal control procedures. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

THE BOARD

Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive Directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders ("Shareholders").

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the independent auditor of the Company about its reporting responsibilities for the financial statements of the Company is set out on pages 41 to 42 in the independent auditor's report.

All Directors have full and timely access to all relevant information as well as the advice and service of the company secretary of the Company ("Company Secretary") to ensure Board procedures and all applicable rules and regulations are followed.

CORPORATE GOVERNANCE REPORT

THE BOARD *(continued)*

Composition

The Board has in its composition a balance of skills, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs.

The Board currently comprised five members, including two executive Directors and three independent non-executive Directors, as follows:

Executive Directors

Mr. Seah Ang *(Chairman and CEO)*
(appointed as an executive Director and the CEO of the Company on 29 September 2014 and appointed as the Chairman of the Board on 12 January 2015)

Mr. Fan Lei *(Deputy Chairman)*
(appointed as the Deputy Chairman of the Board on 29 September 2014)

Independent Non-executive Directors

Mr. Duan Xiongfei
Ms. Lau Cheong
Mr. Wong Ka Kong Adam

Biographical details of the current Directors are set out in the directors' report on pages 28 and 29. Save as disclosed in the aforesaid biographical details of the Directors, none of the Directors has any financial, business, family or other material / relevant relationships between the Board members.

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented at least one-third of the board.

The Company has received written annual confirmation from each independent non-executive Director of his / her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Bye-laws require that one-third (if the number is not a multiple of three, the number nearest to but not less than one-third) of the Directors (including executive and non-executive Directors) shall retire by rotation at each annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their last re-election or appointment. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

CORPORATE GOVERNANCE REPORT

THE BOARD *(continued)*

Board Meetings and General Meetings

During the year ended 31 December 2014, eight Board meetings, the annual general meeting for the year 2014 ("AGM 2014") and three special general meetings of the Company ("SGMs") were held with details of the Directors' attendance set out below:

Directors	**Attendance / Number of Meetings**		
	Board Meetings	**AGM 2014**	**SGMs**
Executive Directors			
Mr. Seah Ang *(Chairman and CEO)* *(appointed as the executive Director and the CEO of the Company on 29 September 2014 and appointed as the Chairman of the Board on 12 January 2015)*	2/2	N/A	1/1
Mr. Fan Lei *(Deputy Chairman)* *(appointed as the Deputy Chairman of the Board on 29 September 2014)*	7/8	1/1	3/3
Mr. Zhou Jian *(Chairman) (resigned on 12 January 2015)*	8/8	1/1	3/3
Independent Non-executive Directors			
Mr. Duan Xiongfei	8/8	1/1	3/3
Ms. Lau Cheong	7/8	1/1	3/3
Mr. Wong Ka Kong Adam	8/8	1/1	3/3

Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guide on Directors' Duties issued by the Companies Registry in Hong Kong to each newly appointed Director to ensure that he / she is sufficiently aware of his / her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as organises seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

During the year of 2014, there was an in-house seminar conducted for developing and refreshing the Directors' knowledge and skills. All Directors attended the seminar and were provided with reading materials on the relevant rules and regulating updates.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the Shareholders for the well-being and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established four committees, namely, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

BOARD COMMITTEES

Executive Committee

The Executive Committee comprises all executive Directors and it assists the Board in discharging its duties and dealing with routine business of the Company and enhances the effectiveness and efficiency of day-to-day operation of the Company. There is no minimum meeting requirement and this Committee shall meet as and when necessary for proper discharge of its duties.

Audit Committee

The Audit Committee currently comprises all independent non-executive Directors, namely, Mr. Duan Xiongfei (chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam.

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the half-yearly and annual financial statements before submission to the Board and (ii) the Company's financial control, internal control and risk management systems and the internal audit programme (where appropriate). It also needs to discuss problems and reservations arising from the interim and final audits and to consider the major findings of internal investigations and management's response.

The Audit Committee shall meet at least twice a year according to its terms of reference. There were two meetings held during the year under review, details of attendance are set out below:

Audit Committee Members	Attendance / Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	2/2
Ms. Lau Cheong	2/2
Mr. Wong Ka Kong Adam	2/2

During the year under review, the Audit Committee had considered, reviewed and discussed any areas of concerns during the audit process, the compliance of company policy, the internal control procedures and the corporate governance of the Group and had approved the annual audited financial statements and the interim financial statements respectively.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee

The Nomination Committee currently consists of Mr. Duan Xiongfei (chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Fan Lei, an executive Director.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

The Nomination Committee shall meet at least once per year according to its terms of reference. Two Nomination Committee meetings were held during the year under review, details of attendance are set out below:

Nomination Committee Members	Attendance / Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	2/2
Mr. Fan Lei	2/2
Ms. Lau Cheong	2/2
Mr. Wong Ka Kong Adam	2/2

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, the assessment of the independence of the independent non-executive Directors, the appointment of the CEO and Deputy Chairman of the Company, and the appointment, retirement and re-appointment arrangement of the Directors.

Remuneration Committee

The Remuneration Committee currently consists of Mr. Duan Xiongfei (chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Fan Lei, an executive Director.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior executives of the Company. The Committee shall determine, with delegated responsibility, the individual remuneration package of each executive Director (including the Chairman) and senior management including benefits in kind and pension rights (including allocation of share options, annual bonus plans) and compensation payments (including any compensation payable for loss or termination of their office or appointment) subject to the contractual terms, if any. When determining remuneration packages of the executive Directors and senior management of the Company, the Remuneration Committee takes into consideration factors such as market forces and remuneration packages of executive directors of similar companies in comparable industries both in Hong Kong and overseas.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

The Remuneration Committee shall meet at least once per year according to its terms of reference. Three Remuneration Committee meetings were held during the year under review, details of attendance are set out below:

Remuneration Committee Members	Attendance / Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	3/3
Mr. Fan Lei	2/3
Ms. Lau Cheong	3/3
Mr. Wong Ka Kong Adam	3/3

During the year under review, the Remuneration Committee reviewed the grant of share options, the existing remuneration policies of the Company, and the terms of appointment of an executive Director and the CEO and the Deputy Chairman of the Company.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board has set measurable objectives and selection of candidates for Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and review this policy, as appropriate, to ensure its effectiveness from time to time.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) to develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

(v) to review the Group's compliance with the code of corporate governance and disclosure requirements in the corporate governance report.

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2013.

INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2014 are set out as follows:

Type of services	HK$'000
Audit services:	
Audit of annual financial statements	1,247
Non-audit services:	
Annual review on continuing connected transactions	10
Agreed-upon procedures	210

COMPANY SECRETARY

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to professional training during the year under review.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58 of the Bye-laws, a special general meeting may be convened by the Board upon requisition by any Shareholder holding not less than one-tenth of the paid up capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal regarding any specified transaction / business and its supporting documents.

The Board shall arrange to hold such general meeting within 2 months after the receipt of such written requisition. Pursuant to Bye-law 59 of the Bye-laws, the Company shall serve requisite notice of the general meeting, including the time and place of the general meeting and particulars of resolutions to be considered at the general meeting and the general nature of the business.

If within 21 days of the receipt of such written requisition, the Board fails to proceed to convene such general meeting, the Shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

Putting Forward Proposals at General Meetings

A Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal the Shareholder intends to put forward at general meeting regarding any specified transaction / business and its supporting documents.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with their contact details, such as postal address, email address or facsimile number, addressing to the head office of the Company in Hong Kong at the following address or facsimile number or via email:

Rooms 1818-1823, 18th Floor, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong

(with effect from 16 April 2015)
Suite 7003, 70/F., Two International Finance Centre
8 Finance Street, Central, Hong Kong

Fax: (852) 2907 9898
Email: ir@ddhl.com

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically on the enquiries collected. The executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head / manager for answering. After receiving the answers of all enquiries from the relevant division head / manager, the Company Secretary will collect the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply all enquiries in writing.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the (i) media entertainment business, (ii) property investment business and (iii) trading business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Company and of the Group as at 31 December 2014 are set out in the financial statements and their accompanying notes on pages 43 to 126. No interim dividend was paid or declared in respect of the year ended 31 December 2014 (2013: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 25 to the financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2014 amounted to HK$49,510,000 solely comprised of contributed surplus.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2014 are set out in note 27 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Five Years Financial Summary" on page 127 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

DIRECTORS' REPORT

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 14 to the financial statements.

Investment properties were valued at their open market value as at 31 December 2014 by DTZ Debenham Tie Leung Limited, an independent firm of professionally qualified valuers. The valuation gave rise to fair value gain amounted to HK$34,500,000 (2013: HK$10,500,000).

SHARE CAPITAL

Details of the movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2014 are set out in notes 24 and 26 to the financial statements respectively.

CONVERTIBLE NOTES

Details of the convertible notes issued by the Company during the year are set out in note 23 to the financial statements.

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are:

Executive Directors

Seah Ang *(appointed on 29 September 2014)*
Fan Lei
Zhou Jian *(resigned on 12 January 2015)*

Independent Non-executive Directors

Duan Xiongfei
Lau Cheong
Wong Ka Kong Adam

Mr. Seah Ang ("Mr. Seah") was appointed as an executive Director with effect from 29 September 2014. In accordance with Bye-law 86(2) of the Bye-laws, any Director appointed by the Board to fill a casual vacancy should hold office until the first general meeting after his appointment and be subject to re-election at such meeting. In this connection, Mr. Seah retired and was elected by the Shareholders as an executive Director at the special general meeting of the Company held on 29 December 2014.

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Fan Lei and Mr. Wong Ka Kong Adam will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT

DIRECTORS *(continued)*

None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting, has an unexpired service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The independent non-executive Directors have no specific term of office but their service contracts have a termination notice requirement of one month. They are subject to retirement by rotation and will be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

Seah Ang, aged 30, joined the Group in 2013 as an executive vice president and was appointed as an executive Director and the chief executive officer of the Company on 29 September 2014 and was also appointed as the chairman of the Board on 12 January 2015. He is presently the chairman of the executive committee of the Company as well. Mr. Seah is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited, a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on the Stock Exchange.

Fan Lei, aged 41, was appointed as the deputy chairman of the Board on 29 September 2014. Mr. Fan has been an executive Director since July 2009, and is a member of the executive committee, the remuneration committee and the nomination committee of the Company. He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Fan graduated from Wuhan University with a Bachelor's Degree in Economics with major in investment economics. He previously worked in China Construction Bank and Bank of Communications and has more than 15 years of experience in banking industry including asset management in the People's Republic of China. He was the chief investment director of Beijing Changhe Century Asset Management Limited.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS *(continued)*

Independent Non-executive Directors

Duan Xiongfei, aged 46, was appointed as an independent non-executive Director on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from The University of Chicago. He is an associated member of National Futures Association in the United States of America and has over 20 years of experience in securities trading and investment industry. Mr. Duan is currently the portfolio manager of Atlantis Investment Management (Hong Kong) Limited.

Lau Cheong, aged 31, was appointed as an independent non-executive Director on 21 July 2009 and is presently a member of the audit committee, the nomination committee and the remuneration committee of the Company. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the president of Ponticello International Group Incorporated.

Wong Ka Kong Adam, aged 48, was appointed as an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company on 9 August 2013. Mr. Wong holds a Master's Degree in Business Administration from The Hong Kong Polytechnic University. He is a member and a practicing certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over twenty-five years' experience in auditing, commercial finance and accounting operation. He previously held various senior positions in listed companies with business in Hong Kong, Greater China and overseas. Currently he holds a senior executive position in the corporate accounting department of a Hong Kong main board listed properties developer.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 27 April 2012 and amended on 3 April 2014 (the "Option Scheme"). Pursuant to the Option Scheme, the Directors are authorised to grant options to any Directors, any employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards. Apart from the Option Scheme, the Company did not have any other share option scheme.

(1) Purpose

The purpose of the Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

(2) Participants

Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

(3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 983,268,576 Shares, representing approximately 10% of the Shares in issue as at the date of this annual report.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will exceed the aforesaid 30% limit.

(4) The maximum entitlement of each participant under the Option Scheme

The total number of Shares issued and to be issued upon the exercise of the options granted and to be granted to each participant of the Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

Any further grant of options would result in the Shares issued and to be issued upon exercise in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such grantee and his associates abstaining from voting and the requirements prescribed under the Listing Rules from time to time.

(5) The period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Option Scheme at any time during the 10-year period from the date of grant.

(6) The minimum period for which an option must be held before it can be exercised

The Board is empowered to impose, at its discretion, any minimum period that an option must be held at the time of granting any option.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

Acceptance of the option must be made within 28 days from the date of grant and HK$1.00 must be paid as a consideration for the grant of option.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

(8) The basis of determining the exercise price

The exercise price of the option shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer but shall be no less than the highest of:

(a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

(9) The remaining life of the Option Scheme

The Option Scheme is valid and effective for a period of 10 years commencing after the date of its adoption.

