DIGITALDOMAIN

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

(formerly known as Sun Innovation Holdings Limited 奧亮集團有限公司*)
(Incorporated in Bermuda with limited liability)
(Stock Code: 547)

Annual Report 2013

* For identification purposes only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Zhou Jian *(Chairman)*
Mr. Fan Lei

Independent Non-executive Directors
Ms. Lau Cheong
Mr. Duan Xiongfei
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. Chui Lee Lee

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

SOLICITOR

Reed Smith Richards Butler

WEBSITE

www.digitaldomainhl.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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
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

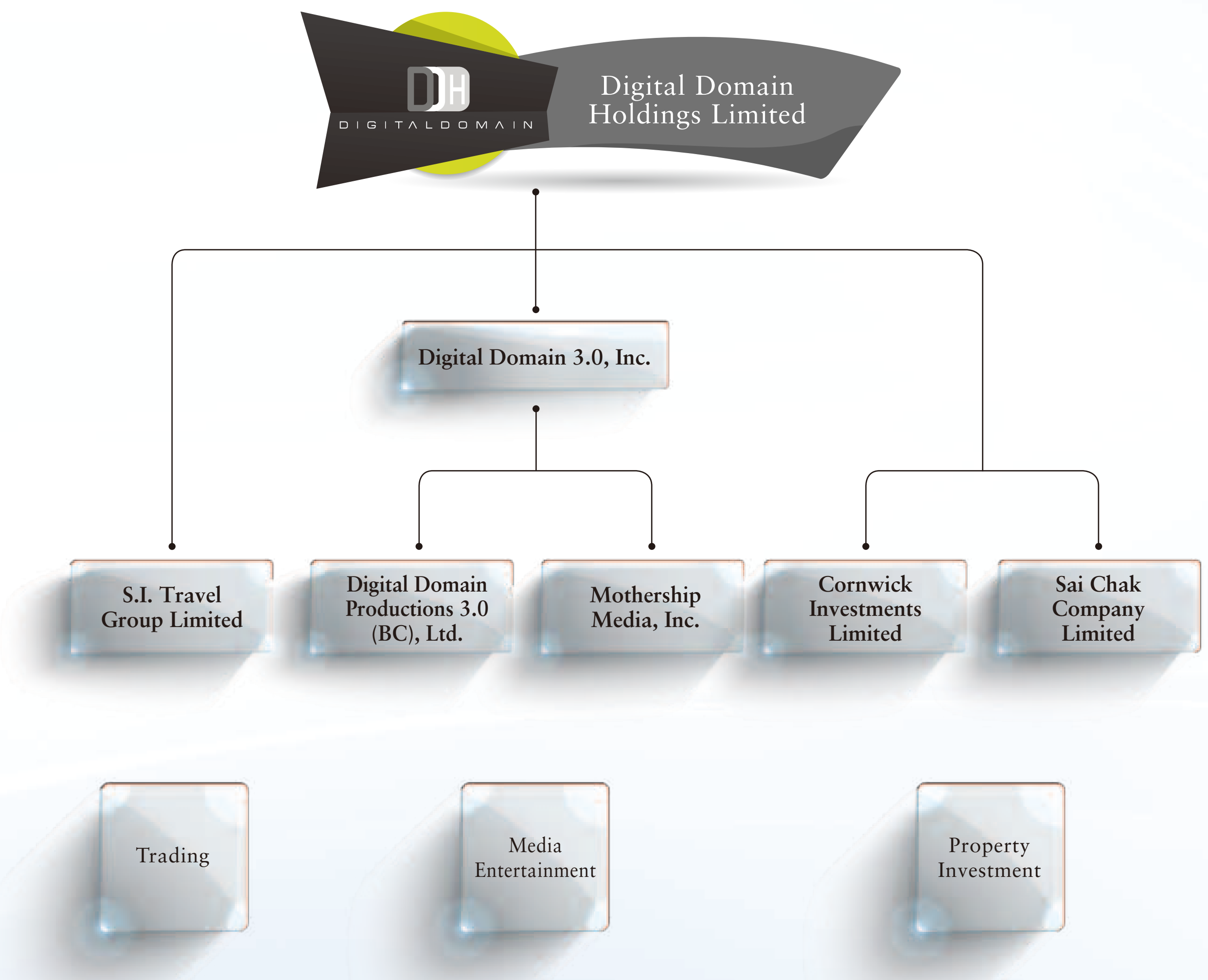
PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
China Minsheng Banking Corp., Ltd.
Citibank, N.A.
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank, Limited
Wing Lung Bank Limited

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 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 corporate chart of the Group as at the date of this report:



MANAGEMENT DISCUSSION AND ANALYSIS

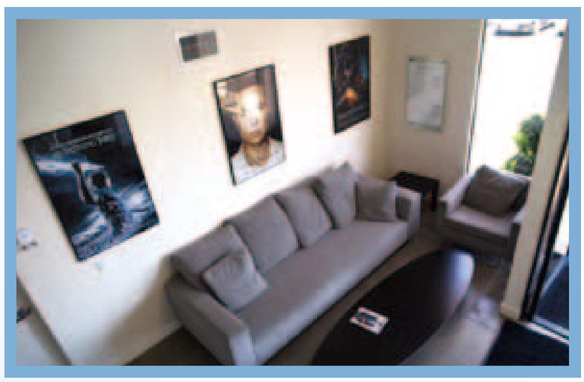
One of the world's largest and most capable Virtual Production Studios and Motion Capture Stages located at Digital Domain in Los Angeles. This studio contains substantial number of head mounted facial capture camera systems with advanced facial capture technology, and is one of the largest sound capable virtual production studios in the world.

MANAGEMENT DISCUSSION AND ANALYSIS

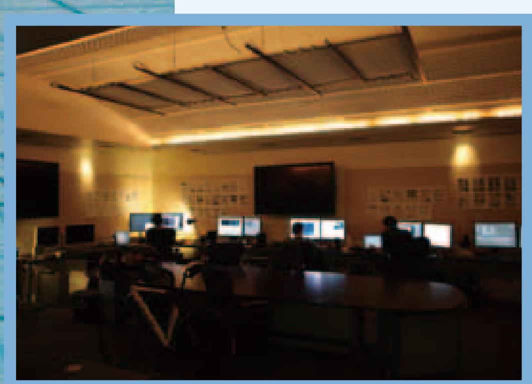
FINANCIAL AND BUSINESS REVIEW

For the year ended 31 December 2013, the Group achieved a revenue from continuing operations of HK$467,311,000 (2012: HK$184,457,000), showing an increase of approximately 153% compared to that of last year. The increase in revenue was mainly attributable to the revenue from new business segment (media entertainment — visual effects ("VFX") production) and growth in trading segment. Loss from continuing operations for the year ended 31 December 2013 was approximately HK$265,788,000 (2012: profit of HK$5,641,000). The loss from continuing operations for the year was mainly caused by the operating loss from media entertainment segment (VFX production), impairment loss on an intangible asset (participation right in the film Ender's Game), increment of finance costs (imputed interest on convertible notes) and professional fee incurred for the major transaction (acquisition). Excluding the above mentioned four factors, the adjusted profit from continuing operations for the year was HK$3,297,000. Loss attributable to owners of the Company was HK$192,215,000 (2012: profit of HK$5,959,000) for the year ended 31 December 2013.

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).



Office in Los Angeles

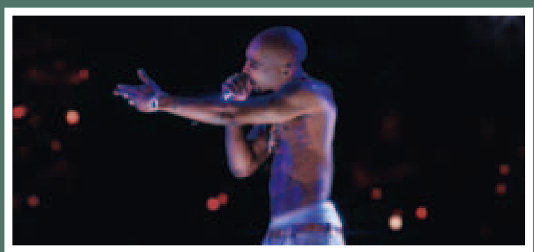


Digital Domain produces more than 100 Hollywood blockbusters

MANAGEMENT DISCUSSION AND ANALYSIS

Media Entertainment Segment

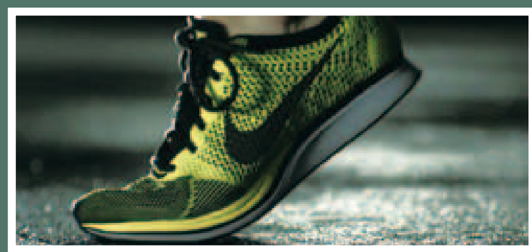
In order to diversify the existing business portfolio of the Group and to broaden its source of income, the Group has acquired the VFX production business in July 2013 as mentioned in the paragraph headed "Material Acquisition" below. The media entertainment segment mainly provides VFX for major motion picture studios and advertisers. The following list of recent awards and nomination is a recognition for the Group's VFX technology:



2013 CLIO Awards

Grand

Content & Contact,
'Virtual Tupac at Coachella'



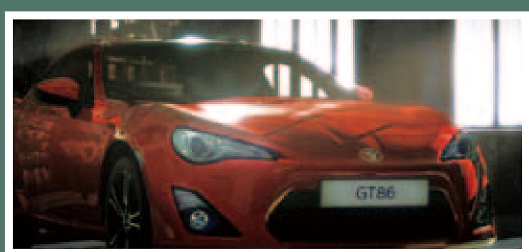
2013 CLIO Awards

Silver

Film Crafts - Visual Effects, Nike 'Biomorph'

2013 VES Awards

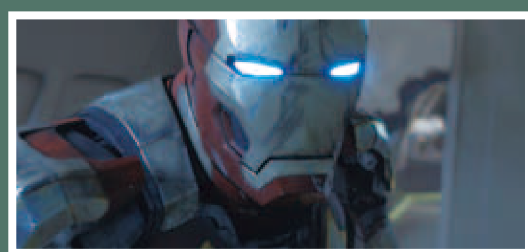
Outstanding Visual Effects in a Commercial,
Nike 'Biomorph'



2013 CLIO Awards

Bronze

Film Craft - Animation,
Toyota 'The Real Deal'



86th (2014) Academy Awards (Oscars)

Nominee for Best Visual Effects - Iron Man 3

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.") and whilst the film continues to generate income from distribution 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 turnover of approximately HK$238,185,000. The turnover of this segment accounted for approximately 51% of the Group's turnover for the year under review. This segment incurred loss of HK$254,015,000 even though margins have improved post acquisition. The loss was primarily due to the operating loss and the impairment loss on an intangible asset (participation right in the film Ender's Game). The adjusted segment loss by adjusting (a) depreciation of property, plant and equipment and amortisation of intangible assets and (b) impairment loss on an intangible asset was HK$17,922,000.

The participation right in the film Ender's Game was held by the VFX production business that was acquired by the Group in July 2013. At that time, the film was still under production and box office revenue from the film could not reliably be estimated. Accordingly the value of the participation right initially recognised in the Group's financial statements was determined by an independent valuer using the "replacement cost method" under the cost approach of valuation which took into account primarily the amount of investments made to produce the film as at the valuation date.

With the first theatrical release of Ender's Game towards the end of 2013, the discounted cash flow method of valuation was determined by independent valuer to be the most appropriate for determining the fair value of the participation right as at 31 December 2013. Cash flow projection on revenues that can be derived from the film (from theatrical releases and other forms, such as DVDs in different markets) were prepared by reference to the box office revenues of the film in the U.S. The various rates (e.g. yield rate, market premium, size premium, cost of debt, weight of debt and the resultant weighted average cost of capital (WACC)) and the risk premium used in different valuation dates were determined using a consistent basis and the changes in the rates were not material between different valuation dates. The impairment arose from the difference in the resultant valuation when compared with the value of the participation right initially recognised by the Group, after amortisation in accordance with the accounting policies of the Group and Hong Kong Accounting Standards.

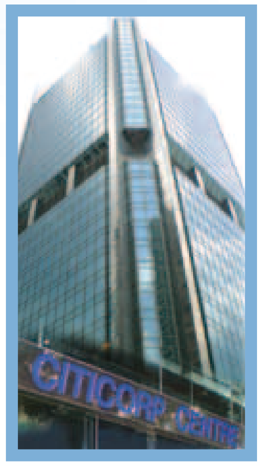
The Company expects that the main factor that may affect the future value of the participation right would be the revenues that are in fact generated from the exploitation of the film right.

MANAGEMENT DISCUSSION AND ANALYSIS

Property Investment Segment

The Group owns two shops at the ground floor and ten car parks in the Citicorp Centre, Causeway Bay. All shops and some of car parks were leased out as at 31 December 2013. For the year ended 31 December 2013, this segment reported a revenue and profit of approximately HK$5,710,000 (2012: HK$5,416,000) and HK$4,554,000 (2012: HK$4,278,000) respectively both with a mild increase of approximately 6% compared to the prior year. The revenue accounted for 1% of the Group's overall revenue during the year under review.

Driven by the stable rental income, the revenue and profit of this 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.



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

Trading Segment

For the year ended 31 December 2013, this segment recorded a revenue of approximately HK$223,416,000 (2012: HK$179,041,000), reflecting an uplift of approximately 25% over last year and a contribution of approximately 48% of the revenue of the Group. The profit of the trading segment also rose by approximately 33% to HK$14,129,000 (2012: HK$10,584,000).

In 2013, this segment was engaged in the trading of metal scraps (e.g. copper wire) among Hong Kong, Mainland China and other countries/regions. 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.

MATERIAL ACQUISITION

On 27 March 2013, the Group entered into a conditional sale and purchase agreement (as amended by a side letter dated 23 May 2013, referred as the "Sale and Purchase Agreement") with Harmony Energy Limited ("HEL") and Ms. Gegen Tana (collectively as the "Vendors") and Mr. Che Fung as the guarantor of HEL, pursuant to which the Vendors had agreed to sell and the Group had agreed to purchase the entire issued share capital of Upfield Sky Limited ("Upfield") at a consideration of HK$392 million which is to be satisfied by the issue of the convertible notes. In addition, HEL should assign to the Group all the right, title and interest in the shareholder's loan due from Upfield to HEL at its principal amount outstanding at the completion of the acquisition pursuant to the Sale and Purchase Agreement.

The principal asset of Upfield is its equity interest in a group of companies, including Digital Domain 3.0, Inc., Digital Domain Productions 3.0 (BC), Ltd. and Mothership Media, Inc. (collectively as the "DD US"). DD US is a leading provider of VFX for major motion picture studios and advertisers.

MANAGEMENT DISCUSSION AND ANALYSIS

The acquisition constitutes a major transaction of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The transactions contemplated under the Sale and Purchase Agreement and the issuance of the convertible notes have been approved by shareholders of the Company at the special general meeting of the Company held on 3 July 2013. On 4 July 2013, the completion of the Sale and Purchase Agreement took place and convertible notes in the aggregate principal amount of HK$392 million were issued to the Vendors apportioned as to the principal amount of HK$190.512 million to HEL and the principal amount of HK$201.488 million to Ms. Gegen Tana.

For details, please refer to the Company's announcements dated 19 November 2012, 28 March, 30 April, 30 May, 3 July and 4 July 2013 and circular dated 14 June 2013 respectively.

INTEREST IN JOINT VENTURE

In September 2013, the Group started our co-operation with Tencent Holdings Limited (the shares of which are listed on the Stock Exchange (stock code: 700), the "Tencent Group") through an acquisition of the entire issued share capital of Ever Ultra Limited ("Ever Ultra"). The principal asset of Ever Ultra is its 50% interest in DD Tencent Company Limited whereas the remaining 50% is held by Tencent Group. Each of the Group and Tencent Group has contributed US$1.5 million into this joint venture. The joint venture has not conducted any material business activity since its incorporation and will continue to explore potential investment opportunities in the coming years.

CAPITAL

As at 31 December 2013, the total number of issued shares of the Company was 9,832,685,768 shares. On 4 July 2013, convertible notes in the principal amount of HK$190.512 million were issued to HEL and convertible notes in the principal amount of HK$201.488 million were issued to Ms. Gegen Tana. 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. As at 31 December 2013, no convertible right attaching to the convertible notes had been exercised.

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 HK$63,399,000. These banking facilities were secured by the Group's investment properties with the aggregate net book value of HK$155,100,000 as at 31 December 2013.

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 was discontinued in end of December 2010, had obtained a banking facility amounted 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 been discontinued since end of December 2010. This Five Years Loan was fully classified as current liability.

The Group had a non-bank loan of approximately HK$61,969,000 as at 31 December 2013. This non-bank loan was denominated in United States dollars, unsecured, interest-free and not repayable within thirteen months from 31 December 2013.

As at 31 December 2013, the Group also had obligations under finance leases of approximately HK$13,365,000 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.

During the financial year under review, the Group issued convertible notes in the aggregate principal amount of HK$392,000,000 for settlement of the consideration for the major transaction for acquisition of VFX production business mentioned in the paragraphs headed "Material Acquisition" and "Capital" above.

The cash and bank balances as at 31 December 2013 was approximately HK$209,338,000. As at 31 December 2013, the Group had banking facilities of approximately HK$68,308,000. These bank loans were at floating interest rate and denominated in Hong Kong dollars. For 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 fully classified as current liability) as at 31 December 2013 was spread over a period of 19 years, with approximately 4% repayable within one year, 18% repayable between two to five years and 78% repayable over five years.

The Group's current assets were approximately HK$291,963,000 while the current liabilities were approximately HK$131,979,000 as at 31 December 2013. As at 31 December 2013, the Group's current ratio was 2.2 (as at 31 December 2012: 11.8).

As at 31 December 2013, the Group's gearing ratio, representing the Group's bank loans, non-bank loan, convertible notes and obligations under finance leases, if any, divided by the equity attributable to owners of the Company was 220% (as at 31 December 2012: 21%).

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 the financial statements of the business operations in the North America were reported in USD, if the CAD strengthens relative to USD, reported earnings for Canadian portion would increase. Certain expenses of the Group incurred in RMB which had fluctuated in a relatively greater extent in the financial year under review. However, the amount of RMB expenses incurred were immaterial, the appreciation 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 2013, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2013, the total headcount of the Group was 487. 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 of 2013, the Group acquired the VFX production business. This provides the opportunity for the Group to re-enter the media related business which ceased in 2010 by tapping into the VFX market. The Group has provided VFX production services for feature films, including some of the most recognisable and successful ones, such as Iron Man 3 which has been nominated for Best Visual Effects in 2014 Academy Awards (Oscars). 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 opportunities, although its markets remain highly competitive. The Group will continue to adopt 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.) with the aim of improving the profit margins of the VFX business. As with other project based business, the performance of the VFX business will depend on the projects that the Group is able to secure and their production schedule, in addition to the effectiveness of financial and operational improvements which may take time to be reflected in our results.

In 2013, both the property investment segment and trading segment performed satisfactorily with a stable income stream generated for the Group. The Group will make continuous effort to improve their performance in the coming years.