The following table discloses movements in the Company's options during the year:

	Number of Options							
Name and category of participant	At 1 January 2014	Granted during the year *(Note 1)*	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2014	Date of grant	Exercise period	Exercise price per Share *(HK$)*
Directors								
Zhou Jian *(Note 2)*	–	150,000,000 *(Note 3)*	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	–	150,000,000 *(Note 3)*	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Seah Ang *(Note 4)*	–	100,000,000 *(Note 3)*	–	–	100,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Employees of the Group								
Other employees, in aggregate	–	580,060,000	–	(9,820,000)	570,240,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Total	–	980,060,000	–	(9,820,000)	970,240,000			

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

Notes:

1. Options are valid for 10 years from the date of grant (i.e. 28 May 2014, the "Date of Grant") to 27 May 2024 and shall be exercisable with effect from the third anniversary of the Date of Grant.

2. Mr. Zhou Jian was the Chairman of the Board, an executive Director and a substantial Shareholder during the year. Mr. Zhou Jian resigned as an executive Director and was appointed as the senior advisor of the Company with effect from 12 January 2015 respectively.

3. The options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on the Date of Grant were approved by the Shareholders at the special general meeting of the Company held on 23 July 2014.

4. Mr. Seah Ang was appointed as an executive Director with effect from 29 September 2014.

5. The closing price of the Shares immediately before the date on which the options were granted was HK$0.099 per Share.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2014, the interests of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise 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 10 to the Listing Rules were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total interests	Approximate percentage of the issued share capital
Zhou Jian	Interest of controlled corporation and beneficial owner *(Notes 1 and 2)*	2,610,395,180	150,000,000	2,760,395,180	28.07%
Fan Lei	Beneficial owner *(Note 2)*	–	150,000,000	150,000,000	1.53%
Seah Ang	Beneficial owner *(Note 3)*	–	100,000,000	100,000,000	1.02%

Notes:

1. Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian (who resigned as an executive Director with effect from 12 January 2015) was deemed to be interested in the 2,610,395,180 Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.

2. 150,000,000 options were granted to each of Mr. Zhou Jian and Mr. Fan Lei respectively, particulars of which are set out in the above section headed "Share Option Scheme".

3. 100,000,000 options were granted to Mr. Seah Ang (who was appointed as an executive Director with effect from 29 September 2014), particulars of which are set out in the above section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2014, none of the Directors and chief executive of the Company had any interests or short positions 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2014, which may also constitute continuing connected transactions under the Listing Rules, are disclosed in note 35 to the financial statements.

During the year, the above-mentioned continuing connected transactions were carried out and disclosed in compliance with the relevant requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group had the following continuing connected transactions ("CCTs") (as defined by the Listing Rules) during the year, brief particulars of which are as follows:

As reported in the annual report of the Company for the year 2013, the Company announced on 16 October 2013 that the Company and Reliance MediaWorks (USA), Inc. ("RMW") on that day entered into the business services agreement (the "Business Services Agreement") which sets out the framework governing the provision of production or post-production services by members of RMW and its associates ("RMW Group") to the Group from time to time with respect to motion pictures or other entertainment-related content including visual effects using computer generated imaging (the "Services").

The Business Services Agreement requires that all agreements in relation to the provision of Services by members of the RMW Group to members of the Group are:

(a) in writing and set out the terms and conditions on which the transactions contemplated thereunder shall be undertaken and in the form as may be prescribed by the Company from time to time;

(b) determined in the usual and ordinary course of business of the Group and the RMW Group on normal commercial terms (as defined in the Listing Rules);

(c) negotiated on an arm's length basis and at prices and terms at the prevailing market rates no less favourable to the Group than the prices and terms offered by the RMW Group to independent third parties; and

(d) in compliance with the Business Services Agreement and the agreement(s) for provision of Services.

It applies to all agreements for Services subsisting on or entered into after the commencement of the term of the Business Services Agreement.

In the event of any conflict between the terms of the Business Services Agreement and the terms of any agreement for provision of Services, the terms of the Business Services Agreement shall prevail.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS *(continued)*

The initial term of the Business Services Agreement expires on 31 December 2015. The Directors had expected the annual caps in respect of the provision of Services under the Business Services Agreement will not exceed HK$9 million, HK$9.9 million and HK$9.9 million for the three years ending 31 December 2015. Details of the CCTs are set out in an announcement dated 16 October 2013 published by the Company. For the year ended 31 December 2014, the total transaction amount under the Business Services Agreement was approximately HK$4,793,000.

As RMW is a substantial shareholder of a non wholly-owned subsidiary of the Company, RMW and its associates have become connected persons of the Company under the Listing Rules, and all transactions between members of the RMW Group and the Group are connected transactions of the Company under the Listing Rules.

The CCTs listed above have been reviewed by the independent non-executive Directors who have confirmed that the above transactions had been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with 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.

BDO Limited ("BDO"), Certified Public Accountants, the Company's independent auditor, was engaged to report on the Group's CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. BDO has issued a letter containing their findings and conclusions in respect of the CCTs disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2014, so far as is known to any Director or chief executive of the Company, the following persons (other than Directors or chief executive of the Company) who had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Approximate percentage of the issued share capital
Wise Sun Holdings Limited	Beneficial owner *(Note 1)*	2,610,395,180	–	26.55%
Bright Ace Holdings Limited	Interest of controlled corporation *(Note 1)*	2,610,395,180	–	26.55%
Kingston Finance Limited	Person having a security interest in shares *(Note 2)*	1,125,000,000	–	11.44%
Ample Cheer Limited	Interest of controlled corporation *(Note 2)*	1,125,000,000	–	11.44%
Best Forth Limited	Interest of controlled corporation *(Note 2)*	1,125,000,000	–	11.44%
Chu Yuet Wah	Interest of controlled corporation *(Notes 2 and 3)*	1,125,000,800	–	11.44%
Fortune Source International Limited	Beneficial owner *(Note 4)*	1,125,000,000	–	11.44%
Zhang Xiaoqun	Interest of controlled corporation *(Note 4)*	1,125,000,000	–	11.44%
Long Gate Limited	Beneficial owner *(Note 5)*	845,500,000	–	8.60%
Kwok Ho Wan	Interest of controlled corporation *(Note 5)*	845,500,000	–	8.60%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS *(continued)*

Long positions in the Shares and underlying Shares *(continued)*

Name	Capacity	Number of Shares held	Number of underlying Shares held	Approximate percentage of the issued share capital
Chen Shaohua	Beneficial owner and family interests *(Note 6)*	526,050,000	–	5.35%
Cheung Kwan	Beneficial owner and family interests *(Note 7)*	526,050,000	–	5.35%
Fortune Base Development Limited	Beneficial owner *(Note 8)*	–	5,037,200,000	51.23%
Wei Huo Li	Interest of controlled corporation *(Note 8)*	–	5,037,200,000	51.23%
Harmony Energy Limited	Beneficial owner *(Note 9)*	–	4,762,800,000	48.44%
Ever Union Capital Limited	Interest of controlled corporation *(Note 9)*	–	4,762,800,000	48.44%
Che Fung	Interest of controlled corporation *(Note 9)*	–	4,762,800,000	48.44%

Notes:

1. Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the 2,610,395,180 Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.

2. Kingston Finance Limited is 100% controlled by Ample Cheer Limited; Ample Cheer Limited is 80% controlled by Best Forth Limited and Best Forth Limited is 100% controlled by Chu Yuet Wah. Accordingly, Chu Yuet Wah, Best Forth Limited and Ample Cheer Limited were deemed to be interested in 1,125,000,000 Shares which Kingston Finance Limited was deemed to have a security interest.

3. Chu Yuet Wah was deemed to be interested in the 800 Shares. These interests in the Company represented the Shares beneficially owned by Kingston Securities Limited which in turn is wholly owned by Galaxy Sky Investments Limited while Galaxy Sky Investments Limited is wholly owned by Kingston Capital Asia Limited which is in turn wholly owned by Kingston Financial Group Limited. Kingston Financial Group Limited is 42.90% controlled by Active Dynamic Limited and Active Dynamic Limited is 100% controlled by Chu Yuet Wah.

4. Fortune Source International Limited is wholly-owned by Zhang Xiaoqun. Zhang Xiaoqun was deemed to be interested in the 1,125,000,000 Shares held by Fortune Source International Limited.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS *(continued)*

Long positions in the Shares and underlying Shares *(continued)*

Notes: (continued)

5. Long Gate Limited is wholly-owned by Kwok Ho Wan. Kwok Ho Wan was deemed to be interested in the 845,500,000 Shares held by Long Gate Limited.

6. Chen Shaohua was personally interested in 46,050,000 Shares. Chen Shaohua was deemed to be interested in the 480,000,000 Shares held by Cheung Kwan, being spouse or child under 18 of Chen Shaohua.

7. Cheung Kwan was personally interested in 480,000,000 Shares. Cheung Kwan was deemed to be interested in the 46,050,000 Shares held by Chen Shaohua, being spouse or child under 18 of Cheung Kwan.

8. The 5,037,200,000 underlying Shares are in respect of the convertible notes issued by the Company in the principal amount of HK$201.488 million at a conversion price of HK$0.04 per Share (subject to adjustments). Upon full conversion of such convertible notes, 5,037,200,000 Shares will be issued to Fortune Base Development Limited. Mr. Wei Huo Li was deemed to be interested in the 5,037,200,000 underlying Shares by virtue of his 100% shareholding interest in Fortune Base Development Limited.

9. The 4,762,800,000 underlying Shares are in respect of the convertible notes issued by the Company in the principal amount of HK$190.512 million at a conversion price of HK$0.04 per Share (subject to adjustments). Upon full conversion of such convertible notes, 4,762,800,000 Shares will be issued to Harmony Energy Limited which is wholly-owned by Ever Union Capital Limited. Mr. Che Fung was deemed to be interested in the 4,762,800,000 underlying Shares by virtue of his 100% shareholding interest in Ever Union Capital Limited.

Save as disclosed above, as at 31 December 2014, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	42%
– five largest suppliers combined	47%
Sales	
– the largest customer	18%
– five largest customers combined	56%

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS' REPORT

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF 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 ("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 31 December 2014, the outstanding loan principal of this Facility amounted to approximately HK$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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

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

PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 17 to 25 of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the Group's businesses during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors in writing an annual confirmation of his/her independence for the year pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited financial statements for the year.

INDEPENDENT AUDITOR

The financial statements for the year have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the independent auditor of the Company.

On behalf of the Board

Seah Ang
Chairman and Chief Executive Officer

Hong Kong, 20 March 2015

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF DIGITAL DOMAIN HOLDINGS LIMITED
(known as "數字王國集團有限公司" for identification purpose)
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Digital Domain Holdings Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 43 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lam Siu Fung
Practising Certificate number: P05308
Hong Kong, 20 March 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue	5	849,952	467,311
Cost of sales and services		(700,543)	(398,113)
Gross profit		149,409	69,198
Other revenue and gains	6	39,146	1,590
Selling and distribution expenses		(22,769)	(8,223)
Administrative expenses and other net operating expenses		(205,763)	(192,904)
Finance costs	8	(41,182)	(19,957)
Gain on disposal and dissolution of subsidiaries	11	183	–
Fair value gains on investment properties	14	34,500	10,500
Share of losses of joint ventures	16	(94)	(828)
Impairment loss on an intangible asset	15	–	(132,481)
Gain on modification of terms of convertible notes	23	77,121	–
Profit/(loss) before taxation		30,551	(273,105)
Taxation	10(a)	2,930	7,317
Profit/(loss) for the year	7	33,481	(265,788)
Profit/(loss) attributable to:			
– Owners of the Company		43,323	(192,215)
– Non-controlling interest	27	(9,842)	(73,573)
		33,481	(265,788)
Earnings/(loss) per share:			
Basic	12	HK cent 0.441	HK cents (1.955)
Diluted	12	HK cent 0.008	HK cents (1.955)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Profit/(loss) for the year	**33,481**	(265,788)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**20**	(511)
Other comprehensive income for the year, net of tax	**20**	(511)
Total comprehensive income for the year	**33,501**	(266,299)
Total comprehensive income attributable to:		
– Owners of the Company	**43,341**	(192,591)
– Non-controlling interest	**(9,840)**	(73,708)
	33,501	(266,299)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	13	42,720	47,887
Investment properties	14	189,600	155,100
Intangible assets	15	278,657	329,044
Interests in joint ventures	16	10,738	11,048
		521,715	543,079
Current assets			
Trading merchandise goods	17	–	8,626
Trade receivables, other receivables and prepayments	18	88,033	73,999
Bank balances and cash	19	140,998	209,338
		229,031	291,963
Current liabilities			
Trade payables, other payables and accruals	20	38,094	80,581
Deferred revenue		29,612	33,566
Borrowings	21	7,577	7,481
Obligations under finance leases	22	7,725	4,783
Amount due to a related company	28	–	1,824
Tax payable		4,832	3,744
		87,840	131,979
Net current assets		141,191	159,984
Total assets less current liabilities		662,906	703,063
Non-current liabilities			
Borrowings	21	95,473	122,796
Obligations under finance leases	22	3,098	8,582
Deferred tax liabilities	10(b)	1,927	7,398
Convertible notes	23	295,648	337,267
		396,146	476,043
NET ASSETS		266,760	227,020
Capital and reserves			
Share capital	24	98,327	98,327
Reserves		169,444	119,864
Equity attributable to owners of the Company		267,771	218,191
Non-controlling interest	27	(1,011)	8,829
Total Equity		266,760	227,020

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 March 2015 and are signed on its behalf by:

Seah Ang
DIRECTOR

Fan Lei
DIRECTOR

STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	13	4	14
Interests in subsidiaries	27	526,824	495,653
		526,828	495,667
Current assets			
Other receivables and prepayments	18	1,042	1,843
Bank balances and cash		42,876	118,574
		43,918	120,417
Current liabilities			
Other payables and accruals	20	718	1,351
Borrowings	21	2,667	2,572
		3,385	3,923
Net current assets		40,533	116,494
Total assets less current liabilities		567,361	612,161
Non-current liabilities			
Borrowings	21	58,170	60,827
Convertible notes	23	295,648	337,267
		353,818	398,094
NET ASSETS		213,543	214,067
Capital and reserves			
Share capital	24	98,327	98,327
Reserves	25	115,216	115,740
Total Equity		213,543	214,067

The financial statements were approved and authorised for issue by the Board of Directors on 20 March 2015 and are signed on its behalf by:

Seah Ang
DIRECTOR

Fan Lei
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

		Attributable to owners of the Company										
	Notes	Share capital HK$'000 *(Note 24)*	Share premium HK$'000 *(Note 25(i))*	Convertible notes – equity component HK$'000 *(Note 25(ii))*	Land and buildings revaluation reserve HK$'000 *(Note 25(iii))*	Contributed surplus HK$'000 *(Note 25(iv))*	Share options reserve HK$'000 *(Note 25(v))*	Exchange fluctuation reserve HK$'000 *(Note 25(vi))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2013		98,327	245,047	–	7,355	49,510	–	45	(60,488)	339,796	–	339,796
Issue of convertible notes on business combination	23	–	–	70,986	–	–	–	–	–	70,986	–	70,986
Addition from business combination	29	–	–	–	–	–	–	–	–	–	82,537	82,537
Loss for the year		–	–	–	–	–	–	–	(192,215)	(192,215)	(73,573)	(265,788)
Currency translation differences		–	–	–	–	–	–	(376)	–	(376)	(135)	(511)
Total comprehensive income for the year		–	–	–	–	–	–	(376)	(192,215)	(192,591)	(73,708)	(266,299)
As at 31 December 2013		98,327	245,047	70,986	7,355	49,510	–	(331)	(252,703)	218,191	8,829	227,020
As at 1 January 2014		98,327	245,047	70,986	7,355	49,510	–	(331)	(252,703)	218,191	8,829	227,020
Recognition of equity-settled share-based payment	26	–	–	–	–	–	6,239	–	–	6,239	–	6,239
Extinguishment upon modification of terms of convertible notes	23	–	–	(70,986)	–	–	–	–	70,986	–	–	–
Recognition upon modification of terms of convertible notes	23	–	–	96,630	–	–	–	–	(96,630)	–	–	–
Forfeiture of share options		–	–	–	–	–	(63)	–	63	–	–	–
Profit for the year		–	–	–	–	–	–	–	43,323	43,323	(9,842)	33,481
Currency translation differences		–	–	–	–	–	–	18	–	18	2	20
Total comprehensive income for the year		–	–	–	–	–	–	18	43,323	43,341	(9,840)	33,501
As at 31 December 2014		98,327	245,047	96,630	7,355	49,510	6,176	(313)	(234,961)	267,771	(1,011)	266,760

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	Note	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Profit/(loss) before taxation		**30,551**	(273,105)
Adjustments for:			
Depreciation of property, plant and equipment		**23,262**	15,573
Amortisation of intangible assets		**64,386**	88,363
(Gain)/loss on disposal of property, plant and equipment		**(952)**	4,130
Gain on disposal and dissolution of subsidiaries		**(183)**	–
Equity-settled share-based payment expenses		**6,239**	–
Net exchange losses/(gains)		**1,875**	(139)
Fair value gains on investment properties		**(34,500)**	(10,500)
Share of losses of joint ventures		**94**	828
Impairment loss on an intangible asset		**–**	132,481
Gain on modification of terms of convertible notes		**(77,121)**	–
Interest income		**(351)**	(533)
Finance costs		**41,182**	19,957
Operating profit/(loss) before working capital changes		**54,482**	(22,945)
Decrease in trading merchandise goods		**8,626**	3,735
(Increase)/decrease in trade receivables, other receivables and prepayments		**(14,074)**	23,038
Decrease in trade payables, other payables and accruals		**(43,223)**	(94,541)
(Decrease)/increase in amount due to a related company		**(1,824)**	1,206
(Decrease)/increase in deferred revenue		**(3,954)**	12,409
Cash generated from/(used in) operations		**33**	(77,098)
Income tax paid		**(917)**	(300)
Interest paid		**(4,933)**	(3,100)
Net cash used in operating activities		**(5,817)**	(80,498)
Cash flows from investing activities			
Interest income		**391**	533
Purchases of property, plant and equipment		**(19,816)**	(17,236)
Proceeds from disposal of property, plant and equipment		**1,815**	–
Additions of intangible assets		**(13,250)**	(7,592)
Investments in joint ventures		**–**	(11,827)
Advance to joint ventures		**–**	(49)
Repayment from a joint venture		**228**	–
Net cash flow from business combination		**–**	14,764
Disposal of subsidiaries, net of cash disposed	*11*	**64**	–
Net cash used in investing activities		**(30,568)**	(21,407)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
Cash flows from financing activities		
New obligations under finance leases	**4,318**	13,365
Repayment of obligations under finance leases	**(6,863)**	(124)
New borrowings	**34,891**	92,982
Repayment of borrowings	**(62,125)**	(33,501)
Net cash (used in)/generated from financing activities	**(29,779)**	72,722
Net decrease in cash and cash equivalents	**(66,164)**	(29,183)
Effect of foreign exchange rate changes	**(2,176)**	(352)
Cash and cash equivalents at beginning of the year	**209,338**	238,873
Cash and cash equivalents at end of the year	**140,998**	209,338
Represented by:		
Bank balances and cash	**140,998**	209,338

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has its principal place of business at Rooms 1818-1823, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in Note 27.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2014

During the year, the Group has adopted all the new/revised HKFRSs which are first effective for the current year and relevant to the Group. Except as explained below, the adoption of these new/revised HKFRSs has no material impact on the Group's financial statements.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement. The amendments are applied retrospectively.

The adoption of the amendments has no impact on the Group's financial statements as the Group does not have any offsetting arrangements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

		Effective date
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle	(ii)
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle	(i)
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle	(iii)
Amendments to HKAS 1	Disclosure Initiative	(iii)
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	(iii)
HKFRS 9 (2014)	Financial Instruments	(v)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(iii)
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations	(iii)
HKFRS 15	Revenue from Contracts with Customers	(iv)

Effective date:

(i) Annual periods beginning on or after 1 July 2014
(ii) Annual periods beginning, or transactions occurring, on or after 1 July 2014
(iii) Annual periods beginning on or after 1 January 2016
(iv) Annual periods beginning on or after 1 January 2017
(v) Annual periods beginning on or after 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear.

Amendments to HKAS 1 – Disclosure Initiative

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted *(continued)*

Amendments to HKFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply all of the principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is in the process of making an assessment of the potential impact of those pronouncements disclosed above. The directors of the Company so far concluded that the application of these pronouncements will have no material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

(c) New Hong Kong Companies Ordinance provisions relating to the disclosure requirements for financial statements

The provisions of the new Hong Kong Companies Ordinance, Cap. 622, in relation to the disclosure requirements for financial statements will apply to the Company in its first financial year beginning on or after 3 March 2014 (i.e. the financial year ending 31 December 2015).

The directors consider that there will be no impact on the Group's financial position or performance, however the disclosure requirements of the new Hong Kong Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company will be presented in the notes to the financial statements rather than a separate statement and the related notes need not be included, while generally the statutory disclosures will be simplified.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, these financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

Basis of measurement

These financial statements have been prepared under the historical cost basis, as modified for investment properties, which are carried at fair value, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively the "Group") made up to 31 December each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combination

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest that represents ownership interest in the subsidiary is the amount of the interest at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interest having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Interests in subsidiaries are included in the Company's statement of financial position at cost less any accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

– Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

– Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

– The structure of the joint arrangement;

– The legal form of joint arrangements structured through a separate vehicle;

– The contractual terms of the joint arrangement agreement; and

– Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition changes in the joint ventures' net assets except that losses in excess of the Group's interests in joint ventures are not recognised unless there is an obligation to make good those losses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint arrangements *(continued)*

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it is probable that future economic benefits of the expenditure will flow to the entity, and the cost of which can be measured reliably, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Furniture, fixtures and equipment	20% to 55%
Machineries	20% to 33%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation but not held for sale. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

(i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial period, the CGU to which allocated goodwill is tested for impairment before the end of that financial period. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent period.

(ii) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with indefinite useful lives are carried at cost less any impairment losses and intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives or using unit of production method. Amortisation commences when the intangible assets with definite useful lives are ready for use. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any change in estimate being accounted for on a prospective basis. The principal annual rates of intangible assets with definite useful lives are as follows:

Proprietary software	3 years
Participation rights	5 years or unit of production method

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

(iii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

– it is technically feasible to develop the product for it to be sold;

– adequate resources are available to complete the development;

– there is an intention to complete and sell the product;

– the Group is able to sell the product;

– sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in cost of services rendered.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. The Group's financial assets are classified as loans and receivables which are subsequently accounted for as follows:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(ii) Impairment

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset that can be reliably estimated have been impacted. Objective evidence of impairment could include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

If any such evidence exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

(iv) Derecognition of financial assets

The Group derecognises financial assets only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity issued by the Group

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

(i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(ii) Convertible notes that contain liability and equity components

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in convertible notes – equity component under equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity issued by the Group *(continued)*

(ii) Convertible notes that contain liability and equity components (continued)

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes – equity component until the embedded option is exercised in which case the balance stated in convertible notes – equity component will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in convertible notes – equity component will be released to the retained profits/accumulated losses. No gain or loss is recognised upon conversion or expiration of the option.

(iii) Other financial liabilities

The Group's financial liabilities are classified as other financial liabilities and are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company or the Group and not designated at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company or the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities and equity issued by the Group *(continued)*

(vi) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years respectively and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 Investment Property. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the functional currency of the Company.

In preparing the financial statements of the individual entities, foreign currency transactions are translated into individual entity's functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing at the end of reporting period. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange fluctuation reserve. Such translation differences, to the extent attributable to the owners of the Company, are recognised in profit or loss in the period when the foreign operations are disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employees' benefits

Short term benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees rendered the related service.

Retirement benefit scheme

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, if any.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share options reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of the goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue comprises the fair value for the sales of goods and rendering of services. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Rental income is recognised in accordance with the Group's accounting policy for leases.

(ii) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(iii) Income from provision of services of visual effects production is recognised when the services are rendered based on the percentage of completion method, which is measured as cost to date as proportion to the estimated total contract cost.

(iv) Interest income is recognised on a time-proportion basis using the effective interest method.

(v) Royalty income and profit-sharing from participation rights in movies is recognised in accordance with the terms and substances of the relevant agreement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of non-financial assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset or a CGU can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or CGU, or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in Note 10(b).

Estimated impairment of trade and other receivables

The Group makes allowance for impairment of trade and other receivables, if any, based on an estimate of the recoverability of these receivables. Allowances are applied to trade and other receivables where events of changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and allowance for impairment losses in the period in which such estimate had been changed.

Useful lives of property, plant and equipment and intangible assets

The Group estimates the useful lives of property, plant and equipment and intangible assets in order to determine the amount of depreciation and amortisation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service outputs of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Estimates and judgements *(continued)*

Fair value measurements

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs;
Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures investment properties at fair value as detailed in Note 14.