Looking ahead, the Group shall strive to explore more 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 2013, the Company has complied with most of the Code Provisions of the CG Code save 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 is the Chairman of the Company and the Company does not have any chief executive or any officer with the title of CEO. The roles and functions of CEO or chief executive are performed by all the executive Directors collectively in view of the current size of the Group. 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.

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 2013.

CORPORATE GOVERNANCE REPORT

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. 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 34 to 35 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.

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.

During the year ended 31 December 2013 and up to the date of this report, the Board comprised five members, including two executive Directors and three independent non-executive Directors, as follows:

Executive Directors
Mr. Zhou Jian *(Chairman)*
Mr. Fan Lei

Independent Non-executive Directors
Ms. Lau Cheong
Mr. Duan Xiongfei
Mr. Wong Ka Kong Adam *(appointed on 9 August 2013)*
Mr. Tam Tak Kei Raymond *(resigned on 9 August 2013)*

CORPORATE GOVERNANCE REPORT

THE BOARD *(continued)*

Composition *(continued)*

Biographical details of the current Directors are set out in the directors' report on page 24. 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 2013, 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.

Board Meetings and General Meetings

During the year ended 31 December 2013, eight Board meetings, the annual general meeting for the year 2013 ("AGM 2013") and two 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 2013**	**SGMs**
Executive Directors			
Mr. Zhou Jian *(Chairman)*	8/8	1/1	1/2
Mr. Fan Lei	8/8	1/1	2/2
Independent Non-executive Directors			
Ms. Lau Cheong	8/8	1/1	1/2
Mr. Duan Xiongfei	8/8	1/1	2/2
Mr. Wong Ka Kong Adam *(appointed on 9 August 2013)*	4/4	N/A	1/1
Mr. Tam Tak Kei Raymond *(resigned on 9 August 2013)*	4/4	0/1	0/1

CORPORATE GOVERNANCE REPORT

THE BOARD *(continued)*

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 2013, there was an in-house seminar conducted for developing and refreshing the Directors' knowledge and skills. All Directors attended the seminar.

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.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

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 *(appointed on 9 August 2013)*	1/1
Mr. Tam Tak Kei Raymond *(resigned on 9 August 2013)*	1/1

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.

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.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

The Nomination Committee shall meet at least once per year according to its terms of reference. Three 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)*	3/3
Mr. Fan Lei	3/3
Ms. Lau Cheong	3/3
Mr. Wong Ka Kong Adam *(appointed on 9 August 2013)*	2/2
Mr. Tam Tak Kei Raymond *(resigned on 9 August 2013)*	1/1

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, 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	3/3
Ms. Lau Cheong	3/3
Mr. Wong Ka Kong Adam *(appointed on 9 August 2013)*	2/2
Mr. Tam Tak Kei Raymond *(resigned on 9 August 2013)*	1/1

During the year under review, the Remuneration Committee reviewed the existing remuneration policies of the Company, the terms of appointment of an independent non-executive Director and the Company Secretary.

BOARD DIVERSITY POLICY

During the year under review, 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 approved the Board Diversity Policy and procedures for the Group's employees to report improprieties.

INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2013 are set out as follows:

Type of services	HK$'000
Audit services:	
Audit of annual financial statements	1,207
Non-audit services:	
Circular for major transaction	1,265
Annual review on continuing connected transactions	10
Agreed upon procedures	60

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

Fax: (852) 2907 9898
Email: ir@digitaldomainhl.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 2013.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the special general meeting of the Company held on 28 November 2013, the Shareholders have approved to change the name of the Company from "Sun Innovation Holdings Limited" to "Digital Domain Holdings Limited" and to adopt "數字王國集團有限公司" to replace "奧亮集團有限公司" as the Chinese name of the Company for identification purposes only effective from the change of the Company's name becoming effective. With the approval of the Registrar of Companies in Bermuda, the name change of the Company became effective on 6 December 2013.

PRINCIPAL ACTIVITIES

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

With the completion of acquisition of 70% indirect ownership of Digital Domain 3.0, Inc. (further information of which is contained in the Company's circular dated 14 June 2013) on 4 July 2013, a prominent VFX service provider in the U.S., the Group has extended its principal business into the media entertainment sector.

During the year of 2013, the discontinued operation was entertainment media 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 2013 and the state of affairs of the Company and of the Group as at 31 December 2013 are set out in the financial statements and their accompanying notes on pages 36 to 110. No interim dividend was paid or declared in respect of the year ended 31 December 2013 (2012: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: 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 2013 amounted to HK$49,510,000 solely comprised of contributed surplus.

DIRECTORS' REPORT

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2013 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 111 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.

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 2013 by DTZ Debenham Tie Leung Limited, an independent firm of professionally qualified valuers. The valuation gave rise to fair value gain amounted to HK$10,500,000 (2012: HK$12,200,000).

SHARE CAPITAL

Details of the movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2013 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' REPORT

DIRECTORS

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

Executive Directors
Zhou Jian
Fan Lei

Independent Non-executive Directors
Lau Cheong
Duan Xiongfei
Wong Ka Kong Adam *(appointed on 9 August 2013)*
Tam Tak Kei Raymond *(resigned on 9 August 2013)*

Mr. Wong Ka Kong Adam ("Mr. Wong") was appointed as an independent non-executive Director with effect from 9 August 2013. 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. Wong retired and was elected by the Shareholders as an independent non-executive Director at the special general meeting of the Company held on 28 November 2013.

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Duan Xiongfei and Ms. Lau Cheong will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

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.

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

Zhou Jian, aged 45, was appointed as an executive Director on 21 July 2009 and was appointed as the Chairman of the Company on 18 September 2009. Mr. Zhou also holds directorships in most of the subsidiaries of the Company. In addition, Mr. Zhou is the sole director and sole shareholder of each of Bright Ace Holdings Limited and Wise Sun Holdings Limited, both are substantial shareholders of the Company. Mr. Zhou graduated from E.M. Lyon in France with a Master's Degree in Business Administration. He has over 18 years' experience in operation, administrative affairs and strategic planning. Mr. Zhou was an executive director of Jiayou Home Shopping Co., Ltd. which has been granted an approval from the State Administration of Radio Film and Television in the People's Republic of China (the "PRC") for carrying out trading business on television and multimedia in the PRC. He was an executive director of Hi Sun Technology (China) Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 818).

Fan Lei, aged 40, was appointed as an executive Director on 21 July 2009 and is presently a member of the remuneration committee and the nomination committee of the Company. Mr. Fan also holds directorships in most of the 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 PRC. He was the chief investment director of Beijing Changhe Century Asset Management Limited.

Independent Non-executive Directors

Lau Cheong, aged 30, 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.

Duan Xiongfei, aged 45, 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 15 years of experience in securities trading and investment industry. Mr. Duan is currently the portfolio manager of Atlantis Investment Management (Hong Kong) Limited.

Wong Ka Kong Adam, aged 47, 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 an Honours Diploma in Accountancy from Lingnan College (now known as Lingnan University). He is a member and a practicing certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has twenty-three 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.

DIRECTORS' REPORT

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 27 April 2012, the Shareholders approved the adoption of a new share option scheme (the "New Option Scheme") and termination of the then existing share option scheme which was adopted on 16 May 2002. Pursuant to the New 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 New Option Scheme, the Company did not have any other share option scheme.

During the year under review, the Company did not grant any options to any person and therefore, as at 31 December 2013 there was no outstanding options to subscribe for any shares of HK$0.01 each of the Company (the "Shares") under the New Option Scheme.

(1) **Purpose**

The purpose of the New 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.

(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 New 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 New 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.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

(4) **The maximum entitlement of each participant under the New 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 New 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 New 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.

(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 New Option Scheme**

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

DIRECTORS' REPORT

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' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (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 as set out in the Listing Rules were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of the issued share capital
Zhou Jian	Interest of controlled corporation *(Note)*	2,610,395,180	26.55%

Note: 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.

Save as disclosed above, as at 31 December 2013, 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 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.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2013, which may also constitute continuing connected transactions under the Listing Rules, are disclosed in note 36 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.

DIRECTORS' REPORT

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:

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.

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 2013, the total transaction amount under the Business Services Agreement was approximately HK$2.53 million.

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.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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.38 of the Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2013, 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 or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions in the Shares and the underlying Shares

Name	Capacity	Number of issued Shares	Number of underlying Shares	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%
Fortune Source International Limited	Beneficial owner *(Note 2)*	1,125,000,000	–	11.44%
Zhang Xiaoqun	Interest of controlled corporation *(Note 2)*	1,125,000,000	–	11.44%
Chen Shaohua	Beneficial owner and family interests *(Note 3)*	881,830,000	–	8.96%
Cheung Kwan	Beneficial owner and family interests *(Note 4)*	881,830,000	–	8.96%
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%
Gegen Tana	Beneficial owner *(Note 6)*	–	5,037,200,000	51.23%
Harmony Energy Limited	Beneficial owner *(Note 7)*	–	4,762,800,000	48.44%
Ever Union Capital Limited	Interest of controlled corporation *(Note 7)*	–	4,762,800,000	48.44%
Che Fung	Interest of controlled corporation *(Note 7)*	–	4,762,800,000	48.44%

DIRECTORS' REPORT

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

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

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. 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.

3. Chen Shaohua was personally interested in 401,830,000 Shares. Chen Shaohua was deemed to be interested in the 480,000,000 Shares held by Cheung Kwan, being spouse or children under 18 of Chen Shaohua.

4. Cheung Kwan was personally interested in 480,000,000 Shares. Cheung Kwan was deemed to be interested in the 401,830,000 Shares held by Chen Shaohua, being spouse or children under 18 of Cheung Kwan.

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. 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 Ms. Gegen Tana.

7. 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 2013, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares which were required to be recorded in the register kept by the Company 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	52%
– five largest suppliers combined	56%
Sales	
– the largest customer	21%
– five largest customers combined	62%

None of the Directors, their 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 2013, 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

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's 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 12 to 20 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' 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.

DIRECTORS' REPORT

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

Zhou Jian
Chairman

Hong Kong, 21 March 2014

INDEPENDENT AUDITOR'S REPORT

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 36 to 110, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 2013 and of the Group's loss 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, 21 March 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Continuing operations			
Revenue	5	467,311	184,457
Cost of sales and services		(398,113)	(167,709)
Gross profit		69,198	16,748
Other revenue and gains	6	1,590	899
Selling and distribution expenses		(8,223)	(46)
Administrative expenses and other net operating expenses		(192,904)	(22,324)
Finance costs	8	(19,957)	(1,451)
Fair value gains on investment properties	14	10,500	12,200
Share of losses of joint ventures	16	(828)	–
Impairment loss on an intangible asset	15	(132,481)	–
(Loss)/profit before taxation		(273,105)	6,026
Taxation	10(a)	7,317	(385)
(Loss)/profit for the year from continuing operations	7	(265,788)	5,641
Discontinued operation			
Profit for the year from discontinued operation	11	–	577
(Loss)/profit for the year		(265,788)	6,218
(Loss)/profit attributable to:			
– Owners of the Company	7	(192,215)	5,959
– Non-controlling interest	27	(73,573)	259
		(265,788)	6,218
(Loss)/earnings per share from continuing and discontinued operations:	12		
– Basic and diluted		HK cents (1.955)	HK cent 0.061
(Loss)/earnings per share from continuing operations:	12		
– Basic and diluted		HK cents (1.955)	HK cent 0.057

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
(Loss)/profit for the year	(265,788)	6,218
Other comprehensive income		
Items that may be subsequently classified to profit or loss:		
Currency translation differences	(511)	30
Other comprehensive income for the year, net of tax	(511)	30
Total comprehensive income for the year	(266,299)	6,248
Total comprehensive income attributable to:		
– Owners of the Company	(192,591)	5,989
– Non-controlling interest	(73,708)	259
	(266,299)	6,248

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	13	47,887	711
Investment properties	14	155,100	144,600
Intangible assets	15	329,044	–
Interests in joint ventures	16	11,048	–
		543,079	145,311
Current assets			
Trading merchandise goods	17	8,626	12,361
Trade receivables, other receivables and prepayments	18	73,999	31,205
Tax recoverable		–	27
Bank balances and cash	19	209,338	238,873
		291,963	282,466
Current liabilities			
Trade payables, other payables and accruals	20	80,581	16,078
Deferred revenue		33,566	–
Borrowings	21	7,481	7,397
Obligations under finance leases	22	4,783	–
Tax payable		3,744	108
Amount due to a related company	28	1,824	–
		131,979	23,583
Net current assets		159,984	258,883
Total assets less current liabilities		703,063	404,194
Non-current liabilities			
Borrowings	21	122,796	63,399
Obligations under finance leases	22	8,582	–
Deferred tax liabilities	10(b)	7,398	999
Convertible notes	23	337,267	–
		476,043	64,398
Net assets		227,020	339,796
EQUITY			
Capital and reserves			
Share capital	24	98,327	98,327
Reserves		119,864	241,469
Equity attributable to owners of the Company		218,191	339,796
Non-controlling interest	27	8,829	–
Total equity		227,020	339,796

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2014 and are signed on its behalf by:

Zhou Jian
DIRECTOR

Fan Lei
DIRECTOR

STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	*13*	14	25
Interests in subsidiaries	*27*	495,653	213,549
		495,667	213,574
Current assets			
Other receivables and prepayments	*18*	1,843	1,067
Bank balances and cash		118,574	184,588
		120,417	185,655
Current liabilities			
Other payables and accruals	*20*	1,351	288
Borrowings	*21*	2,572	2,490
		3,923	2,778
Net current assets		116,494	182,877
Total assets less current liabilities		612,161	396,451
Non-current liabilities			
Borrowings	*21*	60,827	63,399
Convertible notes	*23*	337,267	–
		398,094	63,399
Net assets		214,067	333,052
EQUITY			
Capital and reserves			
Share capital	*24*	98,327	98,327
Reserves	*25*	115,740	234,725
Total equity		214,067	333,052

The financial statements were approved and authorised for issue by the Board of Directors on 21 March 2014 and are signed on its behalf by:

Zhou Jian
DIRECTOR

Fan Lei
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

		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$'000 *(Note 25(iv))*	Exchange fluctuation reserve HK$'000 *(Note 25(v))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2012		98,327	245,047	–	7,355	49,510	15	(66,447)	333,807	(1,798)	332,009
Profit for the year		–	–	–	–	–	–	5,959	5,959	259	6,218
Currency translation differences		–	–	–	–	–	30	–	30	–	30
Total comprehensive income for the year		–	–	–	–	–	30	5,959	5,989	259	6,248
Deconsolidation of a subsidiary	29	–	–	–	–	–	–	–	–	1,539	1,539
As at 31 December 2012		98,327	245,047	–	7,355	49,510	45	(60,488)	339,796	–	339,796
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	30	–	–	–	–	–	–	–	–	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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Cash flows from operating activities		
(Loss)/profit before taxation from continuing operations	(273,105)	6,026
Profit before taxation from discontinued operation	–	577
	(273,105)	6,603
Adjustments for:		
Depreciation of property, plant and equipment	15,573	359
Amortisation of intangible assets	88,363	–
Gains on deregistration, dissolution and deconsolidation of subsidiaries, net	–	(1,693)
Net exchange (gain)/loss	(139)	21
Fair value gains on investment properties	(10,500)	(12,200)
Share of results of joint ventures	828	–
Loss on disposal of property, plant and equipment	4,130	–
Impairment loss on an intangible asset	132,481	–
Interest income	(533)	(899)
Finance costs	19,957	1,926
Operating loss before working capital changes	(22,945)	(5,883)
Decrease/(increase) in trading merchandise goods	3,735	(11,302)
Decrease in trade receivables, other receivables and prepayments	23,038	3,228
(Decrease)/increase in trade payables, other payables and accruals	(94,541)	6,182
Increase in deferred revenue	12,409	–
Increase in amount due to a related company	1,206	–
Cash used in operating activities	(77,098)	(7,775)
Income tax paid	(300)	(634)
Interest paid	(3,100)	(1,455)
Net cash used in operating activities	(80,498)	(9,864)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Investing activities		
Interest received	533	1,112
Purchases of property, plant and equipment	(17,236)	(5)
Additions of intangible assets	(7,592)	–
Investments in joint ventures	(11,827)	–
Advance to joint ventures	(49)	–
Net cash flow from business combination	14,764	–
Deconsolidation of a subsidiary	–	(663)
Net cash (used in)/generated from investing activities	(21,407)	444
Financing activities		
New obligations under finance leases	13,365	–
Repayment of obligations under finance leases	(124)	–
New borrowings	92,982	67,553
Repayment of borrowings	(33,501)	(1,611)
Net cash from financing activities	72,722	65,942
Net (decrease)/increase in cash and cash equivalents	(29,183)	56,522
Effect of foreign exchange rate changes	(352)	9
Cash and cash equivalents at the beginning of the year	238,873	182,342
Cash and cash equivalents at the end of the year	209,338	238,873
Represented by:		
Bank balances and cash	209,338	238,873

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

1. ORGANISATION AND OPERATIONS

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.

Pursuant to a special resolution passed at the special general meeting of the Company held on 28 November 2013, the shareholders of the Company have approved to change the name of the Company from "Sun Innovation Holdings Limited" to "Digital Domain Holdings Limited" and to adopt "數字王國集團有限公司" to replace "奧亮集團有限公司" as the Chinese name of the Company for identification purposes only. With the approval of the Registrar of Companies in Bermuda, the name change of the Company became effective on 6 December 2013.

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 revised HKFRSs – first effective on 1 January 2013

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits
Amendments to HKFRS 1	Government loans

Except as explained below, the adoption of these amendments has no material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

(a) Adoption of revised HKFRSs – first effective on 1 January 2013 *(continued)*

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosure requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 12 disclosures are provided in Notes 16 and 27. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance. The standard requires additional disclosures about fair value measurements and these are included in Notes 14 and 15. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

(b) New/revised HKFRS that have been issued and have been early adopted

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash-generating unit ("CGU") to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are effective for annual periods commencing on or after 1 January 2014. The Group has early adopted the amendments to HKAS 36 in the current year. The disclosures about the impairment of intangible assets in Note 15 have been modified accordingly.

(c) 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:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities[1]
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

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

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that 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.

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

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 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

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.

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.

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 is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 of 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 arrangement 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 the 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 rate is 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 arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, 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.

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 exceed 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

(i) Goodwill (continued)

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

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

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.