Classification of bank borrowings

The Group classifies its mortgage bank loans as current or non-current liabilities based on whether certain conditions, which prevent the lender from demanding immediate repayment from the Group, are breached. The Group has to exercise judgement whether it is in compliance with the conditions. Further details are set out in Note 21.

5. REVENUE AND SEGMENT REPORTING

An analysis of the turnover, which represents the Group's revenue from its principal activities for the year, is as follows:

	2014 **HK$'000**	2013 HK$'000
Provision of services of visual effects production	**524,595**	238,185
Sales of goods	**319,707**	223,416
Rental income	**5,650**	5,710
	849,952	467,311

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

5. REVENUE AND SEGMENT REPORTING *(continued)*

(a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions and to assess the performance.

The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

– Media entertainment (visual effects production)

– Trading

– Property investment

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segment's profit or loss that is used by the chief operating decision-makers for assessment of segment performance.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before taxation. The adjusted profit/(loss) before taxation is measured consistently with the Group's profit/(loss) before taxation except that gain on disposal and dissolution of subsidiaries, fair value gains on investment properties, gain on modification of terms of convertible notes, share of losses of joint ventures, finance costs, unallocated other revenue and gains (including gain on disposal of property, plant and equipment, royalty income, interest income and sundry income), as well as head office and corporate expenses, are excluded from such measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, convertible notes and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

5. REVENUE AND SEGMENT REPORTING *(continued)*

(a) Reportable segments *(continued)*

	Media entertainment		Trading		Property investment		Consolidated	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Revenue from external customers	**524,595**	238,185	**319,707**	223,416	**5,650**	5,710	**849,952**	467,311
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–
Reportable segment revenue	**524,595**	238,185	**319,707**	223,416	**5,650**	5,710	**849,952**	467,311
Reportable segment profit/(loss)	**(36,019)**	(254,015)	**21,843**	14,129	**4,519**	4,554	**(9,657)**	(235,332)
Addition to non-current assets	**19,700**	616,807	**–**	–	**–**	–	**19,700**	616,807
Depreciation and amortisation	**87,360**	103,612	**–**	–	**–**	–	**87,360**	103,612
Impairment loss on an intangible asset	**–**	132,481	**–**	–	**–**	–	**–**	132,481
Gain/(loss) on disposal of property, plant and equipment	**952**	(4,130)	**–**	–	**–**	–	**952**	(4,130)
Taxation	**(3,291)**	(7,983)	**1,360**	666	**(999)**	–	**(2,930)**	(7,317)
Reportable segment assets	**404,015**	441,052	**91,582**	96,176	**192,525**	156,202	**688,122**	693,430
Reportable segment liabilities	**109,036**	155,316	**865**	31,198	**2,557**	1,440	**112,458**	187,954

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

5. REVENUE AND SEGMENT REPORTING *(continued)*

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

	2014 HK$'000	2013 HK$'000
Profit/(loss) before taxation		
Reportable segment loss	(9,657)	(235,332)
Gain on disposal and dissolution of subsidiaries	183	–
Fair value gains on investment properties	34,500	10,500
Gain on modification of terms of convertible notes	77,121	–
Share of losses of joint ventures	(94)	(828)
Auditor's remuneration	(1,467)	(2,542)
Directors' remuneration	(5,572)	(2,378)
Depreciation of unallocated property, plant and equipment	(288)	(324)
Finance costs	(41,182)	(19,957)
Unallocated other revenue and gains	2,188	1,590
Other unallocated corporate expenses*	(25,181)	(23,834)
Consolidated profit/(loss) before taxation	30,551	(273,105)
Assets		
Reportable segment assets	688,122	693,430
Unallocated bank balances and cash	49,685	127,462
Unallocated corporate assets	12,939	14,150
Consolidated total assets	750,746	835,042
Liabilities		
Reportable segment liabilities	112,458	187,954
Tax payable	4,832	3,744
Deferred tax liabilities	1,927	7,398
Convertible notes	295,648	337,267
Unallocated borrowings	65,747	63,399
Unallocated corporate liabilities	3,374	8,260
Consolidated total liabilities	483,986	608,022

* The balance mainly represented unallocated operating expenses, professional fees and head office expenses.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

5. REVENUE AND SEGMENT REPORTING *(continued)*

(c) Geographic information

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets ("Specified non-current assets").

(i) Revenue from external customers

	2014 HK$'000	2013 HK$'000
Hong Kong (place of domicile)	**5,650**	5,710
Mainland China	**319,707**	223,416
The United States of America ("USA")	**355,860**	113,717
Canada	**167,046**	103,330
Other countries	**1,689**	21,138
	849,952	467,311

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

(ii) Specified non-current assets

	2014 HK$'000	2013 HK$'000
Hong Kong (place of domicile)	**200,621**	166,603
USA and Canada	**321,094**	376,476
	521,715	543,079

(d) Major customers

The Group's customer base is diversified and there were three (2013: three) customers with whom transactions have exceeded 10% of the Group's revenues.

During the current year, revenues from two customers in the trading segment amounted to approximately HK$152,842,000 and HK$110,481,000 respectively; and from one customer in media entertainment amounted to approximately HK$88,921,000. During the year ended 31 December 2013, revenues from two customers in trading segment amounted to approximately HK$96,736,000 and HK$72,826,000; and from one customer in media entertainment amounted to approximately HK$58,471,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

6. OTHER REVENUE AND GAINS

	2014 HK$'000	2013 HK$'000
Profit sharing from participation rights in movies	36,958	–
Gain on disposal of property, plant and equipment	952	–
Royalty income	55	697
Interest income	351	533
Sundry income	830	360
	39,146	1,590

7. PROFIT/(LOSS) FOR THE YEAR

	2014 HK$'000	2013 HK$'000
This is arrived at after charging/(crediting):		
Cost of inventories sold	295,417	206,993
Cost of services rendered *(Note)*	405,126	191,120
(Gain)/loss on disposal of property, plant and equipment	(952)	4,130
Exchange differences, net	(1,939)	(220)
Auditor's remuneration:		
– audit services	1,247	1,207
– non-audit services	220	1,335
Depreciation of property, plant and equipment *(Note)*	23,262	15,573
Amortisation of intangible assets *(Note)*	64,386	88,363
Research and development	31	3,046
Operating lease rentals in respect of:		
– rented premises	20,063	12,775
– rented equipment	13,865	8,468
Staff costs *(Note)*:		
– Directors' remuneration *(Note 9)*	5,572	2,378
– Other staff costs:		
Salaries, wages and other benefits	391,167	201,572
Retirement benefit scheme contributions	275	259
Equity-settled share-based payment expenses	3,667	–
Total staff costs	400,681	204,209

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

7. PROFIT/(LOSS) FOR THE YEAR *(continued)*

Note:

Cost of services rendered include HK$404,180,000 (2013: HK$177,275,000) relating to staff costs, depreciation of property, plant and equipment and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

The consolidated profit/(loss) attributable to owners of the Company includes a profit of HK$29,441,000 (2013: loss of HK$33,065,000) which has been dealt with in the financial statements of the Company.

8. FINANCE COSTS

	Note	2014 HK$'000	2013 HK$'000
Imputed interest on convertible notes	*23*	**35,502**	16,253
Interests on:			
Borrowings wholly repayable within five years		**1,529**	604
Borrowings not wholly repayable within five years		**2,033**	2,105
Finance leases		**2,118**	995
		41,182	19,957

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The directors' remuneration is analysed as follows:

	2014 HK$'000	2013 HK$'000
Fees:		
Independent non-executive directors	**360**	362
Other emoluments paid to executive directors:		
Salaries and other benefits	**2,539**	1,920
Equity-settled share-based payment expenses	**2,572**	–
Retirement benefit scheme contributions	**101**	96
	5,212	2,016
	5,572	2,378

No director waived any remuneration in respect of the years ended 31 December 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Directors' remuneration *(continued)*

	2014 HK$'000	2013 HK$'000
Seah Ang (appointed as an executive director on 29 September 2014)		
– Salaries and other benefits	619	–
– Equity-settled share-based payment expenses	642	–
– Retirement benefit scheme contributions	5	–
	1,266	–
Fan Lei		
– Salaries and other benefits	1,920	1,920
– Equity-settled share-based payment expenses	965	–
– Retirement benefit scheme contributions	96	96
	2,981	2,016
Zhou Jian (resigned as an executive director on 12 January 2015)		
– Equity-settled share-based payment expenses	965	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Directors' remuneration *(continued)*

	2014 HK$'000	2013 HK$'000
Lau Cheong		
– Fee	**120**	120
Duan Xiongfei		
– Fee	**120**	120
Wong Ka Kong, Adam (appointed as an independent non-executive director on 9 August 2013)		
– Fee	**120**	47
Tam Tak Kei, Raymond (resigned as as an independent non-executive director on 9 August 2013)		
– Fee	**–**	75

Five highest paid employees

The five highest paid individuals of the Group included one (2013: one) executive director of the Company, details of whose remuneration are set out above. The remuneration of the remaining four (2013: four) highest paid employees, other than directors of the Company, is as follows:

	2014 HK$'000	2013 HK$'000
Salaries and other benefits	**11,898**	8,210
Equity-settled share-based payment expenses	**648**	–
Retirement benefit scheme contributions	**201**	111
	12,747	8,321

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Five highest paid employees *(continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands, is as follows:

	2014	2013
HK$1,000,001 to HK$1,500,000	–	2
HK$1,500,001 to HK$2,000,000	–	2
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	1	–
HK$3,500,001 to HK$4,000,000	2	–

10. TAXATION

	Note	2014 HK$'000	2013 HK$'000
(a) Taxation credited in the consolidated income statement represents:			
Current taxation – Hong Kong profits tax			
– provision for the year		1,370	684
– over-provision in respect of prior years		(10)	(18)
Current taxation – Overseas tax			
– provision for the year		1,074	3,376
Deferred taxation	*10(b)*	(5,364)	(11,359)
		(2,930)	(7,317)

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

10. TAXATION *(continued)*

Taxation for the years can be reconciled to accounting profit/(loss) as follows:

	2014 HK$'000	2013 HK$'000
Profit/(loss) before taxation	30,551	(273,105)
Taxation calculated at Hong Kong profits tax rate of 16.5% (2013: 16.5%)	5,041	(45,062)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(8,453)	(5,293)
Tax effect of expenses not deductible for tax purposes	8,658	5,556
Tax effect of non-taxable income	(23,881)	(1,843)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(1,602)	(3,886)
Tax effect of unrecognised tax losses and temporary differences	17,317	43,229
Over-provision in respect of prior years	(10)	(18)
Taxation for the year	(2,930)	(7,317)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

10. TAXATION *(continued)*

(b) Deferred taxation

The movements in the components of deferred tax (liabilities)/assets recognised by the Group during the current and prior years are as follows:

Group

	Notes	**Accelerated tax depreciation** HK$'000	**Tax losses** HK$'000	**Provision** HK$'000	**Fair value arising from business combination** HK$'000	**Total** HK$'000
As at 1 January 2013		(4,392)	3,393	–	–	(999)
Addition from business combination	*29*	(1,389)	–	3,506	(19,885)	(17,768)
(Charged)/credited to profit or loss for the year	*10(a)*	1,272	(249)	(3,506)	13,842	11,359
Exchange realignment		(11)	–	–	21	10
As at 31 December 2013		(4,520)	3,144	–	(6,022)	(7,398)
(Charged)/credited to profit or loss for the year	*10(a)*	(419)	1,776	–	4,007	5,364
Exchange realignment		15	–	–	92	107
As at 31 December 2014		(4,924)	4,920	–	(1,923)	(1,927)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

10. TAXATION *(continued)*

(b) Deferred taxation *(continued)*

For the purpose of presentation in consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances for financial reporting purposes:

	Group	
	2014	2013
	HK$'000	HK$'000
Deferred tax liabilities	**(1,927)**	(7,398)
Deferred tax assets	**–**	–
	(1,927)	(7,398)

At the end of reporting period, the Group had unused tax losses of HK$316,246,000 (2013: HK$266,514,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$29,818,000 (2013: HK$19,055,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$286,428,000 (2013: HK$247,459,000) due to the unpredictability of future profit streams. As at 31 December 2014, included in unrecognised tax losses are losses of HK$668,000 (2013: HK$83,000) that will expire in 5 years from the respective dates of incurrence and tax losses of HK$261,396,000 (2013: HK$198,556,000) that will expire in 20 years from the respective dates of incurrence. Other tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

11. GAIN ON DISPOSAL AND DISSOLUTION OF SUBSIDIARIES

On 30 April 2014, the Group entered into a sales and purchase agreement to dispose of (i) S.I. Entertainment (801) Limited and (ii) Sino Front Investments Limited for an aggregate cash consideration of HK$560,000. The disposal has been completed during the year ended 31 December 2014. In addition, Enhanced Life Services Limited, a subsidiary of the Company, was dissolved during the year ended 31 December 2014.