Trading merchandise goods

Trading merchandise goods were stated at the lower of cost and net realisable value. Cost includes cost of purchases computed using the weighted average method. Net realisable value was determined by reference to the anticipated sale proceeds of items sold in the ordinary course of business less estimated selling expenses after the end of reporting period or to management estimates based on prevailing market conditions.

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 investment 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. During the year, 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. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 have been impacted. Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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 2013

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

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 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(ii) Convertible notes (continued)

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 as mentioned above, 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 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 measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vi) Derecognition of financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 payment. 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 the 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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 schemes

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 2013

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Estimates and judgements *(continued)*

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 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.

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).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Estimates and judgements *(continued)*

Fair value measurements (continued)

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 to demand 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:

	2013 **HK$'000**	2012 HK$'000
Continuing operations:		
Provision of services of visual effects production	**238,185**	–
Sales of goods	**223,416**	179,041
Rental income	**5,710**	5,416
	467,311	184,457

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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:

– Property investment

– Trading

– Media entertainment (visual effects production)

– Entertainment media (mobile entertainment business) (discontinued during the year ended 31 December 2010 – *Note 11*)

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 (loss)/profit, which is a measure of adjusted (loss)/profit before taxation. The adjusted (loss)/profit before taxation is measured consistently with the Group's (loss)/profit before taxation except that other revenue and gains, fair value gains on investment properties, share of losses of joint ventures and finance costs, 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 2013

5. REVENUE AND SEGMENT REPORTING *(continued)*

(a) Reportable segments *(continued)*

	Continuing operations								Discontinued operation			
	Property investment		Trading		Media entertainment		Total		Entertainment media		Consolidated	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Revenue from external customers	5,710	5,416	223,416	179,041	238,185	–	467,311	184,457	–	–	467,311	184,457
Inter-segment revenue	–	–	–	–	–	–	–	–	–	–	–	–
Reportable segment revenue	5,710	5,416	223,416	179,041	238,185	–	467,311	184,457	–	–	467,311	184,457
Reportable segment (loss)/profit	4,554	4,278	14,129	10,584	(254,015)	–	(235,332)	14,862	–	(641)	(235,332)	14,221
Addition to non-current assets	–	–	–	–	616,807	–	616,807	–	–	–	616,807	–
Depreciation and amortisation	–	–	–	–	103,612	–	103,612	–	–	–	103,612	–
Impairment loss on an intangible asset	–	–	–	–	132,481	–	132,481	–	–	–	132,481	–
Loss on disposal of property, plant and equipment	–	–	–	–	4,130	–	4,130	–	–	–	4,130	–
Taxation	–	–	666	385	(7,983)	–	(7,317)	385	–	–	(7,317)	385
Reportable segment assets	156,202	146,041	96,176	61,674	441,052	–	693,430	207,715	44	44	693,474	207,759
Reportable segment liabilities	1,440	1,415	31,198	13,206	155,316	–	187,954	14,621	5,800	5,800	193,754	20,421

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

5. REVENUE AND SEGMENT REPORTING *(continued)*

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

	2013 HK$'000	2012 HK$'000
(Loss)/profit before taxation (include continuing and discontinued operations)		
Reportable segment (loss)/profit	(235,332)	14,221
Segment loss from discontinued operation	–	641
Other revenue and gains	1,590	899
Unallocated corporate expenses	(29,078)	(20,484)
Fair value gains on investment properties	10,500	12,200
Share of losses of joint ventures	(828)	–
Finance costs	(19,957)	(1,451)
Consolidated (loss)/profit before taxation from continuing operations	(273,105)	6,026

	2013 HK$'000	2012 HK$'000
Assets		
Reportable segment assets	693,474	207,759
Unallocated bank balances and cash	127,462	217,519
Unallocated corporate assets	14,106	2,499
Consolidated total assets	835,042	427,777
Liabilities		
Reportable segment liabilities	193,754	20,421
Unallocated borrowings	63,399	65,889
Tax payable	3,744	108
Deferred tax liabilities	7,398	999
Convertible notes	337,267	–
Unallocated corporate liabilities	2,460	564
Consolidated total liabilities	608,022	87,981

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

5. REVENUE AND SEGMENT REPORTING *(continued)*

(c) Geographic information

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

	Revenue from external customers	
	2013	2012
	HK$'000	HK$'000
Hong Kong (place of domicile)	**5,710**	5,416
Mainland China	**223,416**	179,041
The United States of America ("USA")	**113,717**	–
Canada	**103,330**	–
Other countries	**21,138**	–
	467,311	184,457

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

	Specified non-current assets	
	2013	2012
	HK$'000	HK$'000
Hong Kong (place of domicile)	**166,603**	145,311
USA and Canada	**376,476**	–
	543,079	145,311

(d) Major customers

The Group's customer base is diversified and there were three (2012: four) 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$96,736,000 and HK$72,826,000 respectively; and from one customer in media entertainment amounted to approximately HK$58,471,000. During the year ended 31 December 2012, revenues from four customers in trading segment amounted to approximately HK$66,522,000, HK$57,256,000, HK$28,641,000 and HK$26,622,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

6. OTHER REVENUE AND GAINS

	2013 HK$'000	2012 HK$'000
Continuing operations		
Royalty income	697	–
Interest income	533	899
Others	360	–
	1,590	899

7. (LOSS)/PROFIT FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Continuing operations		
This is arrived at after charging/(crediting):		
Cost of inventories sold	206,993	166,738
Cost of services rendered *(Note)*	191,120	971
Loss on disposal of property, plant and equipment	4,130	–
Exchange differences, net	(220)	159
Auditor's remuneration:		
– audit services	1,207	724
– non-audit services	1,335	480
Depreciation of property, plant and equipment *(Note)*	15,573	359
Amortisation of intangible assets *(Note)*	88,363	–
Research and development	3,046	–
Operating lease rentals in respect of:		
– rented premises	12,775	2,451
– rented equipment	8,468	–
Staff costs *(Note)*:		
– Directors' remuneration *(Note 9)*	2,378	2,376
– Other staff costs:		
Salaries, wages and other benefits	201,572	6,964
Retirement benefit scheme contributions	259	239
Total staff costs	204,209	9,579

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Note:

Cost of services rendered include HK$177,275,000 (2012: HK$Nil) 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 loss attributable to owners of the Company includes a loss of HK$33,065,000 (2012: HK$10,449,000) which has been dealt with in the financial statements of the Company.

8. FINANCE COSTS

	Notes	**2013** **HK$'000**	2012 HK$'000
Imputed interest on convertible notes	*23*	**16,253**	–
Interests on:			
Borrowings wholly repayable within five years		**604**	475
Borrowings not wholly repayable within five years		**2,105**	1,451
Finance leases		**995**	–
		19,957	1,926
Attributable to continuing operations reported in the consolidated income statement		**19,957**	1,451
Attributable to discontinued operation	*11*	**–**	475
		19,957	1,926

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The Directors' remuneration is analysed as follows:

	2013 HK$'000	2012 HK$'000
Fees:		
Independent non-executive directors	362	360
Other emoluments paid to executive directors:		
Salaries and other benefits	1,920	1,920
Retirement benefit scheme contributions	96	96
	2,016	2,016
	2,378	2,376

No directors waived any remuneration in respect of the years ended 31 December 2013 and 2012.

	2013 HK$'000	2012 HK$'000
Zhou Jian		
– Salaries and other benefits	–	–
– Retirement benefit scheme contributions	–	–
	–	–
Fan Lei		
– Salaries and other benefits	1,920	1,920
– Retirement benefit scheme contributions	96	96
	2,016	2,016

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Directors' remuneration *(continued)*

	2013 HK\$'000	2012 HK\$'000
Lau Cheong		
– Fee	**120**	120
Duan Xiongfei		
– Fee	**120**	120
Wong Ka Kong Adam		
– Fee	**47**	–
Tam Tak Kei Raymond		
– Fee	**75**	120

Five highest paid employees

The five highest paid individuals of the Group included one (2012: one) executive director of the Company, details of whose remuneration are set out above. The remuneration of the remaining four (2012: four) highest paid employees, other than directors of the Company, is as follows:

	2013 HK\$'000	2012 HK\$'000
Salaries and other benefits	**8,210**	3,808
Retirement benefit scheme contributions	**111**	109
	8,321	3,917

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

	2013 Number of individuals	2012 Number of individuals
Nil to HK\$1,000,000	**–**	2
HK\$1,000,001 to HK\$1,500,000	**2**	2
HK\$1,500,001 to HK\$2,000,000	**2**	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

10. TAXATION

	2013 HK$'000	2012 HK$'000
(a) Taxation (credited)/charged in the consolidated income statement represents:		
Current taxation – Hong Kong profits tax		
– provision for the year	684	450
– over-provision in respect of prior years	(18)	(65)
Current taxation – Overseas tax		
– provision for the year	3,376	–
Deferred taxation *(Note 10(b))*	(11,359)	–
	(7,317)	385

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.