The aggregate net assets of the subsidiaries disposed or dissolved, where appropriate, at the relevant dates when the control was lost were as follows:

	2014 HK$'000	2013 HK$'000
Bank balances and cash	496	–
Trade payables, other payables and accruals	(11)	–
Tax payable	(108)	–
	377	–
Gain on disposal and dissolution of subsidiaries	183	–
Total consideration, satisfied by cash	560	–
Net cash inflow arising on disposal and dissolution of subsidiaries:		
Cash consideration	560	–
Bank balances and cash disposal of	(496)	–
	64	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2014	2013
	HK$'000	HK$'000
Earnings/(loss) for the purposes of basic earnings/(loss) per share	**43,323**	(192,215)
Effect of dilutive potential ordinary shares:		
– Imputed interest on convertible notes	**35,502**	–
– Gain on modification of terms of convertible notes	**(77,121)**	–
Earnings/(loss) for the purposes of diluted earnings/(loss) per share	**1,704**	(192,215)

	Number of shares	
	2014	2013
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**9,832,685,768**	9,832,685,768
Effect of dilutive potential ordinary shares:		
– share options	**581,628,164**	–
– convertible notes	**9,800,000,000**	–
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**20,214,313,932**	9,832,685,768

For the year ended 31 December 2013, since the convertible notes outstanding during that year had an anti-dilutive effect on the basic loss per share, the conversion of the outstanding convertible notes was not assumed in the computation of diluted loss per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

13. PROPERTY, PLANT AND EQUIPMENT

		Group				Company
	Note	Furniture, fixtures and equipment HK$'000	Machineries HK$'000	Construction in progress HK$'000	Total HK$'000	Furniture, fixtures and equipment HK$'000
COST						
As at 1 January 2013		10,644	–	–	10,644	56
Additions from business combination	29	41,933	7,785	–	49,718	–
Additions		3,851	–	13,385	17,236	–
Disposals		(2,138)	(5,040)	–	(7,178)	–
Exchange realignment		(172)	(10)	(1)	(183)	–
As at 31 December 2013 and 1 January 2014		54,118	2,735	13,384	70,237	56
Transfer		13,385	–	(13,385)	–	–
Additions		19,606	210	–	19,816	–
Disposals		(2,024)	–	–	(2,024)	–
Exchange realignment		(1,493)	(93)	1	(1,585)	–
As at 31 December 2014		83,592	2,852	–	86,444	56
ACCUMULATED DEPRECIATION						
As at 1 January 2013		9,933	–	–	9,933	31
Depreciation charge for the year		12,516	3,057	–	15,573	11
Disposals		(634)	(2,414)	–	(3,048)	–
Exchange realignment		(103)	(5)	–	(108)	–
As at 31 December 2013 and 1 January 2014		21,712	638	–	22,350	42
Depreciation charge for the year		22,183	1,079	–	23,262	10
Disposals		(1,161)	–	–	(1,161)	–
Exchange realignment		(694)	(33)	–	(727)	–
As at 31 December 2014		42,040	1,684	–	43,724	52
NET CARRYING AMOUNT						
As at 31 December 2014		41,552	1,168	–	42,720	4
As at 31 December 2013		32,406	2,097	13,384	47,887	14

As at 31 December 2014, property, plant and equipment with carrying amount of HK$6,558,000 (2013: HK$2,642,000) were held under finance leases. None of the leases includes contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

14. INVESTMENT PROPERTIES

	Group HK$'000
Fair value	
As at 1 January 2013	144,600
Fair value gains	10,500
As at 31 December 2013 and 1 January 2014	155,100
Fair value gains	34,500
As at 31 December 2014	189,600

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK$5,650,000 (2013: HK$5,710,000). Direct operating expenses arising on the investment properties in the year amounted to HK$946,000 (2013: HK$1,013,000).

The Group's investment properties were located in Hong Kong, held under medium term leases, and pledged to secure banking facilities granted to the Group (Notes 21 and 33).

The fair value of the Group's investment properties as at 31 December 2014 and 2013 has been arrived at on market value basis carried out by DTZ Debenham Tie Leung Limited, an independent firm of professionally qualified valuers, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the locations and category of properties being valued.

The fair value of the investment properties is a Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value is provided below:

	2014 HK$'000	2013 HK$'000
Carrying amount at beginning of year	**155,100**	144,600
Fair value gains of investment properties included in the face of the consolidated income statement	**34,500**	10,500
Carrying amount at end of year	**189,600**	155,100
Change in unrealised gains for the year included in profit or loss for assets held at end of year	**34,500**	10,500

14. INVESTMENT PROPERTIES *(continued)*

The major inputs used in the fair value measurement of the Group's investment properties are set out below:

Investment properties	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Shops	Level 3	Investment method by capitalising net rental income The key input is: Market unit rent	(1) Market unit rent, taking into account the location and size, between the comparables and the properties, of HK$32 (2013: HK$26) per square feet. (2) Capitalisation rate of 3.5% (2013: 3.5%).	The higher the market unit rent, the higher the fair value.	If the market unit rent in the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK$1 million (2013: HK$1 million).
Car park spacing	Level 3	Comparison approach The key input is: Recent market sales of comparables	Recent market sales of comparables, taking into account the location and size between the comparables and the properties, ranging from HK$600,000 to HK$1,200,000 (2013: HK$400,000 to HK$1,000,000) per each car park spacing.	The higher the market selling price of comparables, the higher the fair value.	If the market selling price to the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/ decrease by HK$86,000 (2013: HK$71,000).

There was no change to the valuation techniques during the current year.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

15. INTANGIBLE ASSETS

	Note	Goodwill HK$'000 *(Note (a))*	Trademarks HK$'000 *(Note (a))*	Proprietary software HK$'000 *(Note (b))*	Participation rights HK$'000 *(Note (c))*	Total HK$'000
COST						
At 1 January 2013		–	–	–	–	–
Additions from business combination	*29*	207,011	19,385	56,949	258,985	542,330
Additions		–	–	7,592	–	7,592
Exchange realignment		–	–	(40)	2	(38)
As at 31 December 2013 and 1 January 2014		207,011	19,385	64,501	258,987	549,884
Additions		–	–	13,250	–	13,250
Exchange realignment		1,032	5	(316)	59	780
As at 31 December 2014		208,043	19,390	77,435	259,046	563,914
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS						
At 1 January 2013		–	–	–	–	–
Amortisation for the year		–	–	14,275	74,088	88,363
Impairment loss *(Note (d))*		–	–	–	132,481	132,481
Exchange realignment		–	–	(4)	–	(4)
As at 31 December 2013 and 1 January 2014		–	–	14,271	206,569	220,840
Amortisation for the year		–	–	21,271	43,115	64,386
Exchange realignment		–	–	(23)	54	31
As at 31 December 2014		–	–	35,519	249,738	285,257
CARRYING AMOUNT						
As at 31 December 2014		208,043	19,390	41,916	9,308	278,657
As at 31 December 2013		207,011	19,385	50,230	52,418	329,044

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

15. INTANGIBLE ASSETS *(continued)*

Notes:

(a) The Group's goodwill and trademarks arose from the business combination during the year ended 31 December 2013 as set out in Note 29.

Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. The directors of the Company are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. In the opinion of the directors of the Company, the trademarks can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the trademarks by the Group with reference to the history of the operations and considering that such trademarks could be managed efficiently by another management team; and (ii) the long product life cycles for the trademarks.

The goodwill and trademarks are allocated to the Group's visual effects production business CGU for the purpose of impairment testing.

The recoverable amount of the visual effects production CGU has been determined by the directors of the Company on the basis of a value-in-use calculation with reference to a professional valuation report issued by BMI Appraisals Limited ("BMI"), an independent firm of professionally qualified valuers. The recoverable amount is based on certain key assumptions. The value-in-use calculation used cash flow projections based on latest financial budgets approved by the Group's management covering a period of 5 years with 24% average growth rate, and at a pre-tax discount rate of 24%. The cash flow projections beyond the 5-year period are extrapolated using a growth rate of 2%. Cash flow projections during the budget period are based on the expected gross margins during the budget period. Budget gross margins have been determined based on past performance and the Group management's expectations for the market development and future performance of the visual effects production business.

(b) Proprietary software mainly represented internally developed and purchased software to produce various visual effects.

As at 31 December 2014, net carrying amount of proprietary software of HK$3,536,000 (2013: HK$6,097,000) was held under finance lease. The lease does not include contingent rental.

The proprietary software is allocated to the Group's visual effects production business CGU for the purpose of impairment testing.

(c) Participation rights represented the contractual rights of profit-sharing on pre-determined percentages from movies.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

15. INTANGIBLE ASSETS *(continued)*

Notes: (continued)

(d) During the year ended December 2013, the underlying movie of one of the Group's participation rights was released in the regions where the Group is eligible to share the profits under contractual right. The box office revenue and other related revenue of the movie were below expectation of the Group which was an impairment indicator of that related participation right. Therefore the directors of the Company conducted an impairment assessment of the related participation.

The recoverable amount of the related participation right as at 31 December 2013 had been determined by the directors of the Company on the basis of a fair-value-less-costs-of-disposal calculation using discounted cash flow method with reference to a professional valuation report issued by BMI. The recoverable amount was based on certain key assumptions. The fair-value-less-costs-of-disposal calculation used cash flow projections of the movie based on the then latest estimation approved by the Group's management covering a period of 5 years and at a post-tax discount rate of 20%. Cash flow projections were based on the normal pattern of cash flow stream from a movie in the industry and the Group management's expectation.

The recoverable amount of the related participation right as at 31 December 2013 was HK$49,626,000, which fell below the carrying value by the amount of HK$132,481,000 and therefore an impairment loss in the same amount was recognised in profit or loss during the year ended 31 December 2013.

The recoverable amount of the related participation right as at 31 December 2014 has been determined by the directors of the Company on the basis of a fair-value-less-costs-of-disposal calculation using discounted cash flow method with reference to a professional valuation report issued by BMI. The recoverable amount is based on certain key assumptions. The fair-value-less-costs-of-disposal calculation uses cash flow projections of the movie based on the latest estimation approved by the Group's management covering a period of 5 years and at a post-tax discount rate of 20%. Cash flow projections are based on the normal pattern of cash flow stream from a movie in the industry and the Group management's expectation.

As at 31 December 2014, the recoverable amount of the related participation right is not materially different from its carrying amount, and accordingly no impairment loss is recognised or reversed during the year ended 31 December 2014.

The fair-value-less-costs-of-disposal calculation of participation right was classified as a Level 3 measurement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

16. INTERESTS IN JOINT VENTURES

	Group	
	2014	2013
	HK$'000	HK$'000
Share of net assets	**10,711**	10,999
Due from a joint venture	**27**	49
	10,738	11,048

The amount due from a joint venture is unsecured, interest-free and not repayable within twelve months after the end of reporting period.

Particulars of the joint ventures as at 31 December 2014 are as follows:

Name	Place of incorporation/ registration and business	Form of business structure	Percentage of ownership interests attributable to the Group	Principal activities
DD Tencent Company Limited	Cayman Islands	Corporation	50	Investment holding
DD Tencent Fund I LP	Cayman Islands	Partnership	50	Investment fund

The summarised financial information in respect of the Group's material joint ventures are set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs adjusted by the Group for equity accounting purposes. The joint ventures are accounted for using the equity method in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

16. INTERESTS IN JOINT VENTURES *(continued)*

	2014 HK$'000	2013 HK$'000
At 31 December:		
Current assets	**21,537**	23,224
Current liabilities	**(115)**	(1,227)
Net assets	**21,422**	21,997
Group's share of net assets	**10,711**	10,999
Included in the above amounts are:		
Cash and cash equivalents included in current assets	**21,512**	23,079
Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities	**–**	–
Non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities	**–**	–
Year ended 31 December:		
Revenue	**–**	–
Interest income	**2**	1
Interest expense	**–**	–
Taxation	**–**	–
Loss from continuing operations	**(188)**	(1,656)
Other comprehensive income	**–**	–
Total comprehensive income	**(188)**	(1,656)
Group's share of results	**(94)**	(828)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

17. TRADING MERCHANDISE GOODS

	Group	
	2014	2013
	HK$'000	HK$'000
Goods in transit	**–**	8,626

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**61,930**	64,060	**–**	–
Accrued income	**12,635**	–	**–**	–
Other receivables and prepayments	**13,468**	9,939	**1,042**	1,843
	88,033	73,999	**1,042**	1,843

(i) The directors of the Company consider that the carrying amounts of trade receivables, accrued income, other receivables and prepayments approximate their fair values as at 31 December 2014 and 2013.