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

	2013 HK$'000	2012 HK$'000
(Loss)/profit before taxation (including continuing and discontinued operations)	(273,105)	6,603
Taxation calculated at Hong Kong profits tax rate of 16.5% (2012: 16.5%)	(45,062)	1,089
Tax effect of different tax rates of subsidiaries operating in other jurisdiction	(5,293)	(7)
Tax effect of expenses not deductible for tax purposes	5,556	1,794
Tax effect of non-taxable income	(1,843)	(2,411)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(3,886)	(315)
Tax effect of unrecognised tax losses and temporary differences	43,229	300
Over-provision in respect of prior years	(18)	(65)
Taxation for the year	(7,317)	385

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Provision HK$'000	Fair value adjustments arising from business combination HK$'000	Total HK$'000
As at 1 January 2012	(3,995)	2,996	–	–	(999)
(Charge)/credit to profit or loss for the year	(397)	397	–	–	–
As at 31 December 2012	(4,392)	3,393	–	–	(999)
Addition from business combination *(Note 30)*	(1,389)	–	3,506	(19,885)	(17,768)
(Charge)/credit to profit or loss for the year *(Note 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)

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 2013 HK$'000	Group 2012 HK$'000
Deferred tax liabilities	(7,398)	(999)
Deferred tax assets	–	–
	(7,398)	(999)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

10. TAXATION *(continued)*

(b) Deferred taxation *(continued)*

At the end of reporting period, the Group had unused tax losses of HK$266,514,000 (2012: HK$110,593,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$19,055,000 (2012: HK$20,564,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$247,459,000 (2012: HK$90,029,000) due to the unpredictability of future profit streams. As at 31 December 2013, included in unrecognised tax losses are losses of HK$83,000 (2012: HK$83,000) that will expire in 5 years from the respective dates of incurrence and tax losses of HK$198,556,000 (2012: HK$Nil) that will expire in 20 years from the respective dates of incurrence. Other tax losses may be carried forward indefinitely.

11. DISCONTINUED OPERATION

During the year ended 31 December 2010, the Group ceased its operations in entertainment media business which is referred to as the "Discontinued Operation". On 20 December 2010, the Group decided not to continue to finance its entertainment media business. Further details were set out in the Company's announcement dated 20 December 2010. As at 31 December 2010, the Discontinued Operation ceased operation and accordingly the segment was classified as discontinued operation in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*. The revenue, results and cash flows of the Discontinued Operation were as follows:

	Notes	**2013** **HK$'000**	2012 HK$'000
Revenue		–	–
Administrative expenses and other net operating expenses		–	(641)
Finance costs	*8*	–	(475)
Gain on deconsolidation of a subsidiary	*29*	–	1,693
Profit before taxation		–	577
Taxation		–	–
Profit for the year from the Discontinued Operation		–	577
Operating cash outflow		–	(25)
Investing cash outflow		–	(663)
Financing cash outflow		–	(40)
Total cash outflow		–	(728)

Loss attributable to owners of the Company from Discontinued Operation for the year ended 31 December 2013 was HK$Nil (2012: profit of HK$318,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of the basic (loss)/earnings per share is based on the following data:

From continuing and discontinued operations

	Year ended 31 December	
	2013	2012
	HK$'000	HK$'000
(Loss)/profit for the year attributable to owners of the Company for the purpose of basic (loss)/earnings per share	**(192,215)**	5,959

	Number of shares	
	2013	2012
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**9,832,685,768**	9,832,685,768

From continuing operations

	Year ended 31 December	
	2013	2012
	HK$'000	HK$'000
(Loss)/profit for the year for the purpose of basic (loss)/earnings per share from continuing operations	**(192,215)**	5,641

Diluted (loss)/earnings per share from continuing and discontinued operations

The denominators used are the same as those detailed above for calculating basic and diluted (loss)/earnings per share from continuing and discontinued operations.

As convertible notes outstanding during the year had an anti-dilutive effect on the basic (loss)/earnings per share for the year, the conversion of the above potential dilutive shares was not assumed in the computation of diluted (loss)/earnings per share. Except for the above, there is no other potential dilutive share during the current and prior years. Therefore, the basic and diluted (loss)/earnings per share for (i) continuing and discontinued operations and (ii) continuing operations in the current and prior years are equal.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

12. (LOSS)/EARNINGS PER SHARE *(continued)*

From discontinued operation

Basic earnings per share for the discontinued operation is HK cent Nil (2012: HK cent 0.004), based on the profit for the year from the discontinued operation of HK$Nil (2012: HK$318,000) attributable to owners of the Company and the denominators detailed above for both basic and diluted (loss)/earnings per share of the continuing and discontinued operations.

Diluted (loss)/earnings per share from discontinued operation

As convertible notes outstanding during the year had an anti-dilutive effect on the basic loss per share in the year, the conversion of the above potential dilutive shares was not assumed in the computation of diluted loss per share of the discontinued operation. Except for the above, there is no other potential dilutive share during the current and prior years. Therefore, the basic and diluted (loss)/earnings per share for the discontinued operation in the current and prior years are equal.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

13. PROPERTY, PLANT AND EQUIPMENT

	Group				Company
	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 2012	13,145	–	–	13,145	56
Additions	5	–	–	5	–
Disposals	(2,506)	–	–	(2,506)	–
As at 31 December 2012 and 1 January 2013	10,644	–	–	10,644	56
Additions from business combination *(Note 30)*	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	54,118	2,735	13,384	70,237	56
ACCUMULATED DEPRECIATION					
As at 1 January 2012	12,080	–	–	12,080	20
Depreciation charge for the year	359	–	–	359	11
Disposals	(2,506)	–	–	(2,506)	–
As at 31 December 2012 and 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	21,712	638	–	22,350	42
NET CARRYING AMOUNT					
As at 31 December 2013	32,406	2,097	13,384	47,887	14
As at 31 December 2012	711	–	–	711	25

As at 31 December 2013, net carrying amount of property, plant and equipment items of 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 2013

14. INVESTMENT PROPERTIES

Group	HK$'000
FAIR VALUE	
As at 1 January 2012	132,400
Fair value gains	12,200
As at 31 December 2012 and 1 January 2013	144,600
Fair value gains	10,500
As at 31 December 2013	155,100

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK$5,710,000 (2012: HK$5,416,000). Direct operating expenses arising on the investment properties in the year amounted to HK$1,013,000 (2012: HK$971,000).

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 34).

The fair value of the Group's investment properties at 31 December 2013 and 2012 have 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

14. INVESTMENT PROPERTIES *(continued)*

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:

	HK$'000
Carrying amount at 1 January 2013	144,600
Fair value gains of investment properties included in the face of the consolidated income statement	10,500
Carrying amount at 31 December 2013	155,100
Change in unrealised gains for the year included in profit or loss for assets held at 31 December 2013	10,500

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$26 per square feet. (2) Capitalisation rate of 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.
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$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 variable were held constant, the fair value would increase/decrease by HK$71,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

14. INVESTMENT PROPERTIES *(continued)*

There were no changes 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.

15. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note (a))	*(Note (a))*	*(Note (b))*	*(Note (c))*	
COST					
Additions from business combination *(Note 30)*	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	207,011	19,385	64,501	258,987	549,884
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS					
Amortisation for the period	–	–	14,275	74,088	88,363
Impairment loss *(Note (e))*	–	–	–	132,481	132,481
Exchange realignment	–	–	(4)	–	(4)
As at 31 December 2013	–	–	14,271	206,569	220,840
CARRYING AMOUNT					
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 2013

15. INTANGIBLE ASSETS *(continued)*

Notes:

(a) The Group's goodwill and trademarks arise from the business combination as set out in Note 30.

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 Group 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 12% average growth rate, and at a pre-tax discount rate of 23%. The cash flow projections beyond the 5-year period are extrapolated using a 2% growth rate. 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. Proprietary software was acquired through the business combination as set out in Note 30.

(c) Participation rights represented the contractual rights of profit-sharing on pre-determined percentages from movies. Participation rights were acquired through the business combination as set out in Note 30.

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

(e) During the year, 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 is an impairment indicator of that related participation right. Therefore, the directors of the Company conducted an impairment assessment of the related participation right as follows:

The recoverable amount of the related participation right 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.

The recoverable amount of the related participation right was HK$49,626,000, which fell below the carrying value before impairment by the amount of HK$132,481,000 and therefore an impairment loss in the same amount was recognised in profit or loss. The fair-value-less-costs-of-disposal calculation of participation right is classified as a level 3 measurement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

16. INTERESTS IN JOINT VENTURES

	Group 2013 HK$'000
Share of net assets	10,999
Due from joint venture	49
	11,048

The amount due from 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 2013 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 2013

16. INTERESTS IN JOINT VENTURES *(continued)*

	2013 HK$'000
At 31 December	
Current assets	23,224
Current liabilities	(1,227)
Net assets	21,997
Group's share of net assets	10,999
Included in the above amounts are:	
Cash and cash equivalents included in current assets	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	1
Interest expense	–
Taxation	–
Loss from continuing operations	(1,656)
Other comprehensive income	–
Total comprehensive income	(1,656)
Group's share of results	(828)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

17. TRADING MERCHANDISE GOODS

Group

	2013 HK$'000	2012 HK$'000
Goods in transit	8,626	12,361

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Trade receivables, net of allowance	64,060	29,217	–	–
Other receivables and prepayments, net of allowance	9,939	1,988	1,843	1,067
	73,999	31,205	1,843	1,067

(i) The directors consider that the carrying amounts of trade receivables, other receivables and prepayments approximate their fair values as at 31 December 2012 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 (2012: 60 to 90 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debts, based on the due date as of the end of reporting period is as follows:

	2013 HK$'000	2012 HK$'000
Current	54,825	20,729
1 to 30 days	5,831	8,488
31 to 60 days	2,112	–
61 to 90 days	1,292	–
	64,060	29,217

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

(iii) The movements in the allowance for doubtful debts on trade receivables during the year, including both specific and collective loss components, are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
As at 1 January	–	1,767
Bad debts written off	–	(1,767)
As at 31 December	–	–

(iv) The movements in the allowance for doubtful debts on other receivables during the year, including both specific and collective loss components, are as follows:

	Group	
	2013	2012
	HK$'000	HK$'000
As at 1 January	–	830
Bad debts written off	–	(830)
As at 31 December	–	–

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

	Group	
	2013	2012
	HK$'000	HK$'000
Less than 1 month past due	**5,831**	8,488
1 to 3 months past due	**3,404**	–
As at 31 December	**9,235**	8,488

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

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.

19. BANK BALANCES AND CASH

As at 31 December 2013, included in the bank balances and cash of the Group was an amount of HK$671,000 (2012: HK$613,000) 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.

20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**33,000**	12,535	**–**	–
Other payables and accruals	**47,581**	3,543	**1,351**	288
	80,581	16,078	**1,351**	288

The directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2012 and 2013.

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

	2013	2012
	HK$'000	HK$'000
Current	**31,269**	–
1 to 30 days	**357**	12,521
31 to 60 days	**697**	–
61 to 90 days	**135**	–
Over 90 days	**542**	14
	33,000	12,535

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

21. BORROWINGS

The borrowings were due for repayment as follows:

	Group		Company	
	2013	2012	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans – secured:				
On demand or within one year	**7,481**	7,397	**2,572**	2,490
After one year but within two years	**2,657**	2,572	**2,657**	2,572
In the second to fifth years inclusive	**8,502**	8,231	**8,502**	8,231
Over five years	**49,668**	52,596	**49,668**	52,596
Other loan – unsecured	**61,969**	–	**–**	–
	130,277	70,796	**63,399**	65,889
Current portion	**7,481**	7,397	**2,572**	2,490
Non-current portion	**122,796**	63,399	**60,827**	63,399
	130,277	70,796	**63,399**	65,889

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 2013, mortgage bank loans which 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 30 December 2013, the lender of these mortgage bank loans has undertaken not to demand the Group for repayment until 31 July 2015 unless certain conditions (the "Conditions") are breached.

The Group regularly monitors its compliance with the Conditions, and in the opinion of the directors, the Conditions have not been breached as at 31 December 2013 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

21. BORROWINGS *(continued)*

(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 is 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 2012 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 stopped 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.

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 obligation 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 and 2013.

As at 31 December 2013, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2012: HK$4,854,000) and HK$1,481,000 (2012: HK$878,000) 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, 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 2012 and 2013. No further action has been taken against the Group during the current year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

21. BORROWINGS *(continued)*

(ii) *(continued)*

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 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) During the year ended 31 December 2013, there was an other loan with principal amount of US$8,000,000 (equivalent to approximately HK$61,969,000) which was unsecured, interest-free and not repayable within 13 months from 31 December 2013.

As at 31 December 2012 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% (2012: 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 2012 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 2013

22. OBLIGATIONS UNDER FINANCE LEASES

	Group	
	As at 31 December 2013	
	Minimum lease payments HK$'000	Present value of minimum lease payment HK$'000
Amounts payable under finance leases:		
Within one year	6,620	4,783
In the second to fifth years inclusive	9,742	8,582
Total minimum finance lease payments	16,362	
Less: Future finance charges	(2,997)	
Total net finance lease payables	13,365	
Less: Amount due within one year	(4,783)	
Amount due after one year	8,582	

The Group leased certain software and computer equipment under finance leases. The average lease term is three years. Interest rates underlying the obligations under finance leases are fixed at respective contract dates and the average effective borrowing rate is 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 the aggregate principal amount of HK$392,000,000 as part of the purchase consideration for the business combination, further details of which are set out in Note 30. The convertible notes bear zero interest and has maturity date of 24 months from 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 2013

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 of 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 a non-current liability on the amortised cost basis until extinguished or conversion. The carrying amount of the conversion option credited to equity is not re-measured in subsequent periods.

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

	Liability component of Convertible Notes	**Equity component of Convertible Notes**	**Total**
	HK$'000	HK$'000	HK$'000
As at 1 January 2013	–	–	–
Issue of the Convertible Notes	321,014	70,986	392,000
Effective imputed interest expense recognised *(Note 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 on the Convertible Notes for the year ended 31 December 2013 is calculated using the effective interest method by applying the average effective interest rate of 10.86% per annum.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

24. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2013	2012	**2013**	2012
			HK$'000	HK$'000
Authorised ordinary shares:				
As at 1 January 2012, 31 December 2012 and 31 December 2013 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 2012, 31 December 2012 and 31 December 2013 of HK$0.01 each	**9,832,685,768**	9,832,685,768	**98,327**	98,327

25. RESERVES

Company

	Share premium	Convertible notes - equity component	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note (i))	*(Note (ii))*	*(Note (iv))*		
As at 1 January 2012	245,047	–	49,510	(88,769)	205,788
Profit and total comprehensive income for the year	–	–	–	28,937	28,937
As at 31 December 2012	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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

25. RESERVES *(continued)*

Notes:

(i) **Share premium**

The application of the share premium account is governed by Section 40 of 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 ("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) **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 2013, nor has any dividend been proposed since the end of reporting period (2012: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

26. SHARE-BASED PAYMENT TRANSACTIONS

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

(i) Share Option Scheme

In prior years, the Company adopted a share option scheme on 16 May 2002 (the "2002 Share Option Scheme") which was expired on 15 May 2012. On 27 April 2012, the Company adopted a new 10-year share option scheme (the "New Option Scheme") and terminated the 2002 Share Option Scheme on the same date. Pursuant to the New Option Scheme, the directors are authorised to grant options to any executive or non-executive directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards.

As at 31 December 2012 and 2013, no share option has been granted.

(ii) Options granted under general mandate

No option was granted under general mandate during the year (2012: Nil).

27. INTERESTS IN SUBSIDIARIES AND NON-CONTROLLING INTEREST

Company

	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**11,736**	11,736
Loans to subsidiaries	**137,714**	108,872
Amounts due from subsidiaries	**1,179,067**	763,384
	1,328,517	883,992
Less: Impairment loss on investment cost	**(11,736)**	(11,736)
Allowance for loans to/amounts due from subsidiaries	**(821,128)**	(658,707)
	495,653	213,549

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 minus 1.5% to plus 1.5% per annum (2012: prime rate minus 1.5% to plus 1.5% per annum). In the opinion of the directors, these amounts are not repayable within twelve months from end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Accumulated impairment losses on investment cost and allowances for loans to subsidiaries and amounts due from subsidiaries of HK$11,736,000 (2012: HK$11,736,000) and HK$821,128,000 (2012: HK$658,707,000) respectively were recognised as at 31 December 2013 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 as at 31 December 2013 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length.

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	
City Trend International Limited	British Virgin Islands	US$1	100%	–	Investment holding
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 holding
DDH Assets Limited #	British Virgin Islands	US$1	100%	–	Investment holding
DDH Management Holdings Limited #	British Virgin Islands	US$1	100%	–	Investment holding
DDHU Management Limited #	British Virgin Islands	US$1	–	100%	Investment holding
Digital Domain 3.0, Inc. °	The United States of America	US$50	–	70%	Visual effects production
Digital Domain Assets Limited #	Hong Kong	HK$1	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Particulars of the Company's principal subsidiaries as at 31 December 2013 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 Development Limited	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain Development Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Enterprise Limited	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain Holdings Limited #1	Hong Kong	HK$1	–	100%	Dormant
Digital Domain International Limited	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain (International) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Management Limited #	Hong Kong	HK$100	–	100%	Dormant
Digital Domain Media Group Limited #	British Virgin Islands	US$1	100%	–	Investment holding
Digital Domain Media (HK) Limited #	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Productions 3.0 (BC), Ltd. °	Canada	CAD1	–	70%	Visual effects production
Digital Domain Resources Limited (Formerly known as "Sun Innovation Resources Limited")	Hong Kong	HK$2	–	100%	Provision of management services

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Particulars of the Company's principal subsidiaries as at 31 December 2013 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	
Ever Champ Management Limited [#]	British Virgin Islands	US$1	100%	–	Investment holding
Ever Ultra Limited[o]	British Virgin Islands	US$100	–	100%	Investment holding
Ever Union Medical Services Group Limited	Hong Kong	HK$100	–	100%	Investment holding
Ever Union Services Development Limited	Hong Kong	HK$100	–	100%	Investment holding and provision of consultancy services
Galloping Horse US, LLC [o2]	The United States of America	US$35,000,000	–	100%	Investment holding
Galloping Horse – Reliance, LLC [o3]	The United States of America	US$50,000,000	–	70%	Investment holding
L.Y.H. Petrochemical Energy Limited [#]	Hong Kong	HK$1	–	100%	Dormant
Mothership Media, Inc.[o]	The United States of America	US$0.01	–	70%	Visual effects production
S.I. Entertainment Investment (801) Limited	British Virgin Islands	US$1	100%	–	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Particulars of the Company's principal subsidiaries as at 31 December 2013 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	
Sino Front Investments Limited	Hong Kong	HK$1	–	100%	Securities investment and financial services
Sun Innovation Enterprises Limited	British Virgin Islands	US$1	100%	–	Investment holding
Sun Innovation HK Properties Holdings Limited	British Virgin Islands	US$1	–	100%	Investment holding
Sun Innovation International Group Limited	British Virgin Islands	US$1	100%	–	Investment holding
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 holding
Treasure Well Development Limited	British Virgin Islands	US$1	100%	–	Investment holding
Upfield Sky Limited °	British Virgin Islands	US$10,000	–	100%	Investment holding
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 holding
長和投資諮詢(深圳)有限公司*	The People's Republic of China	RMB1,500,000	–	100%	Provision of consultancy services

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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

Notes:

- # These subsidiaries were newly incorporated/established during the year.
- o These subsidiaries were newly acquired 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 2014.
- 1 Digital Domain Holdings Limited changed its name to "Digital Domain Group Limited" on 3 January 2014.
- 2 Galloping Horse US, LLC changed its name to "DD Holdings US, LLC" on 6 March 2014.
- 3 Galloping Horse – Reliance, LLC changed its name to "Digital Domain – Reliance, LLC" on 10 March 2014.

All the above are limited liability companies.

Certain subsidiaries of the Company were deregistered, dissolved or deconsolidated during the prior year, details of which are set out in Note 29.

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 2013

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. 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.**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
At 31 December:				
NCI percentage	**30%**	–	**30%**	–
Non-current assets	**168,047**	–	**13,134**	–
Current assets	**42,932**	–	**21,540**	–
Non-current liabilities	**(13,140)**	–	**(1,842)**	–
Current liabilities	**(172,391)**	–	**(28,848)**	–
Net assets	**25,448**	–	**3,984**	–
Accumulated NCI	**7,634***	–	**1,195***	–
Year ended 31 December:				
Revenue	**123,820**	–	**114,365**	–
(Loss)/profit for the year	**(274,020)**	–	**28,777**	–
Total comprehensive income	**(273,462)**	–	**27,769**	–
(Loss)/profit allocated to NCI	**(82,206)***	–	**8,633***	–
Dividend paid to NCI	**–**	–	**–**	–
Net cash inflows from operating activities	**14,805**	–	**12,432**	–
Net cash outflows from investing activities	**(20,436)**	–	**(1,205)**	–
Net cash inflows from financing activities	**13,240**	–	**–**	–

* The aggregate NCI as at 31 December 2013 amounted to approximately HK$8,829,000 (2012: HK$Nil) and the aggregate net losses allocated to NCI for the year then ended amounted to approximately HK$73,573,000 (2012: HK$Nil).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

28. AMOUNT DUE TO A RELATED COMPANY

Amount due to a related company represents trade payables for production costs of HK$1,824,000, which are repayable within 30 days and represent similar credit terms to those offered by the related company to their major customers.

29. DEREGISTRATION, DISSOLUTION AND DECONSOLIDATION OF SUBSIDIARIES

Sun Innovation Entertainment Media Group Limited, Sun Innovation Telecommunication Group Limited and S.I. Macau Entertainment Company Limited, which were wholly-owned subsidiaries of the Company, were struck off on 1 May 2012.

During the prior year, a provisional liquidator was appointed for Cellcast (Asia) Limited, i.e. the Subsidiary, by the order of the Official Receiver's Office and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year, two joint and several liquidators were appointed in July 2013.

The net liabilities of the subsidiaries deregistered, dissolved and deconsolidated, where appropriate, at the relevant dates were as follows:

	2012 HK$'000
Trade receivables, other receivables and prepayments	3
SME loan and accrued interest payable	(5,502)
Trade payables, other payables and accruals	(3,898)
Bank balances	663
Net identifiable liabilities	(8,734)
Non-controlling interest	1,539
Bank borrowings and related liabilities of the Subsidiary borne by the Group	5,502
Gains on deregistration, dissolution and deconsolidation of subsidiaries, net	1,693
	–
Net cash flow arising on deregistration, dissolution and deconsolidation:	
Bank balances and cash disposed of	(663)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

30. 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 2013

30. 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

None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill, which is not deductible for tax purposes, comprises 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.

Since the acquisition, the Target Group has contributed HK$238,185,000 to the Group's revenue and HK$245,793,000 to the Group's loss for the year. If the acquisition had occurred on 1 January 2013, the Group's revenue and loss for the year would have been HK$802,820,000 and HK$379,165,000 respectively. This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future performance.

The acquisition-related costs of HK$6,861,000 have been expensed and are included in administrative expenses.

31. MAJOR NON-CASH TRANSACTION

As further detailed in Note 23, on 4 July 2013, 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.

32. 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$1,250 (Year ended 31 December 2012: 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 was HK$355,000 (2012: HK$335,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

33. OPERATING LEASE COMMITMENTS

(i) As at 31 December 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group			
	Land and buildings		Equipment	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**14,545**	2,455	**529**	–
Later than one year and not later than five years	**17,536**	2,693	**21**	–
	32,081	5,148	**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 2013, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases as follows:

	Investment properties	
	2013	2012
	HK$'000	HK$'000
Not later than one year	**4,886**	4,101
Later than one year and not later than five years	**4,468**	3,520
	9,354	7,621

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

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34. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

As at 31 December 2013, the Group had aggregate banking facilities of HK$68,308,000 (2012: HK$70,796,000) from banks. The banking facilities are secured by:

(i) Pledge of all investment properties of the Group as at 31 December 2013 (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 2013, 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 2013.

35. CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitment as at 31 December 2012 and 2013.

36. 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**	**HK$'000**
Related companies of the non-controlling interest	Production costs	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.

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 debts, which includes the borrowings disclosed in Note 21, obligations under finance leases disclosed in Note 22, convertible notes disclosed in Note 23, bank balances and cash disclosed in Note 19 and equity attributable to owners of the Company, comprising share capital and reserves disclosed in Note 24 and the consolidated statement of changes in equity.

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for the year ended 31 December 2013

37. CAPITAL RISK MANAGEMENT *(continued)*

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. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less bank balances and cash. The gearing ratio at the end of reporting period was as follows:

	2013 HK$'000	2012 HK$'000
Debts	**480,909**	70,796
Bank balances and cash	**(209,338)**	(238,873)
Net debt	**271,571**	(168,077)
Total equity	**227,020**	339,796
Net debt to equity ratio	**120%**	N/A

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 (2012: 60 days to 90 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

38. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

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.

At 31 December 2013, the Group has a concentration of credit risk as 46% and 94% (2012: 99% and 100%) respectively of the total gross trade receivables that 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 34(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.

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for the year ended 31 December 2013

38. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

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:

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
2013						
SME loan	4,854	4,854	4,854	–	–	–
Other bank loans – term loans subject to a repayment on demand clause	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
2012						
SME loan	4,854	4,854	4,854	–	–	–
Other bank loans – term loans subject to a repayment on demand clause	65,942	88,902	4,647	4,594	13,783	65,878
Trade payables, other payables and accruals	15,948	15,948	15,948	–	–	–
	86,744	109,704	25,449	4,594	13,783	65,878

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for the year ended 31 December 2013

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
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	–	–	–	–	–	–
2012						
Other bank loans	65,889	88,849	4,594	4,594	13,783	65,878
Other payables and accruals	261	261	261	–	–	–
	66,150	89,110	4,855	4,594	13,783	65,878
Financial guarantee issued						
Maximum amount guaranteed	–	–	–	–	–	–

(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			
	2013		2012	
	Effective interest rate %	HK$'000	Effective interest rate %	HK$'000
Variable-rate borrowings				
Bank loans	**3.25 – 6.25**	**68,308**	3.25 – 6.25	70,796

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

38. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Interest rate risk *(continued)*

	Company			
	2013		2012	
	Effective interest rate		Effective interest rate	
	%	**HK$'000**	%	HK$'000
Variable-rate borrowings				
Bank loans	**3.25**	**63,399**	3.25	65,889

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

Sensitivity analysis

As at 31 December 2013, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's loss after taxation and decrease the accumulated losses by HK$683,000/HK$1,180,000 respectively (2012: increase the Group's profit after taxation and decrease the accumulated losses HK$708,000/HK$1,681,000 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 2012.

(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.

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for the year ended 31 December 2013

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 2012 and 2013 may be categorised as follows:

	2013 HK$'000	2012 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash), at amortised cost	**274,602**	268,817
Financial liabilities		
Financial liabilities, at amortised cost	**562,848**	86,744

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														
	2013			2012			2011			2010			2009		
	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$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Results															
Revenue	467,311	–	467,311	184,457	–	184,457	139,390	–	139,390	25,204	5,322	30,526	6,024	11,752	17,776
(Loss)/profit attributable to owners of the Company	(192,215)	–	(192,215)	5,641	318	5,959	3,153	(1,217)	1,936	(21,474)	(7,559)	(29,033)	(55,734)	(6,529)	(62,263)
Assets and Liabilities															
Total assets	834,998	44	835,042	427,733	44	427,777	350,772	743	351,515	388,111	679	388,790	410,136	10,340	420,476
Total liabilities	(602,222)	(5,800)	(608,022)	(82,181)	(5,800)	(87,981)	(10,931)	(8,575)	(19,506)	(89,821)	(7,415)	(97,236)	(92,319)	(8,791)	(101,110)
	232,776	(5,756)	227,020	345,552	(5,756)	339,796	339,841	(7,832)	332,009	298,290	(6,736)	291,554	317,817	1,549	319,366
Non-controlling interest	(8,829)	–	(8,829)	–	–	–	–	1,798	1,798	–	1,596	1,596	–	(1,186)	(1,186)
Equity attributable to owners of the Company	223,947	(5,756)	218,191	345,552	(5,756)	339,796	339,841	(6,034)	333,807	298,290	(5,140)	293,150	317,817	363	318,180

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