No interest is charged on trade and other receivables.

(ii) The Group normally allows an average credit period of 30 to 60 days (2013: 30 to 60 days) to trade customers. The ageing analysis of the Group's trade receivables based on the due date as of the end of reporting period is as follows:

	2014	2013
	HK$'000	HK$'000
Current	**39,834**	54,825
1 to 30 days	**19,199**	5,831
31 to 60 days	**235**	2,112
61 to 90 days	**2,662**	1,292
	61,930	64,060

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(continued)*

(iii) The ageing analysis of trade receivables which are past due but not impaired is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Less than 1 month past due	**19,199**	5,831
1 to 3 months past due	**2,897**	3,404
As at 31 December	**22,096**	9,235

Receivables that were neither past due nor impaired relate to a wide range of debtors for whom there was no recent history of default.

Receivables that were past due but not impaired relate to independent debtors that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(iv) The Group and the Company have not recognised any impairment losses on trade and other receivables during the years ended 31 December 2014 and 2013.

(v) Accrued income represented contract costs incurred plus recognised profits less recognised losses to date.

19. BANK BALANCES AND CASH

As at 31 December 2014, included in the bank balances and cash of the Group was an amount of HK$4,850,000 (2013: HK$671,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**3,920**	33,000	**–**	–
Other payables and accruals	**34,174**	47,581	**718**	1,351
	38,094	80,581	**718**	1,351

The directors of the Company consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2013 and 2014.

The ageing analysis of the Group's trade payables based on due date as of the end of reporting period is as follows:

	2014	2013
	HK$'000	HK$'000
Current	**1,494**	31,269
1 to 30 days	**30**	357
31 to 60 days	**–**	697
61 to 90 days	**2,355**	135
Over 90 days	**41**	542
	3,920	33,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

21. BORROWINGS

The borrowings were due for repayment as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans – secured:				
On demand or within one year	**7,577**	7,481	**2,667**	2,572
After one year but within two years	**9,093**	2,657	**2,739**	2,657
In the second to fifth years inclusive	**8,788**	8,502	**8,788**	8,502
Over five years	**46,643**	49,668	**46,643**	49,668
Other loan – unsecured	**30,949**	61,969	**–**	–
	103,050	130,277	**60,837**	63,399
Current portion	**7,577**	7,481	**2,667**	2,572
Non-current portion	**95,473**	122,796	**58,170**	60,827
	103,050	130,277	**60,837**	63,399

The presentation of the amounts due above is based on the scheduled repayment dates set out in the loan agreements and does not take into account the effect of any repayment on demand clause.

The Group's borrowings consisted of the followings:

(i) As at 31 December 2014, mortgage bank loans are secured by investment properties of the Group located in Hong Kong (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

The Group's mortgage bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Based on a comfort letter issued by the lender dated 29 December 2014, the lender of these mortgage bank loans has undertaken not to demand the Group for repayment until 31 July 2016 unless certain conditions (the "Conditions") are breached.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

21. BORROWINGS *(continued)*

(i) *(continued)*

The Group regularly monitors its compliance with the Conditions, and in the opinion of the directors of the Company, the Conditions have not been breached as at 31 December 2014 and up to the date of approval of these financial statements, and therefore the related portions of mortgage bank loans have been classified under the current and non-current liabilities of the Group in accordance with the above undertaking by the lender and the scheduled repayment dates set out in the mortgage bank loan agreements.

(ii) As at 31 December 2011, a bank loan granted to a then subsidiary of the Company (the "Subsidiary") under the Special Loan Guarantee Scheme (the "SME loan") of the Hong Kong Special Administrative Region Government (the "Government") to the extent of HK$6,000,000. It represented a 5-year instalment loan which was 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary's immediate holding company which is also an indirect wholly-owned subsidiary of the Company as at 31 December 2014 and 2013.

According to the Company's announcement dated 20 December 2010, the Group decided not to continue to finance its entertainment media business, and the Subsidiary, as one of the group companies engaged in the entertainment media business, ceased its operation before 31 December 2010, and has ceased the instalment repayment of the SME loan which was due on 26 December 2010. The aforesaid bank had issued a demand letter to the Subsidiary and stated that it might take any legal action against the Subsidiary in respect of the repayment of the SME loan.

During the year ended 31 December 2011, the Subsidiary and its immediate holding company further received a writ of summon from the Court of First Instance and the statement of claim from the legal representative of the plaintiff claiming for (i) outstanding principal amount and related overdue interest and (ii) cost of legal action in respect of the claim on a full indemnity basis to be taxed if not agreed and further or other relief (collectively the "Claim"). The entire outstanding SME loan as at 31 December 2011 was classified under the current liabilities of the Group in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

21. BORROWINGS *(continued)*

(ii) *(continued)*

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year ended 31 December 2013, two joint and several liquidators were appointed in July 2013. Nevertheless, the obligations under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly, the SME loan and the related accrued interest payable were still included under the current liabilities of the Group as at 31 December 2012, 2013 and 2014.

As at 31 December 2014, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2013: HK$4,854,000) and HK$2,229,000 (2013: HK$1,481,000) respectively. The related accrued interest payable was included in the Group's trade payables, other payables and accruals as calculated in accordance with the loan agreement and the Claim. In the opinion of the directors of the Company, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 31 December 2014 and 2013. No further action has been taken against the Group during the current year.

Up to the date of approval of these financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the directors of the Company are of the opinion that adequate provisions and disclosures have been made in these financial statements, and the above matter in relation to the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

(iii) As at 31 December 2014, the other loan is unsecured, interest-free and not repayable within 13 months from 31 December 2014.

(iv) As at 31 December 2014 and 2013, all the loans of the Group and the Company are denominated in Hong Kong dollars and United States dollars.

The bank loans bear floating interest rates at effective rates ranging from 3.25% to 6.25% (2013: 3.25% to 6.25%) per annum.

The directors of the Company consider that the carrying amounts of the Group's and the Company's bank borrowings and other loan approximate their fair values as at 31 December 2014 and 2013.

Further details of the Group's management of liquidity risk are set out in Note 38(b).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

22. OBLIGATIONS UNDER FINANCE LEASES

	Group			
	2014		2013	
	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Amounts payable under finance leases:				
Within one year	8,857	7,725	6,620	4,783
In the second to fifth years inclusive	3,248	3,098	9,742	8,582
Total minimum finance lease payments	12,105		16,362	
Less: Future finance charges	(1,282)		(2,997)	
Total net finance lease payables	10,823		13,365	
Less: Amount due within one year	(7,725)		(4,783)	
Amount due after one year	3,098		8,582	

The Group leased certain software and computer equipment under finance leases. The average lease term is three years. Interest rates underlying the obligation under finance leases are fixed at respective contract dates and the average effective borrowing rate is 17.52% (2013: 16.45%) per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

23. CONVERTIBLE NOTES

On 4 July 2013, the Company issued convertible notes with aggregate principal amount of HK$392,000,000 as part of the purchase consideration for the acquisition of equity interests in subsidiaries. The convertible notes bore zero interest and had an initial maturity date of 24 months from the date of issue (i.e. 3 July 2015) with a right to convert at a maximum of 9,800,000,000 shares of the Company at the initial conversion price of HK$0.04 per share (the "Convertible Notes"). Unless previously converted or purchased or redeemed, the Company shall redeem the Convertible Notes on the maturity date at the redemption amount which is 100% of the principal amount of the Convertible Notes then outstanding.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

23. CONVERTIBLE NOTES *(continued)*

Since the exercise of conversion option embedded in the Convertible Notes would result in settlement by the exchange of a fixed amount of cash for a fixed number of shares of the Company, the embedded conversion option is therefore accounted for as an equity instrument. The aggregate principal amount of HK$392,000,000 from the issue of the Convertible Notes has been split into liability and equity components. On the issue of the Convertible Notes, the fair value of the liability component and the residual value being equity component were determined as approximately HK$321,014,000 and HK$70,986,000 respectively, based on the valuation by Knight Frank Asset Appraisal Limited, an independent firm of professionally qualified valuers. The liability component is carried as financial liability at amortised cost until extinguished or conversion. The carrying amount of the conversion option credited to equity is not re-measured in subsequent periods.

On 27 November 2014, the Company and all holders of the Convertible Notes entered into an amendment deed pursuant to which the maturity date of the Convertible Notes is proposed to be extended by two years from 3 July 2015 to 3 July 2017. No other terms and conditions of the Convertible Notes have been amended. Further details are set out in the Company's circular dated 9 December 2014.

On 29 December 2014, the modification of the terms of the Convertible Notes was approved by the shareholders at the Company's special general meeting. Upon the modification of terms being effective on 29 December 2014, the Company extinguished the original Convertible Notes with liability component of approximately HK$372,491,000 and equity component of approximately HK$70,986,000, and recognised the new Convertible Notes with fair value of liability component of approximately HK$295,370,000 and the residual value being equity component of approximately HK$96,630,000, with the differences in liability components of approximately HK$77,121,000 and equity component of approximately HK$25,644,000 recognised in profit or loss and accumulated losses respectively. The fair values are determined by the directors of the Company based on the valuation by Knight Frank Asset Appraisal Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

23. CONVERTIBLE NOTES *(continued)*

The movements of the liability component and equity component of the Convertible Notes during the years ended 31 December 2014 and 2013 are as follows:

	Note	Liability component of Convertible Notes HK$'000	Equity component of Convertible Notes HK$'000	Total HK$'000
As at 1 January 2013		–	–	–
Issue of the Convertible Notes		321,014	70,986	392,000
Effective imputed interest expense recognised	*8*	16,253	–	16,253
As at 31 December 2013, with liability component classified under non-current liabilities		337,267	70,986	408,253
Effective imputed interest expense recognised	*8*	35,502	–	35,502
Extinguishment of the Convertible Notes upon modification of terms		(372,491)	(70,986)	(443,477)
Recognition of the Convertible Notes upon modification of terms		295,370	96,630	392,000
As at 31 December 2014, with liability component classified under non-current liabilities		295,648	96,630	392,278

Effective imputed interest on the Convertible Notes for the year ended 31 December 2014 is calculated using the effective interest method by applying the average effective interest rate of 10.86% to 11.91% (2013: 10.86%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

24. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2014	2013	2014 HK$'000	2013 HK$'000
Authorised ordinary shares				
As at 1 January 2013, 31 December 2013 and 31 December 2014 of HK$0.01 each	**75,000,000,000**	75,000,000,000	**750,000**	750,000
Issued and fully paid ordinary shares:				
As at 1 January 2013, 31 December 2013 and 31 December 2014 of HK$0.01 each	**9,832,685,768**	9,832,685,768	**98,327**	98,327

25. RESERVES

Company

	Share premium HK$'000 *(Note (i))*	Convertible notes-equity component HK$'000 *(Note (ii))*	Contributed surplus HK$'000 *(Note (iv))*	Share options reserve HK$'000 *(Note (v))*	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2013	245,047	–	49,510	–	(59,832)	234,725
Issue of convertible notes on business combination	–	70,986	–	–	–	70,986
Loss and total comprehensive income for the year	–	–	–	–	(189,971)	(189,971)
As at 31 December 2013	245,047	70,986	49,510	–	(249,803)	115,740
Recognition of equity-settled share-based payment	–	–	–	6,239	–	6,239
Extinguishment upon modification of terms of convertible notes	–	(70,986)	–	–	70,986	–
Recognition upon modification of terms of convertible notes	–	96,630	–	–	(96,630)	–
Forfeiture of share options	–	–	–	(63)	63	–
Loss and total comprehensive income for the year	–	–	–	–	(6,763)	(6,763)
As at 31 December 2014	245,047	96,630	49,510	6,176	(282,147)	115,216

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

25. RESERVES *(continued)*

Notes:

(i) **Share premium**

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act.

(ii) **Convertible notes – equity component**

This reserve represents the value of the unexercised equity component of convertible notes issued by the Company net of related deferred tax and direct issue costs, where applicable.

(iii) **Land and buildings revaluation reserve**

Land and buildings revaluation reserve arose in 2005 upon the fair value adjustment when the Group reclassified its land and buildings as investment properties.

(iv) **Contributed surplus**

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the year ended 31 December 2009 (the "Capital Reorganisation") be transferred to the contributed surplus account; and (ii) all amounts standing to the credit of the share premium account of the Company immediately after the Capital Reorganisation be cancelled and the credit arising therefrom be transferred to the contributed surplus. Both took place in the year ended 31 December 2009.

In addition to the retained profits, under the Companies Act of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(v) **Share options reserve**

This reserve represents cumulative expenses recognised on the granting of unexercised share options to the participants over the vesting period.

(vi) **Exchange fluctuation reserve**

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 3 "Translation of foreign currencies".

No dividend was paid or proposed during the year ended 31 December 2014, nor has any dividend been proposed since the end of reporting period (2013: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

26. SHARE-BASED PAYMENT TRANSACTIONS

The Company operates the following equity-settled share option arrangements:

(i) Share option scheme

The Company adopted a share option scheme on 16 May 2002 (the "2002 Share Option Scheme") which expired on 15 May 2012. On 27 April 2012, the Company terminated the 2002 Share Option Scheme, and a new 10-year share option scheme was adopted on the same date and amended on 3 April 2014 (the "New Option Scheme"). Pursuant to the New 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.

As at 31 December 2013, no share option had been granted.

During the year, 980,060,000 share options were granted to the Company's directors and the Group's employees at a consideration of HK$1 per each grantee under the Company's New Option Scheme. Each option gives the holder the right to subscribe for ordinary shares of the Company at an exercise price of HK$0.098 per share.

During the year ended 31 December 2014, 9,820,000 share options (2013: Nil) were forfeited and no share option (2013: Nil) was exercised.

As at 31 December 2014, the average exercise price of share options outstanding is HK$0.098 and the average remaining contractual life is 9.42 years.

The fair value of services received in return for share options granted on the respective grant dates is measured by reference to the fair value of share options granted. The fair value is determined based on binomial option pricing model. The weighted average fair value of each option granted during the year is HK$0.048. The key valuation parameters are as follows:

Share prices at grant dates	HK$0.094 to HK$0.127
Exercise price	HK$0.098
Expected volatility	33.59% to 47.00%
Life of the share options	10 years
Expected dividend yield	0%
Risk-free rate	1.91% to 1.93%
Forfeiture rate	10%
Suboptimal exercise behaviour multiple	2.1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

26. SHARE-BASED PAYMENT TRANSACTIONS *(continued)*

(i) Share option scheme *(continued)*

Expected volatility is determined by considering the historical share price movement of the Company. Expected dividend yield is determined from the Company's historical payment of dividends. Risk-free rate is obtained from Hong Kong Exchange Fund Notes as at the respective grant date. Forfeiture rate is determined from the Group's historical employee share options exit rate. Suboptimal exercise behaviour multiple is based on the Company's historical employee share options early exercise multiples.

There was no market vesting condition associated with the share options granted.

The fair value of the share options granted during the year was approximately HK$47,026,000 (HK$0.048 each), of which the Group recognised equity-settled share-based payment expenses of approximately HK$6,239,000 (2013: HK$Nil) during the year ended 31 December 2014.

The following table discloses movements in the Company's share options during the year ended 31 December 2014:

Name or category of participants	At 1 January 2014	Granted during the year	Forfeited during the year	At 31 December 2014	Date of grant	Exercise period	Exercise price per share (HK$)
Directors							
Zhou Jian	–	150,000,000	–	150,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Fan Lei	–	150,000,000	–	150,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Seah Ang	–	100,000,000	–	100,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Employees, in aggregate	–	580,060,000	(9,820,000)	570,240,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	–	980,060,000	(9,820,000)	970,240,000			

* The share options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on 28 May 2014 were approved by the shareholders of the Company at the special general meeting held on 23 July 2014.

No option was granted, lapsed or exercised during the year ended 31 December 2013.

(ii) Option granted under general mandate

No option was granted under general mandate during the year (2013: Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST

	Company	
	2014	2013
	HK$'000	HK$'000
Unlisted shares, at cost	**11,737**	11,736
Loans to subsidiaries	**134,708**	137,714
Amounts due from subsidiaries	**1,224,755**	1,179,067
	1,371,200	1,328,517
Less: Impairment loss on investment costs	**(11,737)**	(11,736)
Allowance for loans to/amounts due from subsidiaries	**(832,639)**	(821,128)
	526,824	495,653

The amounts due from subsidiaries are unsecured, interest-free and in substance form part of the Company's interests in the subsidiaries in the form of quasi-equity loans.

The loans to subsidiaries are interest-bearing at interest rate ranging from prime rate quoted by a designated bank in Hong Kong prime rate minus 1.5% to plus 6% per annum (2013: prime rate minus 1.5% to plus 1.5% per annum). In the opinion of the directors of the Company, these amounts are not repayable within twelve months from end of the reporting period.

Accumulated impairment losses on investment costs and allowances for loans to subsidiaries and amounts due from subsidiaries of HK$11,737,000 (2013: HK$11,736,000) and HK$832,639,000 (2013: HK$821,128,000) respectively were recognised as at 31 December 2014 because their recoverable amounts of the investment costs, loans to subsidiaries and amounts due from subsidiaries were estimated to be less than their respective carrying amounts.

The following list contains only the particulars of the subsidiaries at 31 December 2014 which principally affect the results, assets or liabilities of the Group as the directors of the Company are of the opinion that a full list of all the subsidiaries would be of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2014 are as follows:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company		Nature of business
			Direct	Indirect	
Choice Best Holdings Limited#	British Virgin Islands	US$1	100%	–	Investment holdings
Chosen Elite Holdings Limited#	British Virgin Islands	US$1	100%	–	Investment holdings
City Trend International Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Classic Beauty Investments Limited#	British Virgin Islands	US$1	–	100%	Investment holdings
Cornwick Investments Limited	Hong Kong	HK$2	–	100%	Holding investment properties in Hong Kong
Creation Smart Investments Limited	British Virgin Islands	US$1	100%	–	Investment holdings
DD Holdings US, LLC (Formerly known as "Galloping Horse US, LLC")	USA	US$35,000,000	–	100%	Investment holdings
DDH Assets Limited	British Virgin Islands	US$1	100%	–	Investment holdings
DDH Management Holdings Limited	British Virgin Islands	US$1	100%	–	Investment holdings
DDHU Management Limited	British Virgin Islands	US$1	–	100%	Investment holdings
DDVR, Inc. #	USA	US$1	–	100%	Investment holdings and virtual reality businesses
Digital Domain–Reliance, LLC (Formerly known as "Galloping Horse–Reliance, LLC")	USA	US$50,000,000	–	70%	Investment holdings

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2014 are as follows *(continued)*:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company		Nature of business
			Direct	Indirect	
Digital Domain (International) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain 3.0, Inc.	USA	US$50	–	70%	Visual effects production
Digital Domain Assets Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Consultancy Limited (Formerly known as "L.Y.H. Petrochemical Energy Limited")	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Development Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Development Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Enterprise Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Enterprises Group Limited#	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Group Limited (Formerly known as "Digital Domain Holdings Limited")	Hong Kong	HK$1	–	100%	Dormant
Digital Domain International Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments Limited#	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Management Limited	Hong Kong	HK$100	–	100%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2014 are as follows *(continued)*:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company		Nature of business
			Direct	Indirect	
Digital Domain Media (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Media Group Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Productions 3.0 (BC), Ltd.	Canada	CAD1	–	70%	Visual effects production
Digital Domain Resources Limited	Hong Kong	HK$2	–	100%	Provision of management services
Digital Domain Technology Limited#	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Trading Limited#	Hong Kong	HK$1	–	100%	Dormant
Driven Global Holdings Limited#	British Virgin Islands	US$1	100%	–	Investment holdings
Eastronic Limited#	British Virgin Islands	US$1	100%	–	Investment holdings
Ever Champ Management Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Ever Ultra Limited	British Virgin Islands	US$100	–	100%	Investment holdings
Ever Union Medical Services Group Limited	Hong Kong	HK$100	–	100%	Investment holdings
Ever Union Services Development Limited	Hong Kong	HK$100	–	100%	Investment holdings and provision of consultancy services
Golden Stream Global Limited#	British Virgin Islands	US$1	100%	–	Investment holdings

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2014 are as follows *(continued)*:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company Direct	Indirect	Nature of business
Mothership Media, Inc.	USA	US$0.01	–	70%	Visual effects production
Rise Honour Development Limited#	Hong Kong	HK$1	–	100%	Investment holdings
S.I. Travel Group Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	Trading
Sai Chak Company Limited	Hong Kong	HK$100,000	–	100%	Holding investment properties in Hong Kong
Sun Innovation Enterprises Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Sun Innovation HK Properties Holdings Limited	British Virgin Islands	US$1	–	100%	Investment holdings
Sun Innovation International Group Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Sun Innovation Management Services Limited	Hong Kong	HK$2	100%	–	Provision of management services
Sun Innovation Properties Holdings Limited	British Virgin Islands	US$2	100%	–	Investment holdings
Tower Talent Holdings Limited#	British Virgin Islands	US$1	100%	–	Investment holdings
Treasure Well Development Limited	British Virgin Islands	US$1	100%	–	Investment holdings
Upfield Sky Limited	British Virgin Islands	US$10,000	–	100%	Investment holdings

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST *(continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2014 are as follows *(continued)*:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company Direct	Effective equity interest attributable to the Company Indirect	Nature of business
Vibrant Global Group Limited#	British Virgin Islands	US$1	100%	–	Investment holdings
Virtue Global Holdings Limited#	British Virgin Islands	US$1	–	100%	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK$1	–	100%	Securities investment and investment holding
Wide Profit Enterprises Limited	British Virgin Islands	US$100	–	100%	Investment holdings
長和投資諮詢(深圳)有限公司*	The People's Republic of China (the "PRC")	RMB1,500,000	–	100%	Provision of consultancy services
數字王國(深圳)科技發展有限公司#°	The PRC	HK$1,503,000	–	100%	Visual effects production

Notes:

These subsidiaries were newly incorporated/established during the year.

* The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to RMB10,000,000, and the remaining balance of registered capital is required to be paid up on or before 15 July 2017.

° The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HK$10,000,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.

All the above are limited liability companies.

Certain subsidiaries of the Company were dissolved or disposed of during the year ended 31 December 2014, details of which are set out in Note 11.

Unless otherwise stated, the above subsidiaries' places of operations are the same as their respective places of incorporation/establishment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST *(continued)*

The following table lists out the information relating to Digital Domain 3.0, Inc, and Digital Domain Productions 3.0 (BC), Ltd., subsidiaries of the Company which have material non-controlling interest ("NCI") and were acquired during the year ended 31 December 2013. The summarised financial information presented below represents the amounts before any inter-company elimination.

	Digital Domain 3.0, Inc.		Digital Domain Productions 3.0 (BC), Ltd.	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
At 31 December:				
NCI percentage	**30%**	30%	**30%**	30%
Non-current assets	**118,501**	168,047	**4,409**	13,134
Current assets	**52,267**	42,932	**34,642**	21,540
Non-current liabilities	**(10,586)**	(13,140)	**(794)**	(1,842)
Current liabilities	**(167,497)**	(172,391)	**(34,309)**	(28,848)
Net assets	**(7,315)**	25,448	**3,948**	3,984
Accumulated NCI	**(2,195)***	7,634*	**1,184***	1,195*
Year ended 31 December:				
Revenue	**327,288**	123,820	**202,010**	114,365
(Loss)/profit for the year	**(32,604)**	(274,020)	**(203)**	28,777
Total comprehensive income	**(32,560)**	(273,462)	**(249)**	27,769
(Loss)/profit allocated to NCI	**(9,781)***	(82,206)*	**(61)***	8,633*
Dividend paid to NCI	**–**	–	**–**	–
Net cash inflows from operating activities	**17,753**	14,805	**17,813**	12,432
Net cash outflows from investing activities	**(28,250)**	(20,436)	**(2,884)**	(1,205)
Net cash inflows from financing activities	**3,802**	13,240	**–**	–

* The aggregate NCI as at 31 December 2014 amounted to debit balance of approximately HK$1,011,000 (2013: credit balance of HK$8,829,000) and the aggregate net losses allocated to NCI for the year then ended amounted to approximately HK$9,842,000 (2013: HK$73,573,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

28. AMOUNT DUE TO A RELATED COMPANY

As at 31 December 2013, amount due to a related company represented trade payables for production costs of approximately HK$1,824,000, which was repayable within 30 days, representing similar credit terms to those offered by the related company to its major customers.

The balance has been fully settled during the year ended 31 December 2014.

29. BUSINESS COMBINATION

On 4 July 2013, the Group completed the acquisition of the entire issued share capital of Upfield Sky Limited (together with its subsidiaries are referred to as the "Target Group") and the shareholder's loan due from the Target Group to one of the vendors. The Target Group is engaged in the provision of services of visual effects production. The acquisition was made by the Group with the aim to commence the business of visual effects production.

The fair values of the identifiable assets and liabilities acquired as at the date of acquisition were as follows:

	Carrying amount HK$'000	**Fair value adjustments** HK$'000	**Fair value** HK$'000
Property, plant and equipment	41,994	7,724	49,718
Intangible assets other than goodwill	301,287	34,032	335,319
Deferred tax assets	3,506	–	3,506
Trade receivables, other receivables and prepayments	65,832	–	65,832
Bank balances and cash	30,868	–	30,868
Trade payables, other payables and accruals	(158,440)	–	(158,440)
Deferred revenue	(21,157)	–	(21,157)
Obligations under finance leases	(124)	–	(124)
Amounts due to related companies	(618)	–	(618)
Deferred tax liabilities	(1,389)	(19,885)	(21,274)
Net assets			283,630
Non-controlling interest			(82,537)
			201,093
Goodwill			207,011
Total consideration			408,104
Total consideration consisted of:			
– Fair value of the Convertible Notes			392,000
– Cash payment of the shareholder's loan to the Target Group			16,104
			408,104

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

29. BUSINESS COMBINATION *(continued)*

An analysis of the cash flows in respect of the acquisition of the Target Group is as follows:

	HK'000
Cash consideration	(16,104)
Cash and bank balances acquired	30,868
Net inflow of cash and cash equivalents included in cash flows from investing activities	14,764

The goodwill, which was not deductible for tax purposes, comprised the acquired workforce and the expected future growth of the visual effects production business to diversify the revenue stream of the existing businesses of the Group.

30. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2013, as further detailed in Note 23, the Company issued the Convertible Notes in the aggregate principal amount of HK$392,000,000, as consideration of the acquisition of equity interests in subsidiaries.

31. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme"), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,500 (2013: HK$1,250) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the MPF Scheme was HK$365,000 (2013: HK$355,000).

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK$11,000 (2013: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

32. OPERATING LEASE COMMITMENTS

(i) As at 31 December 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group			
	Land and buildings		Equipment	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**16,117**	14,545	**683**	529
Later than one year and not later than five years	**6,344**	17,536	**108**	21
	22,461	32,081	**791**	550

Leases for land and buildings are negotiated for an average term of three years at fixed rental.

Leases for equipment are negotiated for an average term of four years at fixed rental.

(ii) As at 31 December 2014, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases as follows:

	Group	
	Investment properties	
	2014	2013
	HK$'000	HK$'000
Not later than one year	**6,038**	4,886
Later than one year and not later than five years	**12,581**	4,468
	18,619	9,354

The investment properties have committed tenants for an average term of three years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

33. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

As at 31 December 2014, the Group had aggregate banking facilities of HK$72,101,000 (2013: HK$68,308,000) from banks. The banking facilities are secured by:

(i) Pledge of all investment properties of the Group as at 31 December 2014 (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

(ii) 80% guarantee given by the Government and a corporate guarantee from a subsidiary of the Company for the SME loan as disclosed in Note 21.

(iii) As at 31 December 2014, a margin securities trading account of a wholly-owned subsidiary of the Company is secured by an unlimited corporate guarantee provided by the Company. This margin facility has not been utilised as at 31 December 2014 (2013: HK$Nil).

(iv) Assignment of all proceeds by a subsidiary on account of any of the collateral relating to the participation right of a movie, as well as guarantee and 100% of shareholder's interest in the pledged stock and any other pledged collateral given by two subsidiaries of the Company has been provided to a bank for the bank loan with carrying amount of approximately HK$6,354,000 as at 31 December 2014. In addition, a subsidiary of the Company has agreed to subordinate all of its rights, title and interests in any assets which constitute all or a portion of the bank collateral.

34. CAPITAL COMMITMENTS

Other than those disclosed elsewhere in these financial statements, the Group and the Company did not have any significant capital commitment as at 31 December 2013 and 2014.

35. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

(i) Details of transaction between the Group and other related party, save as disclosed elsewhere in these financial statements, are as follows:

Related party relationship	Type of transaction	2014 HK$'000	2013 HK$'000
Related companies of the non-controlling interest	Production costs	**4,793**	2,530

(ii) Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in Note 9.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

36. SIGNIFICANT EVENTS DURING THE YEAR AND AFTER THE END OF THE REPORTING PERIOD

(a) On 20 October 2014, the Group entered into a co-operation joint venture framework agreement with an independent third party for the formation of a joint venture company to engage in the production and utilisation of certain holograms of Miss Teresa Teng. Pursuant to the agreement, the Group will make a capital contribution in cash subject to a cap of HK$60,000,000, and the Group will hold 60% equity interests in the joint venture company. Further details are set out in the Company's announcements dated 20 October 2014 and 29 January 2015. As of the date of approval of these financial statements, the joint venture company has not yet been established.

(b) On 30 December 2014, the Group entered into an acquisition agreement with an independent third party for the purchase by the Group of the entire issued share capital of target company and all related shareholder's loan for a total consideration of HK$312,500,000, subject to reduction if Beijing Carina International E-Commerce Co. Ltd. (which is referred to "Carina International" which will be 51%-owned by the target company at completion) does not meet the 2015 target profit of RMB49,020,000.

Carina International is engaged in the distribution of "嘉玲" (Carina*) branded skin care products. Completion of the acquisition will only take place after the fulfilment (to the extent not waived by the Group) of certain conditions precedent, including those relating to the purchase by the target company of 51% equity interest in Carina International. The initial consideration payable for the acquisition is to be settled at completion by the issue of HK$312,500,000 in principal amount of zero-coupon convertible bonds. Further details are set out in the Company's announcement dated 30 December 2014. As of the date of approval of these financial statements, the acquisition has not yet been completed.

(c) On 19 January 2015, the Group entered into a term sheet with an independent third party ("POW!") for the formation of a joint venture company with respect to the development, production and distribution of projects based on certain contents developed by POW! or jointly by the Group and POW! for distribution throughout the world. Further details are set out in the Company's announcement dated 19 January 2015. As of the date of approval of these financial statements, the joint venture company has not yet been established.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

36. SIGNIFICANT EVENTS DURING THE YEAR AND AFTER THE END OF THE REPORTING PERIOD *(continued)*

(d) On 17 February 2015 (US time), the Group entered into a subscription agreement with an independent third party (the "Investee") pursuant to which the Group agrees to subscribe approximately 12.91% of equity interests in the Investee for a subscription price of US$3,000,000 in cash. On the same date, the Group, the Investee and another independent third party (the "JV Company") entered into a Shareholders' Agreement. Pursuant to the Shareholders' Agreement, upon completion of the subscription of shares in JV Company by the Group and the Investee, the JV Company will become a 51%-owned subsidiary of the Group and a 49%-owned company of the Investee. The Investee (together with its subsidiaries) has granted the JV Company certain exclusive and non-exclusive rights with respect to a licensed technology for a one-off license fee of US$1,000,000. The Group and the JV Company have also entered into a loan and security agreement pursuant to which the Group will provide a three-year revolving line of credit in the maximum principal amount of US$3,000,000 to the JV Company. The JV Company will engage in the application of virtual reality technology in the entertainment and media field. Further details are set out in the Company's announcements dated 15 January 2015 and 18 February 2015.

37. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of net debt (including the borrowings disclosed in Note 21, obligations under finance leases disclosed in Note 22, convertible notes disclosed in Note 23, less bank balances and cash disclosed in Note 19) and the total equity.

The Group's risk management reviews the capital structure on a semi-annual basis. The Group will consider both debt financing and equity financing for its capital requirements. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. The gearing ratio at the end of reporting period was as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

37. CAPITAL RISK MANAGEMENT *(continued)*

	2014 HK$'000	2013 HK$'000
Debts	**409,521**	480,909
Bank balances and cash	**(140,998)**	(209,338)
Net debt	**268,523**	271,571
Total equity	**266,760**	227,020
Net debt to equity ratio	**101%**	120%

38. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due within 30 days to 60 days (2013: 30 days to 60 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

38. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

At 31 December 2014, the Group has a concentration of credit risk as 77% and 98% (2013: 46% and 94%) respectively of the total gross trade receivables were due from the Group's largest customer and the five largest customers respectively.

The credit risk of the Group's financial assets, which comprise gross trade receivables, other receivables and bank balances and cash, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in Notes 33(iii) and 38(b).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 18.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for borrowings is prepared based on the scheduled repayment dates:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

38. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

Group	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2014						
SME loan	4,854	4,854	4,854	–	–	–
Other bank loans	67,247	86,087	4,649	10,966	13,783	56,689
Other loan	30,949	30,949	–	30,949	–	–
Trade payables, other payables and accruals	35,865	35,865	35,865	–	–	–
Obligations under finance leases	10,823	12,105	8,857	3,248	–	–
Convertible Notes	295,648	392,000	–	–	392,000	–
	445,386	561,860	54,225	45,163	405,783	56,689
2013						
SME loan	4,854	4,854	4,854	–	–	–
Other bank loans	63,454	84,307	4,647	4,594	13,783	61,283
Other loan	61,969	61,969	–	61,969	–	–
Trade payables, other payables and accruals	80,115	80,115	80,115	–	–	–
Obligations under finance leases	13,365	16,362	6,620	9,742	–	–
Amount due to a related company	1,824	1,824	1,824	–	–	–
Convertible Notes	337,267	392,000	–	392,000	–	–
	562,848	641,431	98,060	468,305	13,783	61,283

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

38. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

Company	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
2014						
Other bank loans	60,837	79,660	4,594	4,594	13,783	56,689
Other payables and accruals	674	674	674	–	–	–
Convertible Notes	295,648	392,000	–	–	392,000	–
	357,159	472,334	5,268	4,594	405,783	56,689
Financial guarantee issued						
Maximum amount guaranteed	–	–	–	–	–	–
2013						
Other bank loans	63,399	84,254	4,594	4,594	13,783	61,283
Other payables and accruals	1,351	1,351	1,351	–	–	–
Convertible Notes	337,267	392,000	–	392,000	–	–
	402,017	477,605	5,945	396,594	13,783	61,283
Financial guarantee issued						
Maximum amount guaranteed	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

38. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. All bank borrowings were issued at variable rates which exposed the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group's and the Company's net borrowings at the end of reporting period:

Group

	2014		2013	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Variable-rate borrowings				
Bank loans	**3.25 – 6.25**	**72,101**	3.25 – 6.25	68,308

Company

	2014		2013	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Variable-rate borrowings				
Bank loans	**3.25**	**60,837**	3.25	63,399

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in Notes 21 and 23.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

38. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

Sensitivity analysis

As at 31 December 2014, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would increase the Group's profit after taxation and decrease the accumulated losses by HK$720,000/HK$652,000 respectively (2013: decrease the Group's loss after taxation and decrease the accumulated losses by HK$683,000/HK$1,180,000 respectively). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2013.

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in the respective functional currencies of the group entities.

39. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2014 and 2013 may be categorised as follows:

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash), at amortised cost	**221,974**	274,602
Financial liabilities		
Financial liabilities, at amortised cost	**445,386**	562,848

FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group and restated as appropriate are summarised below:

	Year ended 31 December										
	2014	2013	2012			2011			2010		
	Continuing operations HK$'000	Continuing operations HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Results											
Revenue	**849,952**	467,311	184,457	–	184,457	139,390	–	139,390	25,204	5,322	30,526
Profit/(loss) attributable to owners of the Company	**43,323**	(192,215)	5,641	318	5,959	3,153	(1,217)	1,936	(21,474)	(7,559)	(29,033)
Assets and Liabilities											
Total assets	**750,746**	835,042	427,733	44	427,777	350,772	743	351,515	388,111	679	388,790
Total liabilities	**(483,986)**	(608,022)	(82,181)	(5,800)	(87,981)	(10,931)	(8,575)	(19,506)	(89,821)	(7,415)	(97,236)
	266,760	227,020	345,552	(5,756)	339,796	339,841	(7,832)	332,009	298,290	(6,736)	291,554
Non-controlling interest	**1,011**	(8,829)	–	–	–	–	1,798	1,798	–	1,596	1,596
Equity attributable to owners of the Company	**267,771**	218,191	345,552	(5,756)	339,796	339,841	(6,034)	333,807	298,290	(5,140)	293,150

Note: During the year ended 31 December 2010, the Group ceased its entertainment media business, telecommunication business and leisure and entertainment events business.

PARTICULARS OF PROPERTIES

	Type	Lease term
Properties held for investment		
(1) Shop A (including the external walls), Ground Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium
(2) Shop B (including the external walls), Ground Floor, Loading and Unloading Bays Nos. U1, U2, U3, U9 and U10, 1st Floor and Car Parking Space Nos. 22, 23, 33, 50 and 50A, 2nd Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium