



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

(Incorporated in Bermuda with limited liability)

(Stock Code : 547)



ANNUAL REPORT 2016



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Peter Chou (Chairman)  
Mr. Seah Ang (Chief Executive Officer)  
Mr. Amit Chopra (Chief Operating Officer)

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Ms. Fok Lai Yan

## INDEPENDENT AUDITOR

BDO Limited  
Certified Public Accountants

## SOLICITOR

Reed Smith Richards Butler

## REGISTERED OFFICE

Clarendon House, 2 Church Street  
Hamilton HM11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
China CITIC Bank International Limited  
China Construction Bank (Asia) Corporation Limited  
China Minsheng Banking Corp., Ltd.  
East West Bank  
OCBC Wing Hang Bank Limited  
Royal Bank of Canada

## STOCK CODE

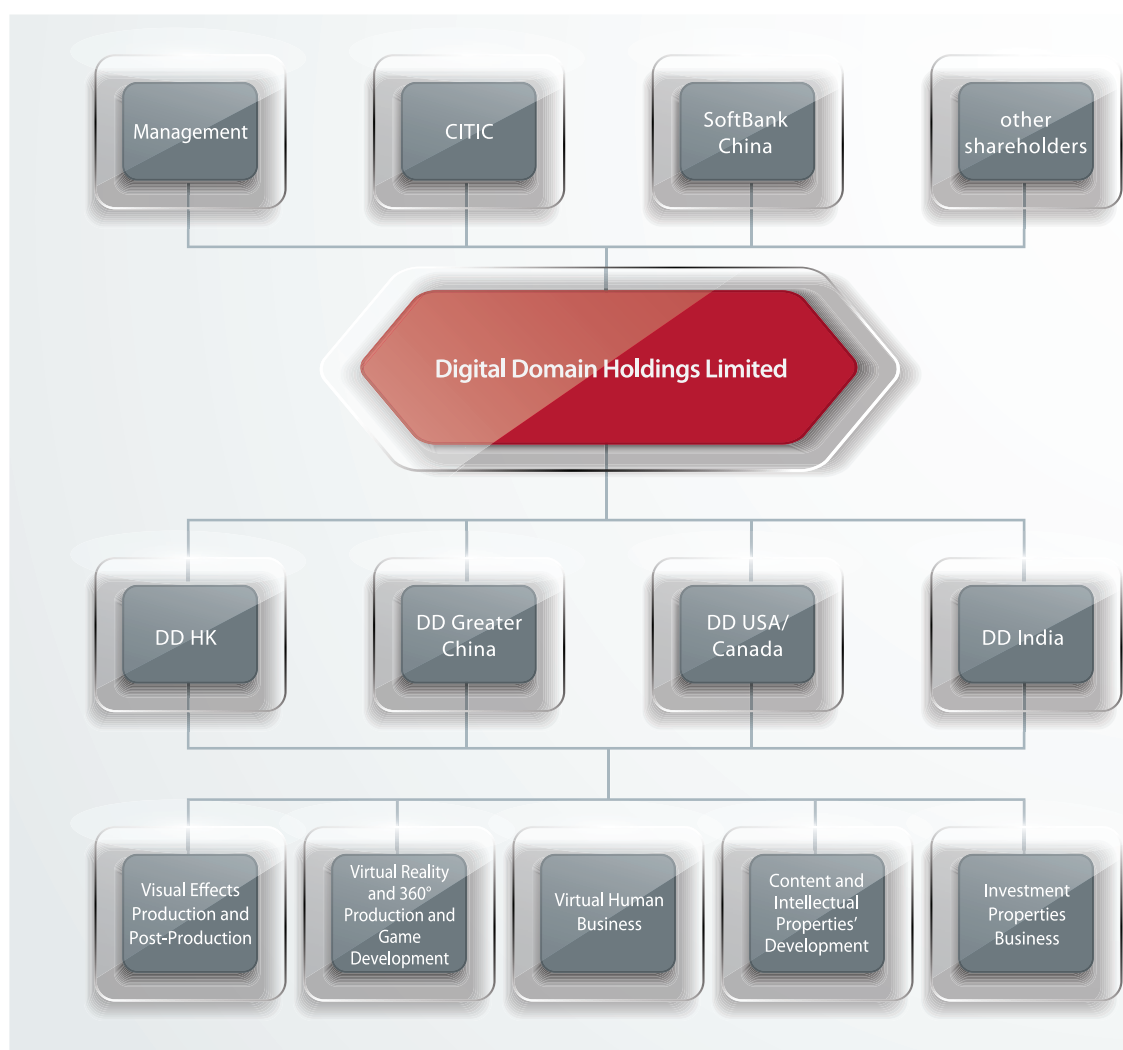
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# Digital Domain creates transportive experiences that entertain, inform and inspire.

The company is a pioneer in many fields, including visual effects, livestreaming landmark events in 360° virtual reality, building situational awareness applications, creating “virtual humans” for use in films and live events, and developing interactive content. A creative force in visual effects and media applications, Digital Domain and its predecessor entities have brought artistry and technology to hundreds of motion pictures, commercials, video games, music videos and virtual reality experiences. Staff artists have won more than 100 major awards, including Academy Awards, Clio, BAFTA awards and Cannes Lions.

Digital Domain has offices in Los Angeles, New York, Portland, Dallas, Vancouver, London, Hyderabad, Beijing, Shanghai, Shenzhen, Taipei and Hong Kong. The Following is a simplified chart of major businesses of the Group.



Note: For details and full names of these businesses/projects/companies, please refer to “Chief Executive Officer’s Review” section of this report on pages 6 to 33.

# CHAIRMAN'S STATEMENT

“ With our artistry, our business acumen and our advanced technology, Digital Domain is playing a leading role in the rapidly evolving media and entertainment industry. ”

For example, we continue to set the course for broad consumer adoption of virtual reality entertainment. In the last year we livestreamed many significant global events in 360 degree VR—from the world's largest international sports competition in Rio, Brazil, to the Nobel Peace Prize Concert in Oslo, Norway. Our livestream of the historic Faye Wong Moments concert in Shanghai raised the bar for paid attendance of this medium. More than 100,000 people viewed the online VR event, which enhanced the livestream with computer generated imagery—another industry first from Digital Domain.

It's this brand of engaging content that will not only drive more consumers to purchase VR devices, but also compel them to use those devices on a daily basis. With this in mind, we are introducing our first original

virtual reality series, *The Monkey King*, an epic fantasy that shares the story of the mythological Chinese character in a lush, immersive environment. We will introduce several more original experiences in the months ahead, as we see VR content production as a tremendous opportunity for us to apply our visual artistry, our technology and our capacity for storytelling.

Of course, we also continue to enjoy success with our award-winning visual effects for films, television, commercials and games. Many of the year's biggest and most visually dazzling blockbusters showcase our work—including *“Deadpool,” “Independence Day,” “X-Men Apocalypse”* and *“The Jungle Book.”* Film studios and advertising agencies continue to call on Digital Domain for their most

challenging visual effects. Our technology teams were recognized with a Scientific and Technical Award from the Academy of Motion Picture Arts and Sciences—adding to our impressive collection of major awards.

In closing, I would like to thank our clients for their support, our investors for their faith in our vision, and our teams for their ongoing pursuit of excellence.

**Peter CHOU**  
*Chairman of the Board*

Hong Kong, 30 March 2017



# CHIEF EXECUTIVE OFFICER'S REVIEW

## Financial and Business Review

For the year ended 31 December 2016, the Group achieved a revenue of HK\$763,501,000 (2015: HK\$527,341,000), showing a modest growth of approximately 45% compared to that of last year. The gross profit of the Group amounted to HK\$124,347,000 (2015: HK\$84,219,000) for the year ended 31 December 2016. The increase in turnover and gross profit were mainly attributable to the (i) post-production business that the Group acquired in April 2016 and (ii) visual effects and virtual reality businesses. As at 31 December 2016, the total assets of the Group amounted to HK\$1,919,803,000 (as at 31 December 2015: HK\$1,540,353,000). The loss attributable to the owners of the Company was HK\$479,377,000 (2015: HK\$156,298,000). The loss for the year ended 31 December 2016 was approximately HK\$498,380,000 (2015: HK\$179,507,000). The loss for the year was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
  - equity-settled share-based payments for the share options granted in 2014, 2015 and 2016 to the value of HK\$81,147,000 (2015: HK\$37,553,000);
  - amortisation and depreciation expenses to the value of HK\$48,001,000 (2015: HK\$52,760,000); and
  - imputed interest expenses for the convertible notes and a promissory note to the value of HK\$41,591,000 (2015: HK\$35,215,000).
- (ii) increased administrative and other projects expenses, comprising mainly legal and professional fees (including those incurred in relation to the acquisitions, collaborations and business development in the Greater China region, business development in India and investor/public relations);
- (iii) content development and research and development costs incurred during the year on virtual reality content and games, 360° cameras and virtual human's interactive function being expensed instead of capitalised after the due consideration and in an abundance of prudence; and
- (iv) operating losses from the media entertainment segment.



## Media Entertainment Segment

During the year under review, this segment recorded a revenue of approximately HK\$755,442,000 (2015: HK\$521,781,000). The revenue from this segment accounted for approximately 99% of the Group's revenue for the year. This segment incurred a loss of approximately HK\$163,650,000 (2015: HK\$78,067,000). The loss included the content development and research and development costs incurred during the year on virtual reality content and games, 360° and virtual human's interactive function mentioned above. The adjusted segment loss, taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK\$117,687,000 (2015: HK\$27,660,000).



**Mr. SEAH Ang, Daniel**  
*Chief Executive Officer and Executive Director*



# CHIEF EXECUTIVE OFFICER'S REVIEW



1. Independence Day: Resurgence
2. Deadpool
3. Black Sails
4. Kenzo
5. Nissan
6. Red Robin
7. Pokemon "Train On"
8. Nike

## Visual Effects ("VFX") Productions

This business unit primarily provides VFX production services for major motion picture studios, advertisers and games. Since 1 January 2016, the artists of Digital Domain 3.0, Inc. ("DD3I", a subsidiary of the Company) have provided VFX production services for the following feature films: *Deadpool*, *X-Men: Apocalypse*, *Free State of Jones*, and *Independence Day: Resurgence*; HBO's *Game of Thrones*; and marketing campaigns for major brands including Intel, Nike, NBCUniversal, Kia, Nissan, Red Robin, Oakley, UFC, Kenzo, and the Pokemon 'Train On' Super Bowl commercial.

This year, the teams that worked on Digital Domain's facial performance-capture systems were presented with a Scientific and Technical Award (commonly known as an 'Oscar') by the Academy of Motion Pictures Arts and Sciences. Additionally, Digital Domain teams were the recipients of two awards from the Visual Effects Society for their work on the motion picture *Jungle Book* and the television series *Black Sails*.

In March 2017, the Disney film *Beauty and the Beast* was released in theatres, showcasing additional VFX work by Digital Domain.



## Acquisition of the remaining 30% of VFX Productions Group

On 27 April 2016, the Company and DD Holdings US, LLC (“DDH-US”), an indirect wholly-owned subsidiary of the Company, entered into a membership interest purchase agreement (“SPA”) with Prime Focus Limited (“Prime Focus”) and Digital Domain-Reliance, LLC (“DD-R”), an indirect subsidiary 70% owned by the Company. Pursuant to the SPA, Prime Focus conditionally agreed to procure the subsidiary that owned the remaining 30% of DD-R (the “Sale Interest”) to sell and DDH-US conditionally agreed to purchase the Sale Interest at the consideration of US\$30 million (equivalent to approximately HK\$232,500,000) which was settled by the issue and allotment of 390,100,671 Company’s shares to De-fi Media Limited (“De-fi Media”), a wholly-owned subsidiary of Prime Focus, at the issue price of HK\$0.596 per share.

DD-R is an investment holding company and its investment is the equity interest in the DD3I group which consists of DD3I, Digital Domain Productions 3.0 (BC), Ltd. and Mothership Media, Inc.

As Prime Focus indirectly owned the Sale Interest, it was a substantial shareholder of DD-R, being a non-wholly owned subsidiary of the Company.

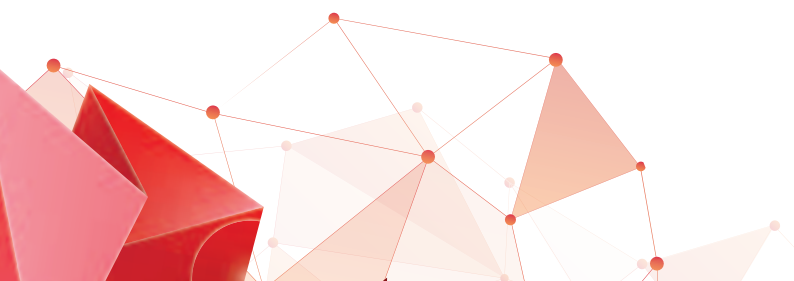
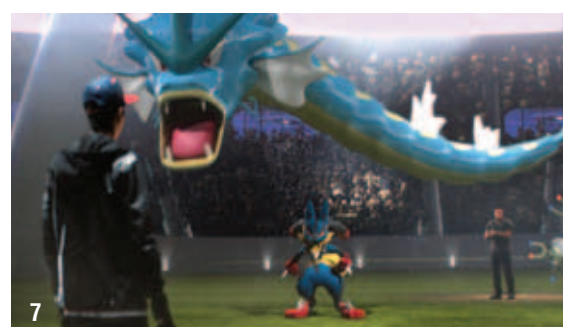
Therefore, Prime Focus was defined as “a connected person at the subsidiary level” of the Company, according to the Listing Rules. Therefore the issue and allotment of Company shares to Prime Focus or its designated subsidiary constituted a non-exempt connected transaction was subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14A of the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the acquisition exceeded 25% but was less than 100%, the acquisition constituted a major transaction under Chapter 14 of the Listing Rules and was therefore subject to reporting, announcement, circular and Shareholders’ approval requirements.

An independent board committee was established to make recommendations to the independent shareholders regarding the SPA and associated transactions. Hercules Capital Limited was appointed as the independent financial adviser to advise the independent board committee and the independent shareholders on this issue. A circular containing, among other matters, further details of the acquisition, an accountants report on DD-R and its subsidiaries, a valuation report, a letter of advice from the

independent financial adviser and a notice to convene a special general meeting (“SGM”) was despatched to the shareholders on 13 June 2016.

The acquisition was approved by the shareholders at the SGM held on 29 June 2016. The completion of the acquisition took place on 30 June 2016 and 390,100,671 Company’s shares were issued to De-fi Media in accordance with the SPA. As a result, DD-R has become an indirect wholly-owned subsidiary of the Company.

For details, please refer to the Company’s announcements dated 27 April 2016, 29 June 2016 and 30 June 2016, and the circular dated 13 June 2016.



# CHIEF EXECUTIVE OFFICER'S REVIEW



1



2

## Virtual Reality and 360° Video Production

In addition to VFX productions, this segment includes businesses offering virtual reality ("VR") technology services using 360° digital capture technology and computer graphics ("CG").

Digital Domain offers a variety of products and services in the emerging VR market. The company has developed proprietary cameras and software for capturing 360° video footage. Digital Domain teams use their technology to produce 360° VR experiences in real time and for video on demand ("VOD"). In addition to having its own app for hosting VR content, Digital Domain technical teams also create custom VR apps for clients.

Here follows a timeline of some of Digital Domain's more notable VR accomplishments in 2016.

## January

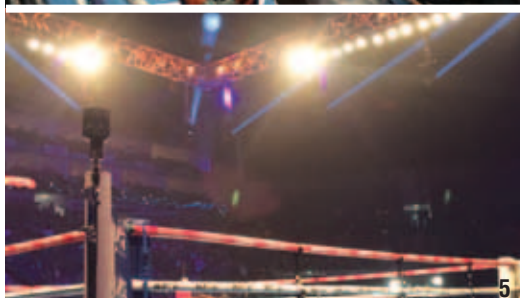
- Produced the first-ever, multi-camera, live 360° broadcast of a professional boxing match, *Hayemaker 360*, featuring David “The Hayemaker” Haye and Mark “The Dominator” de Mori.
- Joined forces with CTi TV and Gin Star Entertainment Co., Ltd., to produce a 360° VR version of “康熙來了” (“*Kangxi Lai Le*”), an iconic TV show in Taiwan.

## February

- Worked with Samsung to produce a closed circuit, multi-camera 360° experience of the NBA All-Star Weekend in Toronto, Canada, including the Slam Dunk Contest, Three-Point Shootout, Rookie Game and All-Star Game.
- Partnered with ABC News program Good Morning America to produce “*GMA on Safari*” from Tanzania, Africa. This was the first-ever network television event that was simultaneously broadcast live in 360°.

## March

- Teamed with CBS Sports Network to produce *Road to March Madness* which shared the highly popular NCAA College Basketball Tournament in 360° VOD.
- Partnered with ABC Television to produce a 360° series for popular TV show *Nashville*, enabling viewers to immerse themselves in the experience of performing music on stage, alongside the show’s main characters.



1. 360° Camera – Kronos
2. 360° Camera – Zeus
- 3 to 5. Boxing match *Hayemaker 360*
6. *Kangxi Lai Le* – Mr. Kevin TSAI (right) and Miss Dee HSU (left)
7. *Kangxi Lai Le* VR experience

# CHIEF EXECUTIVE OFFICER'S REVIEW



## April

- Partnered with Disney to produce the “Radio Disney Music Awards” in 360°, the first-ever live red carpet show where the entire program was built around the VR experience.

## May

- Produced a dynamic 360° VOD experience for street fashion brands Undeafated and Nike, entitled “CourtVision”, featuring street basketball legend “Pat the Roc”.
- Produced part two of *Hayemaker 360* showcasing David Haye against Arnold “The Cobra” Gjergaj.
- Teamed with Warner Music Taiwan Limited to produce a music video of the highlights of Mr. Li Ronghao’s “An Ideal World” World Tour Concert, Beijing, in VR.

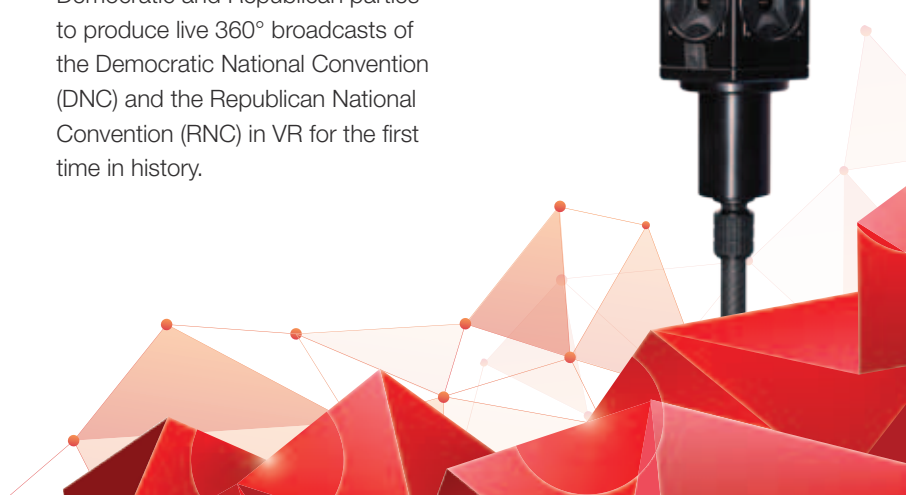


## June

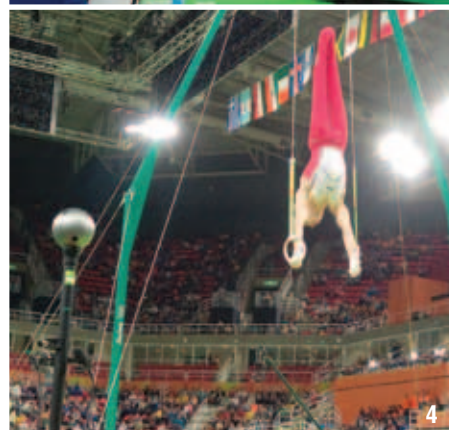
- Worked with children's cable television network Nickelodeon to bring a 360° VOD experience to their action adventure game show, *Legends of the Hidden Temple*.
  - Partnered with CTi TV to launch a 360° live news streaming application "Be PO TV," which brings audiences up close to breaking news stories, and livestreams EDA Rhino baseball games from Kaohsiung Chengcing Lake Baseball Stadium.
  - The 19th Shanghai International Film Festival (SIFF) "Genesis" – VR PARK was held at the Global Harbor shopping mall in Shanghai from 11 to 19 June 2016. The Company was invited to attend the exhibition. The Company presented several VR and Virtual Human productions to visitors during the exhibition, including *KangXi Lai Le* and a music video for the Hong Kong cartoon character "McDull".
  - Worked with WhaleyVR and VS MEDIA to produce the first 360° VR music video for China's famous singer Chris Lee, featuring the song, "Open Up."
1. 53rd Golden Horse Awards Ceremony (Taipei)
  2. LI Ronghao's "An Ideal World" concert (Beijing)
  3. Be PO TV news app with CTi TV (Taipei)
  4. 2016 Business Weekly Amazing Night (Taipei) – Virtual Human Mr. Daniel SEAH
  - 5 to 6. The 19th Shanghai International Film Festival: "Genesis" – VR Park
  7. VR MV of Ms. Chris LEE's song "Open Up"
  8. Democratic National Convention, US
  9. Republican National Convention, US

## July

- Teamed with the United States Democratic and Republican parties to produce live 360° broadcasts of the Democratic National Convention (DNC) and the Republican National Convention (RNC) in VR for the first time in history.



# CHIEF EXECUTIVE OFFICER'S REVIEW



## August

- Introduced a new 360° camera system, Zeus, which features total frame synchronisation from all 8 of its sensors, greater fully-stitched resolution and livestream resolution, and industry-leading video output, among other new capabilities.
- Produced a multi-camera, multi-platform, live 360° VR experience for a major, two-week, international sporting event in Rio de Janeiro, Brazil, as the official 360° VR partner. The production involved more than 30 cameras, was shared by 15 broadcast partners around the world and was made available via more than 40 apps developed by Digital Domain teams. In addition, Digital Domain teams created a series of 360° VR VOD stories entitled *Road to Rio*.
- Teamed up with World Surf League (WSL) to deliver immersive VR footage from stop number seven of eleven on the 2016 Billabong Pro Tahiti Samsung Galaxy Championship Tour.

## October

- Launched one of the most popular VR apps in Europe, the SkyVR app, built by Digital Domain teams on their leading VR platform.

## November

- Worked with NBCUniversal to produce a 360° livestream of the iconic Macy's Thanksgiving Day Parade. Pop-ups during the experience shared interesting facts about the parade and advertisements for sponsors.

- 1 to 4. An international sporting event in Rio de Janeiro, Brazil in August 2016
- 5 to 6. Nobel Peace Prize Concert, Norway
- 7 to 9. 360° livestream of the Faye's Moments Live 2016 Concert by Ms. Faye Wong (Shanghai)

## December

- The Group partnered with the Nobel Peace Prize Concert, Warner Brothers ITVP Norge AS and Telenor Group to produce a 360° livestream of the Nobel Peace Prize Concert, which was available via a downloadable app built by Digital Domain teams.
- Extended its 360° camera line with Kronos, which introduced new features for spherical video, a higher frame rate and improved rotational stabilisation of video, even during live broadcasts.
- Unveiled new military mapping software to aid in the production of 360° capture for situational awareness and training purposes.
- Teamed with China's leading online video streaming platform, Tencent Video, and acclaimed Internet technology company, WhaleyVR, to produce a 360° livestream of the "Faye's Moments Live 2016" concert, featuring popular singer Faye Wong, enhanced by CG visual effects. A global audience of more than 100,000 people participated in this pay-to-view experience.



### Between January and March 2017, Digital Domain's VR and 360° camera team executed several additional livestream broadcasts, including:

<b>The Golden Globe Awards Red Carpet</b>	Exclusive 360° footage of popular actors and entertainment personalities as they entered the awards ceremony.
<b>2017 Presidential Inauguration</b>	This curated livestream of the 58th presidential inauguration of the United States of America ("US") was the first-ever immersive 360° broadcast of this globally significant event.
<b>Grammy Award Red Carpet</b>	Giving audiences the opportunity to see their favourite music stars at the red carpet entrance to the acclaimed music industry awards.
<b>Academy Awards Red Carpet</b>	Showcasing the most famous, talented and glamorous stars of the film industry as they display the latest fashions on their way into the prestigious awards ceremony.





# CHIEF EXECUTIVE OFFICER'S REVIEW



## 2017 International Consumer Electronics Show (“CES”)

During CES 2017 in Las Vegas, the Company showed a sneak preview of its upcoming original VR series, *Monkey King*. The studio's first cinematic VR experience is an epic fantasy starring the mythological Chinese character, set in a lush 360° environment. The *Monkey King* teaser was displayed in the HTC VIVE booth and on untethered mobile VR headsets powered by Qualcomm's processors in the Qualcomm Technologies booth.

## Addition of talents and expansion of patents

During the year under review, the Company established Digital Domain Interactive, LLC (“DDI”), an indirect wholly-owned subsidiary of the Company. Building on the VR capacity of IM360, the new division will be dedicated to the development and production of VR content. The key personnel primarily came from a game development company, Digital Funk Machine, founded by games industry veteran, Jeremy Airey. The establishment of DDI marks another milestone in the Company’s endeavours in content creation and VR.

On 28 October 2016, the Company announced that it had entered into an agreement with Nevada-based Micoy Corporation (“Micoy”) in the US to acquire from the latter all its intellectual property covering a portfolio

of patents in relation to its interactive entertainment technology business and related trademarks at an aggregate consideration of US\$5,500,000. The intellectual property includes, but is not limited to, stereoscopic panoramic image capture, spherical stereoscopic photography, multi-dimensional imaging, image capture processing and display. Of the aggregate consideration, US\$1,000,000 was paid in cash by utilising the Group’s available internal resources. The remaining US\$4,500,000 will be satisfied by the issue and allotment of 57,172,131 Company shares at an issue price of HK\$0.61 per share in four tranches within a three-year period. These shares represent approximately 0.46% of the number of shares in issue on 28 October 2016 (the date of announcement) and approximately

0.46% of the total number of shares in issue as enlarged by the issue of the shares as at the completion date. The shares were and will be issued under the general mandate and rank pari passu in all respects with the existing shares in issue. As all the applicable percentage ratios in respect of the acquisition are less than 5% and the agreement provides that the partial consideration will be satisfied by the issue of shares, the acquisition constitutes a share transaction on the part of the Company under Chapter 14 of the Listing Rules.

The acquisition was completed on 9 December 2016. For details, please refer to the Company’s announcements dated 28 October 2016 and 9 December 2016.



1. 2017 International Consumer Electronics Show (CES) VR experiences
2. Mr. Peter CHOU (right) and Mr. Paul E. JACOBS, Executive Chairman of Qualcomm (left)
3. Monkey King teaser was showcased in Qualcomm’s booth
4. Digital Domain’s staff presented in in 2017 CES

# CHIEF EXECUTIVE OFFICER'S REVIEW

## Acquisition of a Group of Companies Engaged in Post Production Work Business

On 22 January 2016 (after trading hours), DDPO (BVI) Company Limited (the "Purchaser"), an indirect wholly-owned subsidiary of the Company, entered into the following sale and purchase agreements ("SPA"):

- A SPA with Magic Well Holdings Limited, an indirect wholly-owned subsidiary of See Corporation Limited (stock code: 491) whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), for the purchase of 60% of the issued share capital of Lucrative Skill Holdings Limited ("Lucrative Skill") at a consideration of HK\$95 million, with HK\$30 million payable in cash and HK\$65 million by the issuance of a promissory note at completion; and
- A SPA with Mr Nicholas Tse ("Mr Tse") for the purchase of 25% of the issued share capital of Lucrative Skill at a consideration of HK\$40 million, to be satisfied by the allotment and issue of 87,051,143 Company's shares at the issue price of HK\$0.4595 per share ("Consideration Shares") at completion.

On completion of the acquisition, the Purchaser and Mr Tse would own 85% and 15% of the equity interest in Lucrative Skill respectively, and they entered into a shareholders' agreement to regulate their relationship as shareholders of Lucrative Skill.

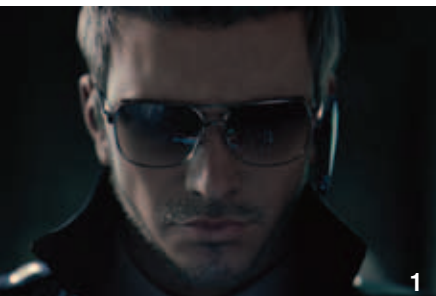
The 87,051,143 Consideration Shares represented approximately 0.81% of the total number of Company shares in issue at that time, and approximately 0.81% of the total number of Company shares in issue as enlarged by the issue of the Consideration

Shares at that time. The Consideration Shares, when allotted and issued, would rank pari passu in all respects with the Company shares then in issue. The issue price for the Consideration Shares of HK\$0.4595 represents 12.07% premium on the closing price of HK\$0.41 per share as quoted on the Stock Exchange on 22 January 2016 (the date of the announcement); and 8.37% premium on the average closing price of HK\$0.424 per share as quoted on the Stock Exchange for the five consecutive trading days prior to the date of the announcement. The Consideration Shares were to be issued under the Company's general mandate.

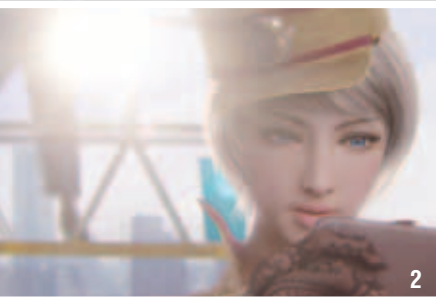
Lucrative Skill and its subsidiary, including Post Production Office Limited, (the "Target Group") is principally engaged in conducting post production work on advertisements, feature films, TV programmes, music videos, internet and mobile application content, and visual matters for corporate events. The Target Group has set up a comprehensive VFX and CG production house in Beijing and Shanghai for large-budget VFX-intensive movies. The Company believes that by using the Target Group's footprint in the China, the acquisition can help expand the Group's VFX business in the China and bring synergy to the Group's existing VFX business based in North America by way of more efficient deployment of resources and talents.

The acquisition was completed on 14 April 2016. For details, please refer to the Company's announcements dated 22 January 2016 and 14 April 2016.

- 1 to 2. Crossfire  
3. Street Fighter



1



2



3



4



6



5



7

4. Cook up a Storm
5. I Love that Crazy Little Thing
6. Journey to the West: The Demons Strike Back
7. For A Few Bullets and The Whisper

## Businesses in 2016

Through the investment in Lucrative Skill - the holding company of the Post Production Office group of companies (collectively rebranded as “DDPO” upon completion of the acquisition in April 2016) - the Group made significant progress in establishing a strong operating platform in China with offices located in Beijing and Shanghai.

DDPO primarily provides post-production services for commercials, TV series, and feature films in China, including offline and online editing, compositing, colour grading, animation, CG and VFX production. It also provides production services for the making of commercials, VR/360° videos and feature films.

In 2016, DDPO continued to provide post-production services for various high-profile commercials profiling leading brands like Tencent, Dell, BMW, Mercedes-Benz, Volkswagen,

Samsung, TCL, Canon, China Mobile, Coca-Cola, P&G, Mengniu Dairy, Nestle, Alibaba and China Central Television (CCTV).

Feature film projects included the star-studded *I Love That Crazy Little Thing*, *For A Few Bullets*, *The Whisper*, *Cook up a Storm* and *Journey to the West: The Demons Strike Back*. *Cook up a Storm* and *Journey to the West: The Demons Strike Back* were two of the most anticipated feature films released during the 2017 Chinese New Year festive season, the biggest box office schedule in the calendar year.

Since April 2016, this business unit has expanded into VR/360° production for commercials, MTV, concerts, and feature film trailers for online media broadcasts. The key production projects it conducted in 2016 include: a *Crossfire* (a popular mobile game from Tencent) VR/360° commercial video

that has attracted high viewerships on Eyeptizer and Youku; VR/360° music video for TFBoys (a popular local teenage band); VR/360° trailer for a feature film called *Binding Souls*; and a VR/360° live broadcast from Tencent VR Platform and Whaley online platform for Faye Wong's (a legendary female singer in Asia) one show concert, which attracted a live online audience that peaked at over 100,000 concurrent viewers. In 2016, DDPO also provided production services for the making of the *Lao Heng He* commercial and *Cook up a Storm*.

There were further CG and visual effect-intensive commercial projects in 2016 such as *Crossfire* and *Street Fighter* (a commercial for Dell). DDPO also provided creative and VFX production services for the Faye Wong Concert.



# CHIEF EXECUTIVE OFFICER'S REVIEW



## Virtual Human Business

In 2014, Digital Domain Media (HK) Limited (“DDM”), an indirect wholly-owned subsidiary of the Company, and TNT Production Limited (“TNT”) entered into a co-operation framework agreement for the formation of a joint venture company to engage in the production and utilisation of 3D hologram technology relating to the music works of the deceased Taiwanese pop diva, Miss Teresa Teng, subject to the conditions precedent contained in the framework agreement. The joint venture company, DD & TT Company Limited (“DDTT”), was formed in 2015. DDTT is 60% owned by DDM and 40% owned by TNT. DDTT’s business focuses on the production of a series of 3D holograms of Miss Teng, targeting audiences in Chinese communities around the world. The latest 3D hologram technology can be widely applied in the entertainment business, including, but not limited to, concerts, albums, movies and advertisements.

A series of Virtual Human Miss Teresa Teng concerts has been planned. Four concerts were held in Shanghai, Wuhan, Shenzhen and Xiamen in 2016 with more planned for other major cities in China in 2017. The Company is also negotiating with several business partners to hold concerts in other countries, such as Japan, Malaysia, and Indonesia, and develop other types of projects in China. DD3I used their expertise in virtual image reconstruction techniques to reproduce the glamour of the Taiwanese pop diva on stage.

In May 2016, the Company announced a strategic partnership with the family of the late legendary Hong Kong pop singer Miss Anita Mui, for the exclusive use of the intellectual property rights of her works in order to reproduce her work in Virtual Human form. Incorporating the Group’s advanced 3D Virtual Human technology, audiences in the Greater China region, Singapore, Malaysia, Thailand, Japan, South Korea and indeed, around the world, will be able to relive her enchanting performances via Virtual Human concerts, advertisements, movies and films. The strategic cooperation with the family of Miss Mui once again marks the successful production and utilisation of the Company’s Virtual Human technology following its first project to revive the highly popular diva Miss Teng in 2013.

## Film Co-production

The film Ender's Game was released in November 2013 in the US. The film continues to generate income from non-box office channels both within and outside the US. Ender's Game is based on a best-selling, award winning novel. It is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, 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 / DD3I production. The profit sharing from DD3I's participation rights in Ender's Game was recognised as "Other income and gains" in the Group's consolidated income statement.

## Property Investment Segment

The Group owns two shops on the ground floor and ten car parking spaces at the Citicorp Centre, Causeway Bay, Hong Kong. All shops and most of the car parking spaces were leased out in the year under review. The property investment portfolio of this segment continues to contribute a steady income for the Group.

For the year ended 31 December 2016, the revenue of this segment increased by approximately 45% to HK\$8,059,000 (2015: HK\$5,560,000). The increase was caused by the change of a tenant in late 2015. The revenue accounted for approximately 1% of the Group's overall revenue during the year under review. The profit of this segment increased during the year under review, amounting to HK\$6,974,000 (2015: HK\$4,261,000).

1. Virtual Human Miss Teresa Teng
2. Citicorp Centre

## INTERESTS IN JOINT VENTURES

### Joint venture with Tencent

During the year under review, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on the Stock Exchange (stock code: 700)) was HK\$134,000. The co-operation started in September 2013. The joint venture has not conducted any material business activity since its incorporation. Both parties agreed to use a new business model to enhance the co-operation between the two parties, e.g. the 360° livestream of the Faye's Moments Live 2016 concert. Therefore, both parties agreed to dissolve the joint venture and the dissolution of the joint venture will be completed in 2017.

### Joint venture with POW!

In 2015, an indirect wholly-owned subsidiary of the Company and POW! Entertainment, LLC ("POW!", a wholly-owned subsidiary of POW! Entertainment, Inc. whose common stock is quoted on the OTCQB Market in the US) agreed a term sheet for the formation of a US joint venture company focused on the development, production, and distribution of projects based on certain characters and other content developed by POW! or by the two parties jointly for distribution throughout the world. The US joint venture company, DD-POW US, LLC ("DDPOW"), was formed in 2015. DDPOW is 75% owned by the Group and 25% owned by POW!. During the year under review, the joint venture has not conducted any material business activities other than those relating to the development of characters.



# CHIEF EXECUTIVE OFFICER'S REVIEW



## Corporate Events

### An Event on 25 January 2016 – “It’s VeRy Big. It’s VeRy Near”

On 22 January 2016, the Company announced the proposed acquisition of 85% equity interest in Lucrative Skill Holdings Limited, the parent company of Post Production Office Limited and its subsidiaries (“PO Group”), a group of companies established in 2003 by an international entertainment celebrity, Mr Tse. By introducing the latest dynamic streaming technologies from Hollywood, the two companies will jointly tap into the media, entertainment and technology fields, covering VFX, CG, VR, 360° panorama video recording, and Virtual Humans in Greater China, to gain a foothold in the region for the Group. The PO Group’s advanced post-production technology has earned great acclaim

in the advertising sector and helped build a core client portfolio, including Apple Inc., HSBC, Standard Chartered Bank, Cheung Kong Holdings, Canon, Sony, Coca-Cola, McDonald’s, Mercedes Benz, BMW, Panasonic and other international brands and enterprises.

The Company announced the encouraging development at a toasting ceremony at JW Marriott Hotel Hong Kong. Alongside the ceremony, an exhibition themed “It’s VeRy Big. It’s VeRy Near” displaying the newest products, ranging from VR and cinematographic VFX to CG technology, was set up for journalists to have a first-hand look at the devices. The event saw a huge turnout of interested journalists, who eagerly tested out the latest VR, VFX and CG gadgets.

1. Event on 25 January 2016
2. Event on 19 July 2016 – Mr. Nicholas TSE (left), Mr. Peter CHOU (middle), Mr. Daniel SEAH (right)
- 3 to 4. Event on 19 July 2016 at Water Cube, Beijing
5. Event on 25 January 2016 – Mr. Daniel SEAH (left) and Mr. Nicholas TSE (right)

## An Event on 19 July 2016 – “Seeing the Next Big Bang”

The Company held its first Global and Greater China Strategy Conference, “Seeing the Next Big Bang” at the Beijing National Aquatics Centre (better known as the “Water Cube”) on 19 July 2016. The management team’s announcements were followed by the presentation of an array of interactive and VR experiences at the venue. Hundreds of press and guests attended the event which showcased Digital Domain’s groundbreaking accomplishments over the years. The display demonstrated the Group’s forte in futuristic technology with more than a dozen new VR experiences viewable on the Gear VR and Vive platforms. The guests were immersed in an evening celebrating technology, entertainment and the future of content generation. Several co-operations and partnerships with industry leading companies,

such as Youku and DreamWorks Animation were highlighted at the event.

The Company’s new and innovative Zeus super high-definition 360° VR camera was presented at the event. A driving force in the fast-growing VR market, the Group’s new flagship technology is a precursor to a number of new products in visual effects, immersive experiences and interactive content to be unveiled in the near future. Zeus is a premium camera boasting the ability to record footage at a resolution of more than 8k at 10-bit RAW output, capturing a high frame rate of 75 FPS. The camera is also capable of seamless 360° livestreaming at up to 4k resolution. Zeus was used to livestream a number of high-profile sporting events, including the world’s largest international sport event held in August 2016 in Brazil.





# CHIEF EXECUTIVE OFFICER'S REVIEW



## EVENTS AFTER THE REPORTING PERIOD

### Conversion of Convertible Notes for the amount of HK\$190,512,000

The Company was notified by CITIC Limited ("CITIC"), SBCVC Digital Fund, L.P. ("SoftBank China"), and Zheng Hao Investments Limited ("Zheng Hao") that on 30 September 2016, CITIC, SoftBank China and Zheng Hao acquired convertible notes for the principal amounts of HK\$84,000,000, HK\$84,000,000 and HK\$22,512,000 respectively, from Harmony Energy Limited (a holder of convertible notes for the principal amount of HK\$190,512,000).

On 27 January 2017, the Company received conversion notices from the above mentioned three holders of convertible notes to exercise the conversion rights attached to outstanding convertible notes for the aggregate principal amount of HK\$190,512,000 into the Company's shares. An aggregate of 4,762,800,000 shares, representing approximately 37.74% of the issued share capital of the Company as at 27 January 2017 and approximately 27.40% of the enlarged issued share capital of the Company immediately after the conversion, were issued to the holders of the convertible notes on 7 February 2017.

### Conversion of Convertible Notes for the amount of HK\$201,488,000

The Company received a conversion notice from Jade Link Holdings Limited ("Jade Link"), a holder of convertible notes,

to exercise the conversion rights attached to outstanding convertible notes for the aggregate principal amount of HK\$201,488,000 into the Company's shares. An aggregate of 5,037,200,000 shares, representing approximately 28.98% of the issued share capital of the Company as at 17 March 2017 and approximately 22.47% of the enlarged issued share capital of the Company immediately after the conversion, was issued to Jade Link on 22 March 2017.

For details, please refer to the Company's announcements dated 28 March 2013, 4 July 2013, 27 November 2014, 30 September 2016, 27 January 2017 and 17 March 2017, and circulars dated 14 June 2013 and 9 December 2014. There were no outstanding convertible notes immediately after the above conversions.

### Grant of share options to an employee

On 13 February 2017, 300,000,000 share options ("Options") were granted to an employee of the Group (the "Grantee"), subject to the acceptance of the Grantee and the approval by the shareholders of the Company, under the share option scheme of the Company. The Options will entitle the Grantee to subscribe for up to a total of 300,000,000 new shares, exceeding 1% of all shares of the Company in issue as at 13 February 2017. Accordingly, the grant of the Options to the Grantee is conditional upon the approval by the shareholders of the Company under the Listing Rules.

# CAPITAL

## Shares

On 22 January 2016, the Company announced the acquisition of 85% of Lucrative Skill. The acquisition was completed on 14 April 2016 and 87,051,143 Company's shares were issued to Mr Tse. For details, please refer to the Company's announcements dated 22 January 2016 and 14 April 2016.

On 27 April 2016, the Company announced the acquisition of the remaining 30% of DD-R. The acquisition was completed on 30 June 2016 and 390,100,671 Company's shares were issued to De-fi Media. For details, please refer to the Company's announcements dated 27 April 2016, 29 June 2016 and 30 June 2016, and the circular dated 13 June 2016.

On 30 May 2016, the Company and Head & Shoulders Securities Limited (the "Placing Agent") entered into a placing agreement pursuant to which the Company appointed the Placing Agent in relation to the placing of the placing shares. Pursuant to the placing agreement, the Company conditionally agreed to place, through the Placing Agent, on a best effort basis, 700,000,000 placing shares to not less than six placees at the placing price of HK\$0.50 per placing share. The placing shares represented approximately 6.49% of the Company's existing issued share capital as at 30 May 2016 and approximately 6.09% of the Company's issued share capital as enlarged by the placing (assuming that there would be no change in the Company's issued share capital between 30 May 2016 and the completion of the share placing, save for the issue of the placing shares).

Completion of the above-mentioned placing took place on 10 June 2016, whereby a total of 700,000,000 placing shares were placed by the Placing Agent to not less than six placees at the placing price of HK\$0.50 per share. The placing shares were allotted and issued pursuant to the general mandate.

The gross proceeds of the share placing were approximately HK\$350 million. The net proceeds of the share placing were approximately HK\$344.61 million and are intended for the media entertainment segment and as general working capital for the Group. For details, please refer to the Company's announcements dated 30 May 2016 and 10 June 2016.

Four subscription agreements were entered into by the Company with each of CITIC, SoftBank China, Munsun VR Fund LP ("Munsun") and Paul E. Jacobs Trust ("Paul Jacobs") dated 30 September 2016, 2 October 2016 and 18 October 2016 respectively. These four subscriptions were completed on 28 October 2016. An aggregate of 615,454,546 subscription shares were issued and allotted by the Company, of which 181,818,182 subscription shares were issued to CITIC, 181,818,182 subscription shares were issued to SoftBank China, 181,818,182 subscription shares were issued to Munsun and 70,000,000 subscription shares were issued to Paul Jacobs, at the subscription price of HK\$0.55 per subscription share. For details, please refer to the Company's announcements dated 30 September 2016, 3 October 2016, 18 October 2016 and 28 October 2016.

On 3 October 2016, the Company and the Placing Agent entered into a placing agreement pursuant to which the Company appointed the Placing Agent in relation to the placing of the placing shares. Pursuant to the placing agreement, the Company conditionally agreed to place, through the Placing Agent, on a best effort basis, 380,000,000 placing shares to not less than six placees at the placing price of HK\$0.55 per placing share. The placing shares represented approximately 3.2% of the Company's existing issued share capital as at 3 October 2016 and approximately 3.1% of the Company's issued share capital as enlarged by the placing (assuming that there would be

no change in the Company's issued share capital between 3 October 2016 and the completion of the share placing, save for the issue of the placing shares). On 18 October 2016, the Company and the Placing Agent entered into a termination agreement pursuant to which the placing agreement dated 3 October 2016 was terminated with immediate effect. For details, please refer to the Company's announcements dated 3 October 2016 and 18 October 2016.

On 28 October 2016, the Company announced that the Company entered into an agreement with Nevada-based Micoy in the US to acquire from the latter all its intellectual property covering a portfolio of patents in relation to its interactive entertainment technology business and related trademarks at an aggregate consideration of US\$5,500,000. US\$4,500,000 of the aggregate consideration will be satisfied by the issue and allotment of 57,172,131 Company shares at an issue price of HK\$0.61 per share in four tranches within a three-year period. For the first tranche, 19,057,377 shares were issued on the completion date (9 December 2016). For details, please refer to the Company's announcements dated 28 October 2016 and 9 December 2016.

On 30 December 2016, being the first anniversary of the closing date of the acquisition of further shareholding interests in Immersive Ventures Inc. ("Immersive"), the Company issued an aggregate of 106,474,573 shares (comprising 79,831,086 deferred consideration shares and 26,643,487 option consideration shares). As part settlement of the consideration for the acquisition, the Company issued an aggregate of 71,218,144 initial consideration shares and secured notes for an aggregate principal amount of US\$37,955,412 on 30 December 2015. Pursuant to the terms of the secured notes, the Company issued 79,831,086 deferred

# CHIEF EXECUTIVE OFFICER'S REVIEW

consideration shares on 30 December 2016 and will issue an aggregate of 151,108,833 deferred consideration shares over the next two years. In respect of the payment to 30 holders for forfeiture of their Immersive options, the Company issued 26,643,494 option consideration shares on 31 December 2015 and 26,643,487 option consideration shares on 30 December 2016, and will issue an aggregate of 53,286,955 option consideration shares over the next two years. The initial consideration shares, the deferred consideration shares and the option consideration shares were and will be issued at the issue price of HK\$0.554 (approximately US\$0.071) per share. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015, and 30 December 2016.

As at 31 December 2016, the total number of Company shares of HK\$0.01 each in issue was 12,618,695,716 shares. As at 22 March 2017, immediately after the conversion of all convertible notes, the total number of shares of HK\$0.01 each in issue was 22,418,695,716 shares.

## Share Options

On 28 May 2014, a total of 980,060,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new shares at an exercise price of HK\$0.098 per share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the year under review no share options were exercised. 36,920,000 share options were cancelled or lapsed during the year under review and 140,760,000 share options were cancelled or lapsed since the grant-date (28 May 2014).

On 6 May 2015, a total of 78,000,000 share options were granted under the

Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 78,000,000 new shares at an exercise price of HK\$1.32 per share. For details, please refer to the Company's announcement dated 6 May 2015. During the year under review no share options were exercised. 10,000 share options have been exercised since the grant-date (6 May 2015). 3,000,000 share options were cancelled or lapsed during the year under review and 3,000,000 share options were cancelled or lapsed since the grant-date (6 May 2015).

On 29 January 2016, a total of 379,500,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new shares at an exercise price of HK\$0.413 per share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016 respectively. During the year under review, no share option was exercised and 20,000,000 share options were cancelled or lapsed.

On 22 June 2016, a total of 100,000,000 share options were granted under the Company's share option scheme to the grantee. The share options entitle the grantee to subscribe for up to a total of 100,000,000 new shares at an exercise price of HK\$0.495 per share. For details, please refer to the Company's announcement dated 22 June 2016. During the year under review, no share options were exercised, cancelled or lapsed.

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new shares at an exercise

price of HK\$0.566 per share. For details, please refer to the Company's announcement dated 29 July 2016. During the year under review, no share options were exercised and 133,332 share options were cancelled or lapsed.

Details of the share option movements are set out in the paragraph headed "Share Option Scheme" below.

## Convertible Notes

The Company was notified by CITIC, SoftBank China and Zheng Hao that on 30 September 2016, CITIC, SoftBank China and Zheng Hao acquired convertible notes for the principal amounts of HK\$84,000,000, HK\$84,000,000 and HK\$22,512,000 respectively, from Harmony Energy Limited (a holder of convertible notes for the principal amount of HK\$190,512,000). For details, please refer to the Company's announcements dated 28 March 2013, 4 July 2013, 27 November 2014, and 30 September 2016, and circulars dated 14 June 2013 and 9 December 2014.

As at 31 December 2016, the aggregate outstanding principal amount of the convertible notes was HK\$392,000,000. Based on the initial conversion price of HK\$0.04 per conversion share, a number of 9,800,000,000 conversion shares would be allotted and issued if the conversion rights attached to the convertible notes were exercised in full. During the year under review, no convertible rights attached to the convertible notes were exercised.

For details of the conversion of all convertible notes for the total amount of HK\$392,000,000 after 31 December 2016, please refer to the paragraph headed "Events After The Reporting Period".

## Use of proceeds for equity fundraising activities

Date of announcement	Fundraising activity	Net proceeds raised	Proposed use of proceeds	Actual use of the net proceeds up to 31 December 2016
16 December 2015 and 28 December 2015	Placing of 560,000,000 Shares	Approximately HK\$235.34 million	(1) Media entertainment segment (2) General working capital for the Group	(1) Media entertainment segment: approximately HK\$195.81 million (2) General working capital (including but not limited to salary and rental): approximately HK\$39.53 million
30 May 2016 and 10 June 2016	Placing of 700,000,000 Shares	Approximately HK\$344.61 million	(1) Media entertainment segment (2) General working capital for the Group	(1) Media entertainment segment: approximately HK\$258.61 million (2) General working capital (including but not limited to salary and rental): approximately HK\$86 million
30 September 2016, 3 October 2016, 18 October 2016 and 28 October 2016	Subscription of an aggregate of 615,454,546 Shares	Approximately HK\$338.15 million	(1) Media entertainment segment (2) General working capital for the Group	(1) Media entertainment segment: approximately HK\$38.46 million (2) Un-utilised portion: approximately HK\$299.69 million
3 October 2016 and 18 October 2016	Placing of 380,000,000 Shares	Approximately HK\$206.73 million	(1) Media entertainment segment (2) General working capital for the Group	The placing agreement was terminated on 18 October 2016





# CHIEF EXECUTIVE OFFICER'S REVIEW

## Liquidity, Financial Resources, Charges on Group Assets and Gearing Ratio

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on a secured basis, non-bank loans on an unsecured basis and non-regular contributions (such as placement of shares, issuance of convertible notes or financing through shareholder loans) from shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

During the year under review, the Group had banking facilities in the form of instalment loans for a principal amount of approximately HK\$55,436,000, and a working capital loan for a principal amount of approximately HK\$6,542,000. These banking facilities were secured by (a) the Group's investment properties with an aggregate net book value of HK\$210,600,000 as at 31 December 2016, (b) future receipts from participation rights in the film *Ender's Game* and (c) equity interests in two indirect wholly-owned subsidiaries in the media entertainment segment (VFX production).

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group in the entertainment media segment, which was discontinued at the end of December 2010, obtained a banking facility amounting to HK\$6,000,000 from a bank in Hong Kong in 2009 which consisted of a 5-year instalment loan ("Five Year Loan"). This facility was granted under the Special Loan

Guarantee Scheme of the Government of the Hong Kong Special Administrative Region (the "Government"), pursuant to which the Government provided an 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary. On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the aforesaid subsidiary has been discontinued since the end of December 2010. The Five Year Loan has been fully classified as a current liability.

The Group had other loans of approximately HK\$104,618,000 as at 31 December 2016. Other loans include a loan of approximately HK\$27,065,000 which is denominated in United States dollars, is unsecured, interest-free and is not repayable within 13 months from December 2016. An indirect wholly-owned subsidiary also had a term loan facility of US\$10 million, with a guarantee provided by the Company. The subsidiary drew down the facility in December 2015 and the outstanding balance of this shareholder's loan as at 31 December 2016 was US\$10 million. This loan is denominated in United States dollars, is unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 36 months of the draw down date (i.e. 36 months from December 2015).

As at 31 December 2016, the obligations under finance leases which are denominated in United States dollars are fully settled. These obligations are for certain items of computer equipment and software (leased assets) and are secured by the lessor's charge over the leased assets. The average term for these obligations is 3 years. The interest rates underlying all obligations were fixed at the respective contract dates. All obligations were made on a fixed repayment basis and no arrangements were entered into for contingent rental payments.

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive. As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US\$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. ("DDVR"). As at 31 December 2016, the outstanding amount of the secured notes was US\$15,182,164. The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by

DDVR. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015 and 30 December 2016.

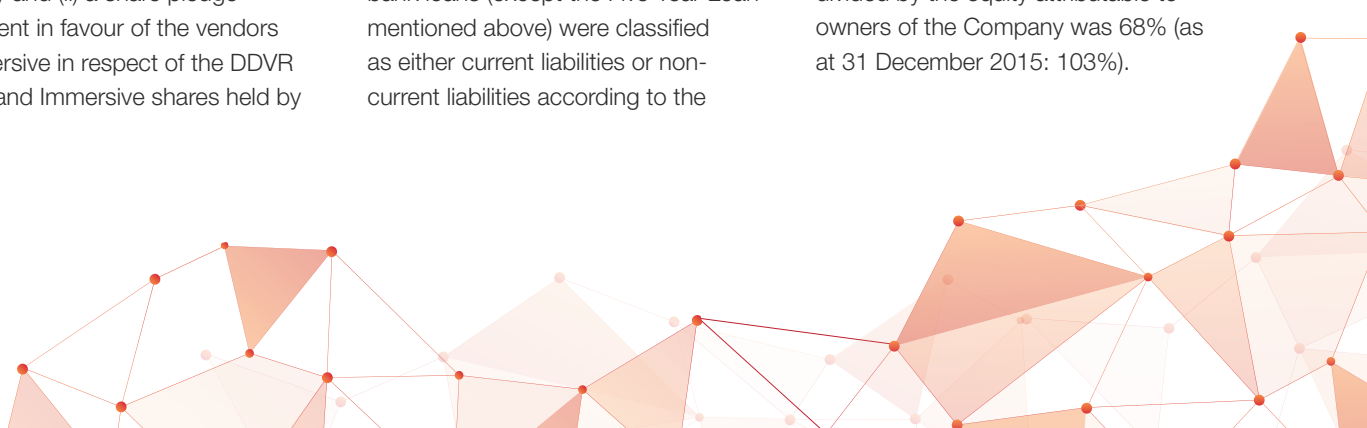
On 22 January 2016, the Company announced the acquisition of 85% of Lucrative Skill. As part-settlement of the consideration for the acquisition, a promissory note for the amount of HK\$65 million was issued. As at 31 December 2016, the outstanding amount of the promissory note was HK\$34 million. For details, please refer to the Company's announcements dated 22 January 2016 and 14 April 2016.

The total cash and bank balance as at 31 December 2016 was approximately HK\$465,838,000. As at 31 December 2016, the Group had banking facilities of approximately HK\$66,887,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK\$60,345,000 are denominated in Hong Kong dollars and loans amounting to approximately HK\$6,542,000 are denominated in United States dollars. During the year under review, all of the Group's bank loans (except the Five Year Loan mentioned above) were classified as either current liabilities or non-current liabilities according to the

agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (except the Five Year Loan which is fully classified as a current liability) as at 31 December 2016 was spread over a period of 16 years, with approximately 15% repayable within one year, 5% repayable between one and two years, 15% repayable between two and five years and 65% repayable after five years.

The Group's current assets were approximately HK\$613,250,000 while the current liabilities (included the convertible notes amounted to HK\$370,273,000 which were fully converted into Company's shares in January and March 2017, respectively) were approximately HK\$592,023,000 as at 31 December 2016. As at 31 December 2016, the Group's current ratio was 1.0 (as at 31 December 2015: 2.3).

As at 31 December 2016, the Group's gearing ratio, representing the Group's bank loans, other loans, convertible notes, obligations under finance leases, secured notes and promissory notes divided by the equity attributable to owners of the Company was 68% (as at 31 December 2015: 103%).





# CHIEF EXECUTIVE OFFICER'S REVIEW

## Exposure to Fluctuation in Exchange Rates and Related Hedges

The Group's revenue, expenses, assets and liabilities were denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Canadian dollars ("CAD") and Renminbi ("RMB"). The exchange rates for the USD against the HKD remained relatively stable during the year under review. As some of the financial statements for the business operations in North America and China were reported in CAD and RMB respectively, if the CAD or RMB were to depreciate relative to the HKD, the reported earnings for the Canadian portion or Chinese portion would decrease.

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, the development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

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## Contingent Liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities.

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## Employees of the Group and Remuneration Policy

As at 31 December 2016, the total headcount of the Group was 1,154. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

# Prospect

The Group will continue to leverage its extensive experience in the VFX industry and seek new projects and business opportunities despite a highly competitive market environment. Through the acquisition of Lucrative Skill (including Post Production Office Limited and its subsidiaries), the Group is proactively exploring opportunities to develop its Greater China market in the VFX, VR, CG, Virtual Human and immersive entertainment businesses. The Group has begun setting up its own subsidiary in India for VFX and VR productions. A production facility in Hyderabad, India, will support the Group's operations worldwide. The expansions in China and India will increase the working capacity of the Group and reduce production costs in the long run. The effectiveness and efficiency of these expansions will be visible in the coming years.

Building on the patents acquired from Immersive and Micoy, Digital Domain is uniquely positioned to play a key role in the VR content market. Following years of experience creating visual effects for Hollywood feature films, advertisements, and video games, in 2016 the company made advances in 360° livestreaming, producing virtual reality experiences like the recent Nobel Peace Prize Concert in Norway and the Faye Wong Moments Live concert in China. Thanks to the Company's new and innovative super high-definition 360° VR cameras, Zeus and Kronos, the Group is well positioned for further expansion in 360° shooting, livestreaming and VR business.

In addition to 360° shooting and livestreaming, the Group is developing cinematic VR series and games. Digital Domain's *Monkey King* episodic VR experience introduces a new chapter for supernatural simian Sun Wukong, aka the Monkey King, one of the most famous literary figures in Chinese mythology.

The Group is in discussion with new business partners regarding potential collaborations on feature films and TV series as well as variety shows and concerts for Virtual Human Miss Teresa Teng. The Group will continue to explore Virtual Human business opportunities by developing new technologies that will enhance the interactivity between Virtual Humans and their audience.

Following a rapid expansion of business operations and investment diversification, the Group will continue to seek opportunities for financing and collaboration with strategic partners (such as CITIC and SoftBank China during 2016), as well as recruitment of global talent in order to upgrade its shareholding and management structures.

Looking ahead, the Group will continue to leverage its strengths and strive to maximise the benefits for our valued customers, shareholders, investors and staff.

**SEAH Ang, Daniel**  
Chief Executive Officer

Hong Kong, 30 March 2017



# 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 2016, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

1. During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were twelve Board meetings held for addressing ad hoc issues. The Company also sought for the Board’s approval on the issues by circulating the written resolutions. The Board considered that sufficient meetings had been held during the year and business operation and development of the Group had been communicated on the Board;
2. 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”). Mr. Peter Chou has entered into a service agreement for a fixed term of 3 years and his appointment is terminable by either party by giving six months’ prior notice;
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; and
4. Due to other pre-arranged business commitments which must be attended to by Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors, they were not present at the special general meeting of the Company held on 29 June 2016.

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 2016.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. It has carried out an annual review of the existing implemented systems and procedures, including control measures of financial, operational and compliance and risk management functions of the Group. Since the Group's corporate and operation structure is simple for diverting resources to establish a separate internal audit department, during the year, the Company engaged external independent consultants to assess the design, implementation and monitoring of the risk management and internal control systems of Lucrative Skill Holdings Limited and its subsidiaries, which became non-wholly owned subsidiaries of the Company following the completion of the acquisition on 14 April 2016. Based on the assessment, weakness and potential risks on internal control and risk management procedures have been identified in the area of project budgeting and management, finance accounting, human capital, information technology system and general event. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function and considered they are adequate. The Board were not aware of any material internal control defects, and considered such systems effective and adequate.

## **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 71 to 76 in the independent auditor's report.

# CORPORATE GOVERNANCE REPORT

## THE BOARD (continued)

### Responsibilities (continued)

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.

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

#### *Executive Directors*

Mr. Peter Chou (*Chairman*)

Mr. Seah Ang (*Chief Executive Officer*) (*the “CEO”*)

Mr. Amit Chopra (*Chief Operating Officer*) (*the “COO”*)

#### *Independent Non-executive Directors*

Mr. Duan Xiongfei

Ms. Lau Cheong

Mr. Wong Ka Kong Adam

Biographical details of the current Directors are set out in the directors’ report on pages 46 and 47. 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 2016, 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 BOARD (continued)

### Composition (continued)

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 2016, fourteen Board meetings, one special general meeting (“SGM”) and the annual general meeting of the Company for the year 2016 (“AGM”) were held with details of the Directors’ attendance set out below:

Directors	Attendance/Number of Meetings		
	Board Meetings	SGM	AGM
<i>Executive Directors</i>			
Mr. Peter Chou ( <i>Chairman</i> )	11/14	0/1	1/1
Mr. Seah Ang ( <i>CEO</i> )	14/14	0/1	1/1
Mr. Amit Chopra ( <i>COO</i> )	10/14	0/1	0/1
<i>Independent Non-executive Directors</i>			
Mr. Duan Xiongfei	13/14	1/1	1/1
Ms. Lau Cheong	10/14	0/1	1/1
Mr. Wong Ka Kong Adam	13/14	0/1	1/1

# 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.

During the year of 2016, all Directors were provided with reading materials on the relevant rules and regulating updates. In addition, three executive Directors, namely Mr. Peter Chou, Mr. Seah Ang and Mr. Amit Chopra, attended an offsite training for developing and refreshing the Directors' skills.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear segregation of roles between the Chairman and the CEO so as to ensure a balance of power and authority. The Chairman's responsibility is to manage the Board and the CEO's responsibility is to manage the businesses of the Group. The duties of the Chairman and the CEO are carried out respectively by Mr. Peter Chou and Mr. Seah Ang. None of them has any financial, business, family or other material/relevant relationships between the Chairman and the CEO.

## 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.

## BOARD COMMITTEES (continued)

### Audit Committee

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

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) the Company's financial control, risk management and internal control 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 ( <i>Chairman</i> )	2/2
Ms. Lau Cheong	2/2
Mr. Wong Ka Kong Adam	2/2

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

### 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. Seah Ang, the 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. One Nomination Committee meeting was held during the year under review, details of attendance are set out below:

<b>Nomination Committee Members</b>	<b>Attendance/Number of Meeting</b>
Mr. Duan Xiongfei ( <i>Chairman</i> )	1/1
Ms. Lau Cheong	1/1
Mr. Wong Ka Kong Adam	1/1
Mr. Seah Ang	1/1

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, the assessment of the independence of the independent non-executive Directors and the 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. Seah Ang, the 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.

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

<b>Remuneration Committee Members</b>	<b>Attendance/Number of Meeting</b>
Mr. Duan Xiongfei ( <i>Chairman</i> )	1/1
Ms. Lau Cheong	1/1
Mr. Wong Ka Kong Adam	1/1
Mr. Seah Ang	1/1

During the year under review, the Remuneration Committee reviewed the existing remuneration policy of the Company and the remuneration structure for the Directors.

## **BOARD DIVERSITY POLICY**

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

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

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

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

## **CORPORATE GOVERNANCE 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 corporate governance code and disclosure requirements in the corporate governance report.

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2015.

# CORPORATE GOVERNANCE REPORT

## INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2016 are set out as follows:

Type of services	HK\$'000
<i>Audit services:</i>	
Audit of annual financial statements	1,447
<i>Non-audit services:</i>	
Agreed upon procedures	231
Circular for major transaction	514

## 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.

## 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.

## **SHAREHOLDERS' RIGHTS (continued)**

### **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:

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

Fax: (852) 2907 9898

Email: [ir@ddhl.com](mailto:ir@ddhl.com)

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

# DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the media entertainment business and property investment business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Company and of the Group as at 31 December 2016 are set out in the financial statements and their accompanying notes on pages 77 to 174. No interim dividend was paid or declared in respect of the year ended 31 December 2016 (2015: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: 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 26 to the financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2016 amounted to HK\$49,510,000 solely comprised of contributed surplus.

## PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2016 are set out in note 29 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 175 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of 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 2016 by DTZ Cushman & Wakefield Limited, an independent firm of professionally qualified valuers. The valuation gave rise to fair value gain amounted to HK\$797,000 (2015: HK\$18,054,000).

## **SHARE CAPITAL**

Details of the movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2016 are set out in notes 25 and 27 to the financial statements respectively.

## **CONVERTIBLE NOTES**

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

## **DIRECTORS**

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

### **Executive Directors**

Peter Chou  
Seah Ang  
Amit Chopra

### **Independent Non-executive Directors**

Lau Cheong  
Duan Xiongfei  
Wong Ka Kong Adam

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

None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting of the Company, 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

**Peter CHOU**, aged 60, was appointed as an executive Director on 31 August 2015 and was appointed as the Chairman of the Board on 11 September 2015. He is the chairman of the executive committee of the Company as well. Mr. Chou holds a Bachelor Degree in Electronic Engineering from National Taiwan Ocean University and a Master Degree of Business Administration from National Chengchi University in Taiwan. He also completed the Advanced Management Program at Harvard Business School. In addition, Mr. Chou holds an Honorary Engineering Ph. D from National Taiwan Ocean University. Mr. Chou has over 30 years of experience in the information technology industry. He is one of the founders of HTC Corporation. Prior to joining this, he was a director of server platform design division of Digital Equipment Corporation, a major American company in the computer industry from the 1960s to the 1990s.

**SEAH Ang**, aged 32, joined the Group in 2013 as an executive vice president and was appointed as executive Director and the chief executive officer of the Company on 29 September 2014. He was the chairman of the Board during the period from 12 January 2015 to 10 September 2015 as well. Mr. Seah is presently a member of the executive committee, the nomination committee and the remuneration committee of the Company, and the authorised representative of the Company for the acceptance of service of any process or notice required to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited (now known as Huarong International Securities Limited), a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on The Stock Exchange of Hong Kong Limited.

## **BIOGRAPHICAL DETAILS OF DIRECTORS (continued)**

### **Executive Directors (continued)**

**Amit CHOPRA**, aged 42, joined the Group in 2012 and was appointed as an executive Director and the chief operating officer of the Company as well as a member of the executive committee of the Company on 18 May 2015. Mr. Chopra was the executive vice president of the Company. He is also a director and an officer of certain subsidiaries of the Company respectively. Mr. Chopra holds a Master of Business Administration from Pepperdine University and a Bachelor of Science degree in finance and accounting from California State University, Northridge. He brings over 19 years of experience in accounting, finance and operations, with focused expertise in corporate restructuring. Prior to joining the Group, he spent about four years at Reliance MediaWorks Limited (“RMW”), last serving as vice president of finance of its US operation. RMW is one of India’s leading media and entertainment companies, with a presence across several businesses including theatrical exhibition of films, film and media services and television content production and distribution. Before that Mr. Chopra held financial controller and other senior level financial and accounting positions at companies in the entertainment, semiconductor, logistics, IT consulting and software industries.

### **Independent Non-executive Directors**

**DUAN Xiongfei**, aged 48, was appointed as an independent non-executive Director on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Duan holds a Master’s Degree in Economics from Renmin University of China and a Master’s Degree in Business Administration from The University of Chicago. He is an associated member of National Futures Association in the United States of America and has over 20 years of experience in securities trading and investment industry. Mr. Duan is currently the portfolio manager of Hao Tian Development Group Limited.

**LAU Cheong**, aged 33, 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 chief executive officer of Sino Jet Management Limited and the president of Ponticello International Group Incorporated.

**WONG Ka Kong Adam**, aged 50, was appointed as an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company on 9 August 2013. Mr. Wong holds a Master’s Degree in Business Administration from The Hong Kong Polytechnic University. He is a member and a practising certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 25 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

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

### (1) Purpose

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

### (2) Participants

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

### (3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 983,268,576 Shares, representing approximately 4.39% of the Shares in issue as at the date of this annual report.

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

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

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

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

## **SHARE OPTION SCHEME (continued)**

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

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

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

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

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

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

### **(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 sheet 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 sheet issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and
- (c) the nominal value of the Shares.

### **(9) The remaining life of the Option Scheme**

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

# DIRECTORS' REPORT

## SHARE OPTION SCHEME (continued)

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

Name and category of participant	Number of Options					Date of grant	Exercise period	Exercise price per Share (HK\$)
	At 1 January 2016	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2016			
<b>Directors</b>								
Seah Ang	100,000,000 (Notes 2 and 3)	-	-	-	100,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Amit Chopra	48,000,000 (Note 2)	-	-	-	48,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	5,000,000 (Note 4)	-	-	-	5,000,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	5,000,000 (Note 4)	-	-	-	5,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	5,000,000 (Note 4)	-	-	-	5,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	-	33,333,334 (Notes 5 and 6)	-	-	33,333,334	29/01/2016	29/01/2016 to 28/01/2026	0.413
	-	33,333,333 (Notes 5 and 6)	-	-	33,333,333	29/01/2016	29/01/2017 to 28/01/2026	0.413
	-	33,333,333 (Notes 5 and 6)	-	-	33,333,333	29/01/2016	29/01/2018 to 28/01/2026	0.413
<b>Employees of the Group</b>								
Zhou Jian	150,000,000 (Notes 2 and 3)	-	-	-	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	150,000,000 (Notes 2 and 3)	-	-	-	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098

## SHARE OPTION SCHEME (continued)

Name and category of participant	Number of Options				At 31 December 2016	Date of grant	Exercise period	Exercise price per Share (HK\$)
	At 1 January 2016	Granted during the year	Exercised during the year	Cancelled/lapsed during the year				
Other employees, in aggregate	428,220,000	–	–	(36,920,000)	391,300,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	(Note 2)							
	20,990,000	–	–	–	20,990,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	(Note 4)							
	21,000,000	–	–	(1,000,000)	20,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	(Note 4)							
	21,000,000	–	–	(2,000,000)	19,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	(Note 4)							
	–	93,166,677	–	–	93,166,677	29/01/2016	29/01/2016 to 28/01/2026	0.413
		(Note 5)						
	–	93,166,665	–	(10,000,000)	83,166,665	29/01/2016	29/01/2017 to 28/01/2026	0.413
		(Note 5)						
	–	93,166,658	–	(10,000,000)	83,166,658	29/01/2016	29/01/2018 to 28/01/2026	0.413
		(Note 5)						
–	50,000,000	–	–	50,000,000	22/06/2016	22/06/2017 to 21/06/2026	0.495	
	(Note 7)							
–	50,000,000	–	–	50,000,000	22/06/2016	22/06/2018 to 21/06/2026	0.495	
	(Note 7)							
–	16,666,692	–	–	16,666,692	29/07/2016	29/07/2016 to 28/07/2026	0.566	
	(Note 8)							
–	16,666,662	–	(66,666)	16,599,996	29/07/2016	29/07/2017 to 28/07/2026	0.566	
	(Note 8)							
–	16,666,646	–	(66,666)	16,599,980	29/07/2016	29/07/2018 to 28/07/2026	0.566	
	(Note 8)							
<b>Total</b>	954,210,000	529,500,000	–	(60,053,332)	1,423,656,668			

# DIRECTORS' REPORT

## SHARE OPTION SCHEME (continued)

### Notes:

1. Options are valid for 10 years from the date of grant.
2. Options granted on 28 May 2014 shall be exercisable with effect from the 3rd anniversary of the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.099 per share.
3. The Options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on 28 May 2014 (i.e. the date of grant) were approved by the Shareholders at the special general meeting of the Company held on 23 July 2014.
4. Each of one third of the Options granted to the grantees on 6 May 2015 shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$1.390 per share.
5. Each of one third of the Options granted to the grantees on 29 January 2016 shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.400 per share.
6. The Options conditionally granted to Mr. Amit Chopra on 29 January 2016 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 7 June 2016.
7. 50,000,000 Options granted on 22 June 2016 shall be exercisable from each of the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.495 per share.
8. Each of one third of the Options granted to the grantees on 29 July 2016 shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.550 per share.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of 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 EXECUTIVE'S INTERESTS

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Interests and short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Peter Chou	Interest of controlled corporation (Notes 1 and 2)	2,570,011,442	–	2,570,011,442 (Long position)	20.37%
	Interest of controlled corporation (Note 1)	602,561,746	–	602,561,746 (Short position)	4.78%
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 3 and 4)	2,458,171,442	100,000,000	2,558,171,442 (Long position)	20.27%
	Interest of controlled corporation (Note 3)	502,134,789	–	502,134,789 (Short position)	3.98%
Amit Chopra	Interest of controlled corporation and beneficial owner (Notes 5 and 6)	2,458,171,442	163,000,000	2,621,171,442 (Long position)	20.77%
	Interest of controlled corporation (Note 5)	502,134,789	–	502,134,789 (Short position)	3.98%

# DIRECTORS' REPORT

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (continued)**

### **Interests and short positions in the Shares and underlying Shares (continued)**

*Notes:*

1. Kabo Limited was deemed to be interested in 2,458,171,442 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,855,609,696 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.
2. Honarn Inc. holds 111,840,000 Shares. Mr. Peter Chou was deemed to be interested in the above Shares by virtue of his 100% shareholding interests in Honarn Inc.
3. Global Domain Investments Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
5. Redmount Ventures Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Amit Chopra was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Redmount Ventures Limited.
6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

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

## RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2016, which may also constitute connected transactions under the Listing Rules, are disclosed in note 37 to the financial statements.

During the year, the above-mentioned connected transactions, if applicable, have been complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2016, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Interests and short positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Kabo Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 1)	2,458,171,442	–	2,458,171,442 (Long position)	19.48%
	Beneficial owner (Note 1)	602,561,746	–	602,561,746 (Short position)	4.78%
Peter Chou	Interest of controlled corporation (Notes 1 and 2)	2,570,011,442	–	2,570,011,442 (Long position)	20.37%
	Interest of controlled corporation (Note 1)	602,561,746	–	602,561,746 (Short position)	4.78%
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 3)	2,458,171,442	–	2,458,171,442 (Long position)	19.48%
	Beneficial owner (Note 3)	502,134,789	–	502,134,789 (Short position)	3.98%



# DIRECTORS' REPORT

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

### Interests and short positions in the Shares and underlying Shares (continued)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 3 and 4)	2,458,171,442	100,000,000	2,558,171,442 (Long position)	20.27%
	Interest of controlled corporation (Note 3)	502,134,789	–	502,134,789 (Short position)	3.98%
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 5)	2,458,171,442	–	2,458,171,442 (Long position)	19.48%
	Beneficial owner (Note 5)	502,134,789	–	502,134,789 (Short position)	3.98%
Amit Chopra	Interest of controlled corporation and beneficial owner (Notes 5 and 6)	2,458,171,442	163,000,000	2,621,171,442 (Long position)	20.77%
	Interest of controlled corporation (Note 5)	502,134,789	–	502,134,789 (Short position)	3.98%
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner (Note 7)	2,458,171,442	–	2,458,171,442 (Long position)	19.48%
Bright Ace Holdings Limited	Interest of controlled corporation (Note 7)	2,458,171,442	–	2,458,171,442 (Long position)	19.48%
Zhou Jian	Interest of controlled corporation and beneficial owner (Notes 7, 8 and 9)	2,610,395,180	150,000,000	2,760,395,180 (Long position)	21.88%
Fortune Source International Limited	Beneficial owner (Note 10)	1,672,035,000	–	1,672,035,000 (Long position)	13.25%
Zhang Xiaoqun	Interest of controlled corporation (Note 10)	1,672,035,000	–	1,672,035,000 (Long position)	13.25%

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

### Interests and short positions in the Shares and underlying Shares (continued)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Fortune Base Development Limited	Beneficial owner (Note 11)	–	5,037,200,000	5,037,200,000 (Long position)	39.92%
Wei Huo Li	Interest of controlled corporation (Note 11)	–	5,037,200,000	5,037,200,000 (Long position)	39.92%
CITIC Limited	Interest of controlled corporation (Note 12)	181,818,182	2,100,000,000	2,281,818,182 (Long position)	18.08%
CITIC Group Corporation	Interest of controlled corporation (Note 12)	181,818,182	2,100,000,000	2,281,818,182 (Long position)	18.08%
SBCVC Digital Fund, L.P.	Beneficial owner (Note 13)	181,818,182	2,100,000,000	2,281,818,182 (Long position)	18.08%
SBCVC Management V, L.P.	Interest of controlled corporation (Note 13)	181,818,182	2,100,000,000	2,281,818,182 (Long position)	18.08%

# DIRECTORS' REPORT

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

### **Interests and short positions in the Shares and underlying Shares (continued)**

Notes:

1. Kabo Limited was deemed to be interested in 2,458,171,442 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,855,609,696 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.
2. Mr. Peter Chou was deemed to be interested in 111,840,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.
3. Global Domain Investments Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
5. Redmount Ventures Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Amit Chopra was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Redmount Ventures Limited.
6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
7. Wise Sun Holdings Limited was deemed to be interested in 2,458,171,442 Shares by holding 449,640,118 Shares and by having a security interest in 2,008,531,324 Shares under section 317 of the SFO. Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the 2,458,171,442 Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited under section 317 of the SFO.
8. Mr. Zhou Jian was deemed to be interested in 152,223,738 Shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.
9. Mr. Zhou Jian holds 150,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
10. Fortune Source International Limited is wholly-owned by Zhang Xiaoqun. Zhang Xiaoqun was deemed to be interested in 1,672,035,000 Shares held by Fortune Source International Limited.

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

### **Interests and short positions in the Shares and underlying Shares (continued)**

Notes: (continued)

11. The 5,037,200,000 underlying Shares are in respect of the convertible notes issued by the Company in the principal amount of HK\$201.488 million at a conversion price of HK\$0.04 per Share (subject to adjustments). Upon full conversion of such convertible notes, 5,037,200,000 Shares will be issued to Fortune Base Development Limited. Mr. Wei Huo Li was deemed to be interested in the 5,037,200,000 underlying Shares by virtue of his 100% shareholding interest in Fortune Base Development Limited.
12. The 2,100,000,000 underlying Shares are in respect of the convertible notes issued by the Company in the principal amount of HK\$84 million at a conversion price of HK\$0.04 per Share (subject to adjustments). Upon full conversion of such convertible notes, 2,100,000,000 Shares will be issued to Master Time Global Limited. CITIC Group Corporation was deemed to be interested in the above Shares and underlying Shares. These interests in the Company were owned by Master Time Global Limited which in turn is wholly owned by Dynasty One Investments Limited while Dynasty One Investments Limited is wholly owned by CITIC Limited. CITIC Limited is 32.53% and 25.60% controlled by CITIC Polaris Limited and CITIC Glory Limited respectively which are 100% controlled by CITIC Group Corporation.
13. The 2,100,000,000 underlying Shares are in respect of the convertible notes issued by the Company in the principal amount of HK\$84 million at a conversion price of HK\$0.04 per Share (subject to adjustments). Upon full conversion of such convertible notes, 2,100,000,000 Shares will be issued to SBCVC Digital Fund, L.P. SBCVC Management V, L.P. was deemed to be interested in the above Share and underlying Shares. These interests in the Company were owned by SBCVC Digital Fund, L.P. which is controlled by SBCVC Management V, L.P.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

# DIRECTORS' REPORT

## UPDATE ON SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30 March 2017 (the date of this report), so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

### Interests and short positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Kabo Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 1)	2,458,171,442	–	2,458,171,442 (Long position)	10.96%
	Beneficial owner (Note 1)	602,561,746	–	602,561,746 (Short position)	2.69%
Peter Chou	Interest of controlled corporation (Notes 1 and 2)	2,570,011,442	–	2,570,011,442 (Long position)	11.46%
	Interest of controlled corporation (Note 1)	602,561,746	–	602,561,746 (Short position)	2.69%
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 3)	2,458,171,442	–	2,458,171,442 (Long position)	10.96%
	Beneficial owner (Note 3)	502,134,789	–	502,134,789 (Short position)	2.24%
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 3 and 4)	2,458,171,442	100,000,000	2,558,171,442 (Long position)	11.41%
	Interest of controlled corporation (Note 3)	502,134,789	–	502,134,789 (Short position)	2.24%
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 5)	2,458,171,442	–	2,458,171,442 (Long position)	10.96%
	Beneficial owner (Note 5)	502,134,789	–	502,134,789 (Short position)	2.24%

## UPDATE ON SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

### Interests and short positions in the Shares and underlying Shares (continued)

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Amit Chopra	Interest of controlled corporation and beneficial owner (Notes 5 and 6)	2,458,171,442	163,000,000	2,621,171,442 (Long position)	11.69%
	Interest of controlled corporation (Note 5)	502,134,789	–	502,134,789 (Short position)	2.24%
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner (Note 7)	2,458,171,442	–	2,458,171,442 (Long position)	10.96%
Bright Ace Holdings Limited	Interest of controlled corporation (Note 7)	2,458,171,442	–	2,458,171,442 (Long position)	10.96%
Zhou Jian	Interest of controlled corporation and beneficial owner (Notes 7, 8 and 9)	2,610,395,180	150,000,000	2,760,395,180 (Long position)	12.31%
Fortune Source International Limited	Beneficial owner (Note 10)	1,672,035,000	–	1,672,035,000 (Long position)	7.46%
Zhang Xiaoqun	Interest of controlled corporation (Note 10)	1,672,035,000	–	1,672,035,000 (Long position)	7.46%
Jade Link Holdings Limited	Beneficial owner (Note 11)	5,037,200,000	–	5,037,200,000 (Long position)	22.47%
Tang Elaine Yilin	Interest of controlled corporation (Note 11)	5,037,200,000	–	5,037,200,000 (Long position)	22.47%
CITIC Limited	Interest of controlled corporation (Note 12)	2,281,818,182	–	2,281,818,182 (Long position)	10.18%
CITIC Group Corporation	Interest of controlled corporation (Note 12)	2,281,818,182	–	2,281,818,182 (Long position)	10.18%
SBCVC Digital Fund, L.P.	Beneficial owner (Note 13)	2,281,818,182	–	2,281,818,182 (Long position)	10.18%
SBCVC Management V, L.P.	Interest of controlled corporation (Note 13)	2,281,818,182	–	2,281,818,182 (Long position)	10.18%

# DIRECTORS' REPORT

## UPDATE ON SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

### Interests and short positions in the Shares and underlying Shares (continued)

Notes:

1. Kabo Limited was deemed to be interested in 2,458,171,442 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,855,609,696 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.
2. Mr. Peter Chou was deemed to be interested in 111,840,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.
3. Global Domain Investments Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.
4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
5. Redmount Ventures Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Amit Chopra was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Redmount Ventures Limited.
6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
7. Wise Sun Holdings Limited was deemed to be interested in 2,458,171,442 Shares by holding 449,640,118 Shares and by having a security interest in 2,008,531,324 Shares under section 317 of the SFO. Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the 2,458,171,442 Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited under section 317 of the SFO.
8. Mr. Zhou Jian was deemed to be interested in 152,223,738 Shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.
9. Mr. Zhou Jian holds 150,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
10. Fortune Source International Limited is wholly-owned by Zhang Xiaoqun. Zhang Xiaoqun was deemed to be interested in 1,672,035,000 Shares held by Fortune Source International Limited.

## UPDATE ON SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

### Interests and short positions in the Shares and underlying Shares (continued)

Notes: (continued)

11. Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in 5,037,200,000 Shares held by Jade Link Holdings Limited.
12. CITIC Group Corporation was deemed to be interested in 2,281,818,182 Shares held by Master Time Global Limited. Such Shares were owned by Master Time Global Limited which in turn is wholly owned by Dynasty One Investments Limited while Dynasty One Investments Limited is wholly owned by CITIC Limited. CITIC Limited is 32.53% and 25.60% controlled by CITIC Polaris Limited and CITIC Glory Limited respectively which are 100% controlled by CITIC Group Corporation.
13. SBCVC Digital Fund, L.P. is controlled by SBCVC Management V, L.P. SBCVC Management V, L.P. was deemed to be interested in 2,281,818,182 Shares held by SBCVC Digital Fund, L.P.

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

### Purchases

- |                                   |    |
|-----------------------------------|----|
| – the largest supplier            | 2% |
| – five largest suppliers combined | 6% |

### Sales

- |                                   |     |
|-----------------------------------|-----|
| – the largest customer            | 16% |
| – five largest customers combined | 50% |

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's number of issued share) 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 2016, the outstanding loan principal of this Facility amounted to approximately HK\$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

## **PUBLIC FLOAT**

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

## **CORPORATE GOVERNANCE**

A report on the principal corporate governance practice adopted by the Company is set out on pages 34 to 43 of this annual report.

## **PRE-EMPTIVE RIGHTS**

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

## **ENVIRONMENTAL POLICIES AND PERFORMANCE**

As a responsible corporation, the Group plays an important role in protecting our environment and is committed to minimize our impact on the environment and natural resources.

The Company adopted effective environmental protection by introducing e-communication with our Shareholders and non-registered holders. The Company encourages investors to read the Company's corporate communication published on the websites of the Company and the Stock Exchange so as to reduce paper consumption.

The Group installed video conference and telephone conference facilities for convening board meetings, committee meetings and management meetings. It encourages attendees to attend the meetings without frequent travelling so as to reduce the energy consumption.

The Group encourages and educates staff to save energy and reduce of paper use. It also encourages environmental practices such as utilizing emails for internal and external communication, adopting e-filing in server, double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances when not in use.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

The Group recognises the importance of compliance with regulatory requirements. The Group is committed to safeguarding Shareholders' rights and enhancing corporate governance standard by establishing the audit committee, nomination committee and remuneration committee of the Company.

The Group has registered or is registering its trademarks in Hong Kong, Macau, the PRC and Taiwan and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

# DIRECTORS' REPORT

## **BUSINESS REVIEW**

The business review of the Group for the year ended 31 December 2016 is set out in the sections headed “Chairman’s Statement” on pages 4 to 5 and “Chief Executive Officer’s Review” on pages 6 to 33 of this annual report. An analysis of each of the Group’s capital risk management and financial risk management is provided in notes 39 and 40 to the consolidated financial statements.

The Company believes that employees are the valuable assets. The Group provides competitive remuneration package, benefit and opportunities for promotion to attract and motivate the employees.

The Group also understands that it is important to maintain good relationship with business partners, suppliers and customers. The management has kept good communication and exchanged ideas with them so as to achieve its long-term goals.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the year and up to the date of this Report, the following director of the Company is considered to have interests in businesses apart from the Group’s businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules on the Stock Exchange.

Mr. Peter Chou (“Mr. Chou”) held shareholding or interests and/or directorship in private companies involved in virtual reality and media entertainment (“Such Companies”).

However, the Board is independent from the boards of directors of Such Companies and none of the Directors can personally control the Board. Such Companies are managed by its independent management and administration. Further, Mr. Chou is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and its Shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm’s length from, the businesses of Such Companies.

## **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.

## **PERMITTED INDEMNITY PROVISION**

Pursuant to the Company's Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Group has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

## **EMOLUMENT POLICY**

The employees of the Group are remunerated on a performance-related basis.

The emoluments of the executive Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted a share option scheme as incentive and rewards to encourage participants (including directors and employees). Details of the Option Scheme are set out under "Share Option Scheme" of this Report and in note 27 to the consolidated financial statements.

## **EQUITY-LINKED AGREEMENTS**

On 22 January 2016 (after trading hours), the Company entered into the sale and purchase agreements with Magic Well Holdings Limited and Mr. Nicholas Tse respectively in relation to the acquisition of 85% of Lucrative Skill. The acquisition was completed on 14 April 2016 and 87,051,143 Company's shares were issued to Mr. Tse. Further details of the acquisition are set out in the section headed "Acquisition of a Group of Companies Engaged in Post Production Work Business" on page 18 of this annual report.

On 27 April 2016, the Company and DDH-US entered into a membership interest purchase agreement with Prime Focus and DD-R in relation to acquisition of the remaining 30% of DD-R. The acquisition was completed on 30 June 2016 and 390,100,671 Company's shares were issued to De-fi Media. Further details of the acquisition are set out in the sub-section headed "Acquisition of the remaining 30% of VFX Productions Group" on page 9.

On 30 May 2016 (after trading hours), the Company and the Placing Agent entered into a placing agreement pursuant to which the Company appointed the Placing Agent in relation to the placing of the placing shares. Pursuant to the placing agreement, the Company conditionally agreed to place, through the Placing Agent, on a best effort basis, 700,000,000 placing shares to not less than six placees at the placing price of HK\$0.50 per placing share. Completion of the placing is conditional upon the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the placing shares.

# DIRECTORS' REPORT

## **EQUITY-LINKED AGREEMENTS (continued)**

Completion of the above-mentioned placing took place on 10 June 2016, whereby a total of 700,000,000 placing shares were placed by the Placing Agent to not less than six placees at the placing price of HK\$0.50 per share. The placing shares were allotted and issued pursuant to the general mandate. The gross proceeds of the share placing were approximately HK\$350 million. The net proceeds of the share placing were approximately HK\$344.61 million and are intended for the media entertainment segment and as general working capital for the Group. Further details of the placing are set out in the sub-section headed "Shares" under "Capital" on page 25.

On 30 September 2016 (after trading hours), the Company entered into the subscription agreements with CITIC and SoftBank China in relation to the subscription of an aggregate of 363,636,364 subscription shares to be allotted and issued to CITIC and SoftBank China and/or their respective nominees at the subscription price of HK\$0.55 per subscription share pursuant to the terms of the subscription agreements. The subscription shares were allotted and issued pursuant to the general mandate.

The subscription is conditional upon (a) the warranties given by the Company pursuant to the subscription agreements remaining true and accurate in all material respects and not misleading in any material respect as of the date of completion; (b) the Listing Committee granting listing of, and permission to deal in, the subscription shares; (c) completion of equity fund raising for not less than HK\$300,000,000 by the Company at or before completion; and (d) simultaneous completion of the subscription agreements.

The gross proceeds and net proceeds from the subscription will be approximately HK\$200 million and HK\$199.85 million respectively, and are intended to be applied towards media entertainment segment and as general working capital purposes of the Group.

On 2 October 2016, the Company entered into the subscription agreement with Munsun in relation to the subscription of an aggregate of 181,818,182 subscription shares to be allotted and issued to Munsun and/or their respective nominees at the subscription price of HK\$0.55 per subscription share pursuant to the terms of the subscription agreement. The subscription shares will be allotted and issued pursuant to the general mandate.

The subscription is conditional upon (a) the Listing Committee granting listing of, and permission to deal in, the Subscription Shares and (b) completion of the issue and allotment of shares pursuant to the other subscription agreements at or before Subscription Completion.

The aggregate gross proceeds and net proceeds from the subscription will be approximately HK\$100 million and HK\$99.9 million respectively, and are intended to be applied towards media entertainment segment and as general working capital purposes of the Group.

## **EQUITY-LINKED AGREEMENTS (continued)**

On 18 October 2016 (after trading hours), the Company entered into the subscription agreements with Paul Jacobs in relation to the subscription of an aggregate of 70,000,000 subscription shares to be allotted and issued to Paul Jacobs at the subscription price of HK\$0.55 per subscription share pursuant to the terms of the subscription agreement. The subscription shares will be allotted and issued pursuant to the general mandate.

The subscription is conditional upon the Listing Committee granting listing of, and permission to deal in, the Subscription Shares. The gross proceeds and net proceeds from the subscription will be HK\$38.5 million and approximately HK\$38.4 million respectively, and are intended to be applied towards media entertainment segment and as general working capital purposes of the Group.

The above four subscriptions were completed on 28 October 2016. An aggregate of 615,454,546 subscription shares were issued and allotted by the Company, of which 181,818,182 subscription shares were issued to the wholly-owned subsidiary of CITIC, 181,818,182 subscription shares were issued to SoftBank China, 181,818,182 subscription shares were issued to Munsun and 70,000,000 subscription shares were issued to Paul Jacobs, at the subscription price of HK\$0.55 per subscription share. Further details of the subscriptions are set out in the sub-section headed "Shares" under "Capital" on page 25.

On 3 October 2016 (after trading hours), the Company and the Placing Agent entered into a placing agreement pursuant to which the Company appointed the Placing Agent in relation to the placing of the placing shares. Pursuant to the placing agreement, the Company conditionally agreed to place, through the Placing Agent, on a best effort basis, 380,000,000 placing shares to not less than six placees at the placing price of HK\$0.55 per placing share. On 18 October 2016, the Company and the Placing Agent entered into a termination agreement pursuant to which the placing agreement dated 3 October 2016 was terminated with immediate effect.

On 28 October 2016 (after trading hours), the Company and its indirect wholly-owned subsidiary as purchaser entered into an agreement with Nevada-based Micoy Corporation ("Micoy") as seller in the USA to acquire from the latter all its intellectual property covering a portfolio of patents in relation to its interactive entertainment technology business and related trademarks at an aggregate consideration of US\$5,500,000. US\$4,500,000 of the aggregate consideration would be satisfied by the issue and allotment of 57,172,131 Company shares at an issue price of HK\$0.61 per share in four tranches within a three-year period. The consideration shares would be issued under the general mandate and would rank pari passu in all respects with the existing shares in issue.

As all the applicable percentage ratios in respect of the acquisition are less than 5% and the agreement provides that the partial consideration is to be satisfied by the issue of consideration shares, the acquisition constitutes a share transaction on the part of the Company under Chapter 14 of the Listing Rules.

# DIRECTORS' REPORT

## **EQUITY-LINKED AGREEMENTS (continued)**

Completion of the acquisition is conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the consideration shares. The closing of the acquisition is also conditional upon customary closing conditions, including the representations and warranties of the parties being true as of the closing date; each party performing all obligations required to be performed by it prior to completion; full release of all encumbrances relating to the assets to be acquired, the absence of any litigation against the purchaser and/or Micoy which prevents the completion and absence of event having material adverse effect.

Completion of the above-mentioned acquisition took place on 9 December 2016. As part settlement of the consideration for the acquisition, 19,057,377 consideration shares were issued to Micoy at the issue price of HK\$0.61 per share on the date of completion, and will issue an aggregate of 38,114,754 further consideration shares over the next three years. Further details of the subscriptions are set out in the sub-section headed “Shares” under “Capital” on page 25.

Save as disclosed above and under the section headed “Share Option Scheme” above and Note 27 to the financial statements, no equity-linked agreement was entered into by the Company during the financial year or subsisted at the end of the financial year.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## **REVIEW BY AUDIT COMMITTEE**

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

## **INDEPENDENT AUDITOR**

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

On behalf of the Board

**Seah Ang**

*Executive Director and Chief Executive Officer*

Hong Kong, 30 March 2017

# INDEPENDENT AUDITOR'S REPORT

Digital Domain Holdings Limited  
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Tel : +852 2218 8288  
Fax : +852 2815 2239  
[www.bdo.com.hk](http://www.bdo.com.hk)

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

電話 : +852 2218 8288  
傳真 : +852 2815 2239  
[www.bdo.com.hk](http://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)

## OPINION

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 77 to 174, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Impairment assessment of goodwill and intangible assets*

As at 31 December 2016, the Group had intangible assets of HK\$1,029,722,000 (including goodwill of HK\$689,937,000) which in total represented approximately 54% of the total assets of the Group.

For the purpose of assessing impairment, these assets were allocated to cash generating units ("CGUs"), and the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement with respect to the discount rate and underlying cash flows, in particular future revenue growth was used. Management has concluded that there is no impairment in respect of the intangible assets and goodwill.

We focused on this area due to the significance of the intangible assets (including goodwill) to the Group and the level of the subjectivity associated with the judgement and assumptions used in estimating the value-in-use of the CGUs.

Refer to "Impairment of non-financial assets" in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosure of intangible assets (including goodwill) in note 15 to the consolidated financial statements.

### *Our response:*

Our audit procedures in relation to management's impairment assessment included:

- Evaluated the methodology used by the Group in performing impairment assessment;
- Challenged the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Reconciled input data to supporting evidences, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts.

### *Revenue recognition*

Included in the revenue of the Group for the year ended 31 December 2016, the Group recognised revenue from the provision of services of visual effects production of approximately HK\$613,239,000.

Revenue from the provision of services of visual effects production is recognised under the percentage of completion of the related contracts. The measurement of the revenue amount generated in each period, deriving from the elements including estimates of the total estimated contract costs to be incurred required, individual consideration and management judgement.

We identified revenue recognition as a key audit matter due to considerable amount of judgment and estimation being required as mentioned in the foregoing paragraph.

Refer to “Revenue Recognition” in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosure of revenue in note 6 to the consolidated financial statements.

### *Our response:*

Our procedures in relation to revenue recognition included:

- Inspecting, on a sample basis, the service agreements signed with customers of the Group and assessing the recognition criteria and checking the calculation of the revenue of those relevant customers;
- Testing, on a sample basis, the amount and timing of the services revenue recognised having regard to the contract costs incurred to date and the total estimated contract costs to be incurred; and
- Checking, on as sample basis, whether the final total contract costs incurred of completed contracts are consistent with the total contract costs originally estimated.

# INDEPENDENT AUDITOR'S REPORT

## **OTHER INFORMATION IN THE ANNUAL REPORT**

The directors of the Company (the "Directors") are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the Directors in discharging their responsibility in this regard.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **BDO Limited**

*Certified Public Accountants*

Pak Tak Lun

Practising Certificate number: P06170

Hong Kong, 30 March 2017

# CONSOLIDATED INCOME STATEMENT

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for the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Revenue	6	763,501	527,341
Cost of sales and services rendered		(639,154)	(443,122)
Gross profit		124,347	84,219
Other income and gains	7	11,184	14,084
Selling and distribution expenses		(79,715)	(28,658)
Administrative expenses and other net operating expenses		(503,129)	(251,478)
Finance costs	9	(56,210)	(39,801)
Fair value gains on investment properties	14	797	18,054
Share of loss of an associate	16	–	(425)
Gain on re-measurement of previously held equity interest in an associate	16	–	35,777
Share of losses of joint ventures	17	(716)	(5,790)
Loss before taxation		(503,442)	(174,018)
Taxation	11(a)	5,062	(5,489)
<b>Loss for the year</b>	8	<b>(498,380)</b>	(179,507)
<b>Loss attributable to:</b>			
– Owners of the Company		(479,377)	(156,298)
– Non-controlling interest	30	(19,003)	(23,209)
		<b>(498,380)</b>	(179,507)
<b>Loss per share:</b>	12		
Basic and diluted		<b>HK cents (4.099)</b>	HK cents (1.572)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Loss for the year</b>		<b>(498,380)</b>	(179,507)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences		<b>1,844</b>	(8,594)
Share of other comprehensive income of an associate	16	–	(431)
Share of other comprehensive income of joint ventures	17	<b>(3)</b>	–
<b>Other comprehensive income for the year, net of tax</b>		<b>1,841</b>	(9,025)
<b>Total comprehensive income for the year</b>		<b>(496,539)</b>	(188,532)
<b>Total comprehensive income attributable to:</b>			
– Owners of the Company		<b>(478,023)</b>	(162,983)
– Non-controlling interest		<b>(18,516)</b>	(25,549)
		<b>(496,539)</b>	(188,532)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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as at 31 December 2016

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	59,843	33,330
Investment properties	14	210,600	208,600
Intangible assets	15	1,029,722	873,972
Interests in joint ventures	17	6,388	12,576
		<b>1,306,553</b>	1,128,478
<b>Current assets</b>			
Inventories		637	329
Trade receivables, other receivables and prepayments	18	146,775	66,820
Bank balances and cash	19	465,838	344,726
		<b>613,250</b>	411,875
<b>Current liabilities</b>			
Trade payables, other payables and accruals	20	101,853	58,979
Deferred revenue		10,856	33,735
Borrowings	21	73,162	78,657
Promissory note	22	34,314	–
Convertible notes	23	370,273	–
Obligations under finance leases	24	–	3,096
Tax payable		1,565	5,279
		<b>592,023</b>	179,746
<b>Net current assets</b>		<b>21,227</b>	232,129
<b>Total assets less current liabilities</b>		<b>1,327,780</b>	1,360,607



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current liabilities</b>			
Borrowings	21	216,085	281,559
Deferred tax liabilities	11(b)	46,267	45,944
Convertible notes	23	–	330,863
		<b>262,352</b>	658,366
<b>NET ASSETS</b>		<b>1,065,428</b>	702,241
<b>Capital and reserves</b>			
Share capital	25	126,187	107,006
Reserves		896,467	566,422
<b>Equity attributable to owners of the Company</b>		<b>1,022,654</b>	673,428
<b>Non-controlling interest</b>	30	42,774	28,813
<b>TOTAL EQUITY</b>		<b>1,065,428</b>	702,241

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017 and are signed on its behalf by:

**Seah Ang**  
DIRECTOR

**Amit Chopra**  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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for the year ended 31 December 2016

Notes	Attributable to owners of the Company											Total equity HK\$'000	
	Share capital HK\$'000 (Note 25)	Share premium HK\$'000 (Note 26(i))	Convertible notes – equity component HK\$'000 (Note 26(ii))	Land and buildings revaluation reserve HK\$'000 (Note 26(iii))	Contributed surplus HK\$'000 (Note 26(iv))	Share options reserve HK\$'000 (Note 26(v))	Deferred shares reserve HK\$'000 (Note 26(vi))	Exchange fluctuation reserve HK\$'000 (Note 26(vii))	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000		
	As at 1 January 2015	98,327	245,047	96,630	7,355	49,510	6,176	-	(313)	(234,961)	267,771		(1,011)
Recognition of equity-settled share-based payment	27	-	-	-	-	37,553	-	-	-	37,553	-	37,553	
Issue of shares on placement, net of expenses	25	7,700	324,099	-	-	-	-	-	-	331,799	-	331,799	
Issue of shares for acquisition of subsidiaries	25	978	53,237	-	-	-	-	-	-	54,215	-	54,215	
Issue of shares on exercise of share options	27	1	13	-	-	(4)	-	-	4	14	-	14	
Deferred shares to be issued for acquisition of subsidiaries	31(b)	-	-	-	-	-	153,036	1,647	-	154,683	-	154,683	
Lapse of share options	27	-	-	-	-	(370)	-	-	370	-	-	-	
Capital contribution from non-controlling interest		-	-	-	-	-	-	-	-	-	41,473	41,473	
Additions from business combination	31(b)	-	-	-	-	-	-	-	-	-	24,285	24,285	
Acquisition of additional interests on a group of subsidiaries from non-controlling interest		-	-	-	-	-	-	-	(9,624)	(9,624)	(10,385)	(20,009)	
Loss for the year		-	-	-	-	-	-	-	(156,298)	(156,298)	(23,209)	(179,507)	
Currency translation differences		-	-	-	-	-	-	(6,254)	-	(6,254)	(2,340)	(8,594)	
Share of other comprehensive income of an associate	16	-	-	-	-	-	-	(431)	-	(431)	-	(431)	
Total comprehensive income for the year		-	-	-	-	-	-	(6,685)	(156,298)	(162,983)	(25,549)	(188,532)	
As at 31 December 2015		107,006	622,396	96,630	7,355	49,510	43,355	153,036	(5,351)	(400,509)	673,428	28,813	702,241

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Notes	Attributable to owners of the Company											
		Share capital	Share premium	Convertible notes – equity component	Land and buildings revaluation reserve	Contributed surplus	Share options reserve	Deferred shares reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interest	Total equity
		HK\$'000 (Note 25)	HK\$'000 (Note 26(i))	HK\$'000 (Note 26(ii))	HK\$'000 (Note 26(iii))	HK\$'000 (Note 26(iv))	HK\$'000 (Note 26(v))	HK\$'000 (Note 26(vi))	HK\$'000 (Note 26(vii))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2016		107,006	622,396	96,630	7,355	49,510	43,355	153,036	(5,351)	(400,509)	673,428	28,813	702,241
Recognition of equity-settled share-based payment	27	-	-	-	-	-	74,752	6,395	-	-	81,147	-	81,147
Issue of shares on placement, net of expenses	25(a)	13,154	669,861	-	-	-	-	-	-	-	683,015	-	683,015
Issue of shares for acquisition of subsidiaries on acquisition completion date	25(b)	870	52,231	-	-	-	-	-	-	-	53,101	-	53,101
Issue of shares for acquisition of subsidiaries completed in previous year	25(c)	1,065	57,922	-	-	-	-	(58,987)	-	-	-	-	-
Issue of shares for acquisition of intangible assets	15(e)	191	11,443	-	-	-	-	23,268	-	-	34,902	-	34,902
Additions from business combination	31(a)	-	-	-	-	-	-	-	-	-	-	7,561	7,561
Acquisition of additional interests on a group of subsidiaries from non-controlling interest	30	3,901	189,199	-	-	-	-	-	-	(218,016)	(24,916)	24,916	-
Loss for the year		-	-	-	-	-	-	-	-	(479,377)	(479,377)	(19,003)	(498,380)
Currency translation differences		-	-	-	-	-	-	-	1,357	-	1,357	487	1,844
Share of other comprehensive income of joint ventures	17	-	-	-	-	-	-	-	(3)	-	(3)	-	(3)
Total comprehensive income for the year		-	-	-	-	-	-	-	1,354	(479,377)	(478,023)	(18,516)	(496,539)
As at 31 December 2016		126,187	1,603,052	96,630	7,355	49,510	118,107	123,712	(3,997)	(1,097,902)	1,022,654	42,774	1,065,428

# CONSOLIDATED STATEMENT OF CASH FLOWS

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	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from operating activities</b>		
Loss before taxation	(503,442)	(174,018)
Adjustments for:		
Depreciation of property, plant and equipment	21,633	27,058
Amortisation of intangible assets	26,368	25,702
Loss on disposal of property, plant and equipment	–	60
Gain on re-measurement of previously held equity interest in an associate	–	(35,777)
Equity-settled share-based payment expenses	81,147	37,553
Net exchange (gains)/losses	(1,556)	940
Fair value gains on investment properties	(797)	(18,054)
Share of loss of an associate	–	425
Share of losses of joint ventures	716	5,790
Impairment loss on amounts due from joint ventures	6,221	–
Impairment loss on trade receivables	1,214	–
Interest income	(329)	(82)
Finance costs	56,210	39,801
Operating loss before working capital changes	(312,615)	(90,602)
Increase in trading merchandise goods	(308)	–
(Increase)/decrease in trade receivables, other receivables and prepayments	(47,945)	21,693
Increase in trade payables, other payables and accruals	21,071	7,364
Decrease in deferred revenue	(22,879)	(3,996)
Cash used in operations	(362,676)	(65,541)
Income tax paid	(3,530)	(5,407)
Interest paid	(13,463)	(3,657)
<b>Net cash used in operating activities</b>	<b>(379,669)</b>	<b>(74,605)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from investing activities</b>			
Interest received		237	73
Purchases of property, plant and equipment		(29,275)	(19,178)
Additions to investment properties		(1,203)	(946)
Additions to intangible assets		(39,652)	(35,934)
Investment in an associate		–	(20,370)
Advance to joint ventures		(752)	(7,628)
Net cash flow from business combination	31	(4,997)	(54,635)
<b>Net cash used in investing activities</b>		<b>(75,642)</b>	<b>(138,618)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares, net of issuing expenses		683,015	331,799
Proceeds from exercise of share options		–	14
Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder		–	19,473
Repayment of obligations under finance leases		(3,100)	(7,721)
New borrowings		–	96,882
Repayment of borrowings		(74,129)	(16,224)
Repayment of promissory note		(30,000)	–
<b>Net cash generated from financing activities</b>		<b>575,786</b>	<b>424,223</b>
<b>Net increase in cash and cash equivalents</b>		<b>120,475</b>	<b>211,000</b>
Effect of foreign exchange rate changes		637	(7,272)
<b>Cash and cash equivalents at beginning of the year</b>		<b>344,726</b>	<b>140,998</b>
<b>Cash and cash equivalents at end of the year</b>		<b>465,838</b>	<b>344,726</b>
<b>Represented by:</b>			
Bank balances and cash		465,838	344,726

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and has its principal place of business at Suite 7003, 70th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Company is an investment holding company. The principal activities of the Company’s principal subsidiaries are set out in Note 29.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of amendments to HKFRSs – first effective on 1 January 2016

During the year, the Group has adopted the following amendments to HKFRSs which are first effective for the current year and relevant to the Group. The adoption of these amendments has no material impact on the Group’s financial statements.

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

- (b) New/revised HKFRSs that have been issued but are not yet effective and not early adopted
- The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

		Effective date
HKFRSs (Amendments)	Annual Improvements 2014–2016 Cycle	(iii)
Amendments to HKAS 7	Disclosure Initiative	(i)
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	(i)
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	(ii)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(v)
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)	(ii)
HKFRS 9	Financial Instruments	(ii)
HKFRS 15	Revenue from Contracts with Customers	(ii)
HKFRS 16	Leases	(iv)

*Effective date:*

- (i) Annual periods beginning on or after 1 January 2017
- (ii) Annual periods beginning on or after 1 January 2018
- (iii) Annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate
- (iv) Annual periods beginning on or after 1 January 2019
- (v) The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continues to be permitted.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

### **Annual Improvements 2014–2016 Cycle**

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

#### **Amendments to HKAS 7: Disclosure Initiative**

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

#### **Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

#### **Amendments to HKFRS 2 – Classification and Measurement of Share-based Payment Transactions**

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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

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

#### **Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)**

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

### **HKFRS 9 – Financial Instruments**

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

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

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

### **HKFRS 15 – Revenue from Contracts with Customers**

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

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

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

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

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

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

### **HKFRS 16 – Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

## 3. BASIS OF PREPARATION

### **Statement of compliance**

The 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, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

### **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.

### **Functional and presentation currency**

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES

### **Basis of consolidation**

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

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

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

### **Business combination**

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

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

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

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

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

## 4. 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.

### Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate 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 associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

### Joint arrangements

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

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint arrangements (continued)

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

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

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

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.

### Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### Property, plant and equipment

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property, plant and equipment (continued)

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

Furniture, fixtures and equipment	10% to 55%
Machineries	20% to 33%

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

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

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

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

##### Investment properties

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 to sell 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired in accordance with accounting policy on "Impairment of non-financial assets".

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.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Intangible assets (continued)

###### (i) Goodwill (continued)

For goodwill arising on an acquisition in a financial year, the CGU to which allocated goodwill is tested for impairment before the end of that financial year. 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. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. 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 finite 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 finite useful lives are as follows:

Proprietary software	3 years
Participation rights	5 years or unit of production method
Patents	10 to 15 years
Licenses for intellectual property rights	3 to 10 years
Virtual human know-how	10 years



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (continued)

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

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

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and expenditure on the project can be measured reliably.

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

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

### Financial assets

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

#### (i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

#### (ii) Impairment

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

#### (iii) *Effective interest method*

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

#### (iv) *Derecognition of financial assets*

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

### Financial liabilities and equity issued by the Group

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

#### (i) *Equity instruments*

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

#### (ii) *Convertible notes that contain liability and equity components*

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(iii) *Other financial liabilities*

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

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

(iv) *Effective interest method*

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

(v) *Derecognition of financial liabilities*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. 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 payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

### 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.

#### **4. 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 respectively and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

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

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

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 joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. 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 HK\$ which is the functional currency of the Company.

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in HK\$ 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.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Employees' benefits (continued)

###### *Retirement benefit scheme*

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

###### *Termination benefits*

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

##### Share-based payments

For equity-settled share-based payment transactions, the Group shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. 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).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

#### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Related parties (continued)

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.

##### 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) Income from other services is recognised when the services are rendered.
- (v) Interest income is recognised on a time-proportion basis using the effective interest method.
- (vi) Royalty income and profit-sharing from participation rights in movies is recognised in accordance with the terms and substances of the relevant agreement.

##### Borrowing costs

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### Estimates and judgements

#### *Revenue Recognition*

Revenue recognition on visual effect production projects is dependent on management's estimation of the stage of completion. The Group reviews and revises the estimates of contract revenue, contract costs and change orders, prepared for each contract as the contract progresses. Budgeted costs are prepared by management based on the proportion that costs incurred to date bear to the estimated total costs. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of the budgeted costs by comparing the budgeted amounts to the actual costs incurred.

Significant judgement is required in estimating the contract revenue, contract costs and change orders which may have an impact on percentage of completion of the contracts and the corresponding profit taken.

Management exercised their judgements and estimations based on contract costs and revenues with reference to the latest available information, which includes detailed contract sum. Contract costs and revenues are affected by a variety of uncertainties that depends on the outcome of future events and often need to be revised as events unfold and uncertainties are resolved. The estimates of contract costs and revenues are updated regularly and significant changes are highlighted through established internal review procedures.

#### *Initial measurement of an intangible asset with contingent payment*

The Group acquired an intangible asset for operating purpose under consideration comprising a combination of initial payment and potential additional amounts that vary according to future activity. Management makes judgement upon the initial measurement of the intangible asset acquired with contingent consideration. The Group excluded executory payment from initial measurement and would not recognise until the obligation event occurs in the future.

#### *Impairment of non-financial assets (including goodwill)*

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 the recoverable amount of the CGU, which is the higher of fair value less costs of disposal and value-in-use of the CGU. The value-in-use calculation is based on the 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.

## 5. 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 11(b).

#### *Estimated impairment of trade and other receivables*

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

#### *Useful lives of property, plant and equipment and intangible assets*

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

#### *Fair value measurements*

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

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

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs;

Level 3: Unobservable inputs (i.e. not derived from market data).

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. REVENUE AND SEGMENT REPORTING

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

	2016 HK\$'000	2015 HK\$'000
Provision of services of		
– visual effects production	613,239	492,468
– 360 degree digital capture technology application and post production service	142,203	29,313
Rental income	755,442 8,059	521,781 5,560
	<b>763,501</b>	527,341

### (a) Reportable segments

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

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

- Media entertainment (visual effects production, 360 degree digital capture technology application and post production service)
- Property investment

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

## 6. REVENUE AND SEGMENT REPORTING (continued)

### (a) Reportable segments (continued)

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 fair value gains on investment properties, share of losses of joint ventures, impairment loss on amounts due from joint ventures, equity-settled share-based payment expenses, finance costs, unallocated other income and gains (including royalty income, interest income and sundry income), as well as head office and corporate expenses, are excluded from such measurement.

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

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

	Media entertainment		Property investment		Consolidated	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue from external customers	755,442	521,781	8,059	5,560	763,501	527,341
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	755,442	521,781	8,059	5,560	763,501	527,341
Reportable segment (loss)/profit	(163,650)	(78,067)	6,974	4,261	(156,676)	(73,806)
Additions to non-current assets	211,891	638,653	-	-	211,891	638,653
Depreciation and amortisation	45,963	50,407	-	-	45,963	50,407
Taxation	(5,062)	5,511	-	-	(5,062)	5,511
Reportable segment assets	1,304,834	959,322	214,932	211,404	1,519,766	1,170,726
Reportable segment liabilities	320,336	376,523	2,749	3,100	323,085	379,623

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. REVENUE AND SEGMENT REPORTING (continued)

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

	2016 HK\$'000	2015 HK\$'000
<b>Loss before taxation</b>		
Reportable segment loss	(156,676)	(73,806)
Gain on re-measurement of previously held equity interest in an associate	–	35,777
Impairment loss on amounts due from joint ventures	(6,221)	–
Impairment loss on trade receivables	(1,214)	–
Fair value gains on investment properties	797	18,054
Share of loss of an associate	–	(425)
Share of losses of joint ventures	(716)	(5,790)
Auditor's remuneration	(2,192)	(2,385)
Depreciation of unallocated property, plant and equipment	(2,038)	(2,353)
Professional fees	(67,689)	(19,228)
Finance costs	(56,210)	(39,801)
Equity-settled share-based payment expenses	(81,147)	(37,553)
Unallocated rental expenses	(10,925)	(8,808)
Unallocated other revenue and gains	845	2,774
Other unallocated corporate expenses*	(120,056)	(40,474)
<b>Consolidated loss before taxation</b>	<b>(503,442)</b>	<b>(174,018)</b>
<b>Assets</b>		
Reportable segment assets	1,519,766	1,170,726
Unallocated bank balances and cash	357,950	297,219
Unallocated corporate assets	42,087	72,408
<b>Consolidated total assets</b>	<b>1,919,803</b>	<b>1,540,353</b>
<b>Liabilities</b>		
Reportable segment liabilities	323,085	379,623
Tax payable	1,565	5,279
Deferred tax liabilities	46,267	45,944
Convertible notes	370,273	330,863
Unallocated borrowings	94,659	63,085
Unallocated corporate liabilities	18,526	13,318
<b>Consolidated total liabilities</b>	<b>854,375</b>	<b>838,112</b>

\* The balance mainly represented unallocated corporate operating expenses that are not allocated to operating segments, including directors' remuneration, staff cost and other head office expenses.

## 6. REVENUE AND SEGMENT REPORTING (continued)

### (c) Geographic information

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

#### (i) Revenue from external customers

	2016 HK\$'000	2015 HK\$'000
Hong Kong (place of domicile)	8,104	5,560
Mainland China ("PRC")	102,581	3,084
The United States of America ("USA")	240,228	294,916
Canada	296,863	193,912
United Kingdom	96,148	–
Other countries	19,577	29,869
	<b>763,501</b>	<b>527,341</b>

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

#### (ii) Specified non-current assets

	2016 HK\$'000	2015 HK\$'000
Hong Kong (place of domicile)	375,806	260,527
PRC	22,183	–
USA and Canada	908,564	867,951
	<b>1,306,553</b>	<b>1,128,478</b>

The specified non-current assets information from the above is based on the location of assets.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. REVENUE AND SEGMENT REPORTING (continued)

### (d) Major customers

The Group's customer base is diversified and there were two customers (2015: one customer) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenues as follows:

	2016 HK\$'000	2015 HK\$'000
Customer A	125,684	–
Customer B	86,758	–
Customer C	–	60,882

## 7. OTHER INCOME AND GAINS

	2016 HK\$'000	2015 HK\$'000
Profit sharing in pre-determined percentage from participation rights in movies (note 15 (d))	10,108	10,992
Loss on disposal of property, plant and equipment	–	(60)
Royalty income	221	318
Interest income	329	82
Others	526	2,752
	11,184	14,084

## 8. LOSS FOR THE YEAR

	2016 HK\$'000	2015 HK\$'000
This is arrived at after charging/(crediting):		
Cost of services rendered ( <i>Note</i> )	<b>639,154</b>	443,122
Loss on disposal of property, plant and equipment	–	60
Impairment loss on amounts due from joint ventures	<b>6,221</b>	–
Impairment loss on trade receivables	<b>1,214</b>	–
Exchange differences, net	<b>6,146</b>	(4,600)
Auditor's remuneration:		
– audit services	<b>1,447</b>	1,336
– non-audit services	<b>745</b>	1,049
Depreciation of property, plant and equipment ( <i>Note</i> )	<b>21,633</b>	27,058
Amortisation of intangible assets ( <i>Note</i> )	<b>26,368</b>	25,702
Research and development	<b>6,516</b>	3,631
Operating lease rentals in respect of:		
– rented premises	<b>39,618</b>	26,325
– rented equipment	<b>13,623</b>	13,203
Staff costs ( <i>Note</i> ):		
– Directors' remuneration ( <i>Note 10</i> )	<b>37,696</b>	14,898
– Other staff costs:		
Salaries, wages and other benefits	<b>692,217</b>	433,911
Retirement benefit scheme contributions	<b>1,039</b>	398
Equity-settled share-based payment expenses	<b>57,393</b>	30,041
<b>Total staff costs</b>	<b>788,345</b>	479,248

*Note:*

Cost of services rendered include HK\$560,755,000 (2015: HK\$399,103,000) relating to staff costs, depreciation of property, plant and equipment and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 9. FINANCE COSTS

	Note	2016 HK\$'000	2015 HK\$'000
Imputed interest on:			
Convertible notes	23	39,410	35,215
Promissory note		2,181	–
Interests on:			
Bank and other loans		7,398	3,295
Secured note		7,071	–
Finance leases		150	1,291
		<b>56,210</b>	39,801

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### Directors' remuneration

The directors' remuneration is analysed as follows:

	2016 HK\$'000	2015 HK\$'000
Fees:		
Independent non-executive directors	468	360
Other emoluments paid to executive directors:		
Salaries and other benefits	13,456	6,972
Equity-settled share-based payment expenses	23,754	7,512
Retirement benefit scheme contributions	18	54
	<b>37,228</b>	14,538
	<b>37,696</b>	14,898

No directors waived any remuneration in respect of the years ended 31 December 2016 and 2015.

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### Directors' remuneration (continued)

	2016 HK\$'000	2015 HK\$'000
Peter Chou		
– Salaries and other benefits	6,974	2,121
Seah Ang		
– Salaries and other benefits	3,491	3,039
– Equity-settled share-based payment expenses	3,236	2,079
– Retirement benefit scheme contributions	18	18
	6,745	5,136
Amit Chopra		
– Salaries and other benefits	2,991	1,084
– Equity-settled share-based payment expenses	20,518	4,169
	23,509	5,253
Zhou Jian (resigned as an executive director on 12 January 2015)		
– Equity-settled share-based payment expenses	–	94
Fan Lei (resigned as an executive director on 18 May 2015)		
– Salaries and other benefits	–	728
– Equity-settled share-based payment expenses	–	1,170
– Retirement benefit scheme contributions	–	36
	–	1,934

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

### Directors' remuneration (continued)

	2016 HK\$'000	2015 HK\$'000
Lau Cheong – Fee	156	120
Duan Xiongfei – Fee	156	120
Wong Ka Kong, Adam – Fee	156	120

### Five highest paid employees

The five highest paid individuals of the Group included three (2015: two) executive directors of the Company, details of whose remuneration are set out above. The remuneration of the remaining two (2015: three) highest paid employees, other than directors of the Company ("Directors"), is as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and other benefits	7,427	10,223
Equity-settled share-based payment expenses	10,113	3,320
Retirement benefit scheme contributions	18	–
	<b>17,558</b>	<b>13,543</b>

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

	2016	2015
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$11,500,001 to HK\$12,000,000	1	–

## 11. TAXATION

	Note	2016 HK\$'000	2015 HK\$'000
(a) Taxation (credited)/charged to the consolidated income statement represents:			
Current taxation – Hong Kong profits tax			
– over-provision in respect of prior years		–	(22)
Current taxation – Overseas tax			
– provision for the year		1,289	6,480
– (over)/under-provision in respect of prior years		(5,172)	219
Deferred taxation	11(b)	(1,179)	(1,188)
		<b>(5,062)</b>	5,489

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both years. No provision for Hong Kong profits tax has been made for both years as the Group has estimated tax losses brought forward to offset against the estimated assessable profits. Taxation on overseas profits has been calculated on the estimated assessable profits for the 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 as follows:

	2016 HK\$'000	2015 HK\$'000
Loss before taxation	<b>(503,442)</b>	(174,018)
Taxation calculated at Hong Kong profits tax rate of 16.5% (2015: 16.5%)	<b>(83,068)</b>	(28,713)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(32,862)</b>	(17,986)
Tax effect of expenses not deductible for tax purposes	<b>46,917</b>	15,732
Tax effect of non-taxable income	<b>(166)</b>	(8,926)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	<b>(553)</b>	(447)
Tax effect of unrecognised tax losses and temporary differences	<b>69,842</b>	45,632
(Over)/under-provision in respect of prior years	<b>(5,172)</b>	197
Taxation for the year	<b>(5,062)</b>	5,489

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 11. 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:

	Notes	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Fair value arising from business combination HK\$'000	Total HK\$'000
As at 1 January 2015		(4,924)	4,920	(1,923)	(1,927)
(Charged)/credited to profit or loss for the year	11(a)	(327)	331	1,184	1,188
Additions from business combination	31(b)	–	–	(45,312)	(45,312)
Exchange realignment		–	–	107	107
As at 31 December 2015		(5,251)	5,251	(45,944)	(45,944)
(Charged)/credited to profit or loss for the year	11(a)	(964)	964	1,179	1,179
Exchange realignment		–	–	(1,502)	(1,502)
As at 31 December 2016		(6,215)	6,215	(46,267)	(46,267)

## 11. TAXATION (continued)

### (b) Deferred taxation (continued)

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

	2016 HK\$'000	2015 HK\$'000
Deferred tax liabilities	(46,267)	(45,944)
Deferred tax assets	–	–
	<b>(46,267)</b>	<b>(45,944)</b>

At the end of reporting period, the Group had unused tax losses of HK\$850,452,000 (2015: HK\$469,463,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$37,667,000 (2015: HK\$31,824,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$812,785,000 (2015: HK\$437,639,000) due to the unpredictability of future profit streams. As at 31 December 2016, included in unrecognised tax losses are losses of HK\$50,978,000 (2015: HK\$1,157,000) that will expire in 5 years from the respective dates of incurrence and tax losses of HK\$647,204,000 (2015: HK\$339,580,000) that will expire in 20 years from the respective dates of incurrence. Other tax losses may be carried forward indefinitely.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 12. LOSS PER SHARE

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

	Year ended 31 December	
	2016 HK\$'000	2015 HK\$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(479,377)	(156,298)

	Number of shares	
	2016	2015
Weighted average number of ordinary shares for the purposes of basic loss per share	11,696,038,777	9,942,830,290

*Note:*

For the years ended 31 December 2016 and 2015, since the convertible notes and share options outstanding, and the shares to be issued to the former option holders of share options of Immersive Option (defined in Note 31(b)) had an anti-dilutive effect on the basic loss per share, the conversion of the outstanding convertible notes, the exercise of outstanding share options and the issue of deferred shares to the former option holders of the Immersive Option were not assumed in the computation of diluted loss per share. Except for the above, there is no other dilutive potential share during the current and prior years. Therefore, the basic and diluted loss per share in the current and prior years are equal.

### 13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$'000	Machineries HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>				
As at 1 January 2015	83,592	2,852	–	86,444
Additions from business combination (Note 31(b))	205	21	–	226
Additions	19,178	–	–	19,178
Disposals	(1,121)	–	–	(1,121)
Exchange realignment	(3,817)	(170)	–	(3,987)
As at 31 December 2015 and 1 January 2016	98,037	2,703	–	100,740
Additions from business combination (Note 31(a))	18,954	327	–	19,281
Additions	27,040	716	1,519	29,275
Disposals	(4)	–	–	(4)
Exchange realignment	(1,619)	(56)	(1)	(1,676)
As at 31 December 2016	142,408	3,690	1,518	147,616
<b>ACCUMULATED DEPRECIATION</b>				
As at 1 January 2015	42,040	1,684	–	43,724
Depreciation charge for the year	26,309	749	–	27,058
Disposals	(1,061)	–	–	(1,061)
Exchange realignment	(2,201)	(110)	–	(2,311)
As at 31 December 2015 and 1 January 2016	65,087	2,323	–	67,410
Depreciation charge for the year	20,935	698	–	21,633
Disposals	(4)	–	–	(4)
Exchange realignment	(1,221)	(45)	–	(1,266)
As at 31 December 2016	84,797	2,976	–	87,773
<b>NET CARRYING AMOUNT</b>				
As at 31 December 2016	57,611	714	1,518	59,843
As at 31 December 2015	32,950	380	–	33,330

As at 31 December 2016, no property, plant and equipment were held under finance leases (2015: HK\$1,095,000). In the prior year, none of the leases includes contingent rentals.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 14. INVESTMENT PROPERTIES

	HK\$'000
<b>Fair value</b>	
As at 1 January 2015	189,600
Additions	946
Fair value gains	18,054
As at 31 December 2015 and 1 January 2016	208,600
Additions	1,203
Fair value gains	797
As at 31 December 2016	210,600

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK\$8,059,000 (2015: HK\$5,560,000). Direct operating expenses arising on the investment properties in the year amounted to HK\$896,000 (2015: HK\$615,000).

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 35).

The fair value of the Group's investment properties as at 31 December 2016 and 2015 have been arrived at on market value basis based on valuations carried out by DTZ Cushman & Wakefield Limited ("DTZ"), an independent firm of professionally qualified valuers, who holds a recognised and relevant professional qualification and has recent experience in the locations and category of properties being valued.

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

	2016 HK\$'000	2015 HK\$'000
Carrying amount at beginning of year	208,600	189,600
Additions	1,203	946
Fair value gains of investment properties included in the face of the consolidated income statement	797	18,054
Carrying amount at end of year	210,600	208,600
Change in unrealised gains for the year included in profit or loss for assets held at end of year	797	18,054

## 14. INVESTMENT PROPERTIES (continued)

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

Investment properties	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Shops	Level 3	Investment method by capitalising net rental income  The key input is: Market unit rent of comparables	(1) Market unit rent, taking into account the location and size, between the comparables and the properties, of HK\$34 to HK\$37 (2015: HK\$34 to HK\$37) per square feet.  (2) Capitalisation rate of 3.5% (2015: 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\$2 million (2015: HK\$2 million).
Car park spaces	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\$750,000 to HK\$1,400,000 (2015: HK\$600,000 to HK\$1,200,000) per each car park space.	The higher the market selling price of comparables, the higher the fair value.	If the market selling price to the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK\$106,000 (2015: HK\$100,000).

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

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

During the year, there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in when they occur.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 15. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Licenses for intellectual property rights	Virtual human know-how	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note (a))	(Note (b))	(Note (c))	(Note (d))	(Note (e))	(Note (f))	(Note (g))	
<b>COST</b>								
As at 1 January 2015	208,043	19,390	77,435	259,046	-	-	-	563,914
Additions from business combination (Note 31(b))	378,506	124,733	-	-	59,719	-	-	562,958
Additions	-	-	15,216	-	775	22,000	19,943	57,934
Exchange realignment	1,190	(13)	(1,221)	(173)	-	-	-	(217)
As at 31 December 2015 and 1 January 2016	587,739	144,110	91,430	258,873	60,494	22,000	19,943	1,184,589
Additions from business combination (Note 31(a))	102,386	-	-	-	-	-	-	102,386
Additions	-	-	16,311	-	42,658	4,082	11,503	74,554
Exchange realignment	(188)	4,067	236	154	601	-	-	4,870
As at 31 December 2016	689,937	148,177	107,977	259,027	103,753	26,082	31,446	1,366,399
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS</b>								
As at 1 January 2015	-	-	35,519	249,738	-	-	-	285,257
Amortisation for the year	-	-	21,900	1,612	116	1,121	953	25,702
Exchange realignment	-	-	(175)	(167)	-	-	-	(342)
As at 31 December 2015 and 1 January 2016	-	-	57,244	251,183	116	1,121	953	310,617
Amortisation for the year	-	-	12,500	2,363	5,570	3,295	2,640	26,368
Exchange realignment	-	-	18	147	(473)	-	-	(308)
As at 31 December 2016	-	-	69,762	253,693	5,213	4,416	3,593	336,677
<b>CARRYING AMOUNT</b>								
As at 31 December 2016	689,937	148,177	38,215	5,334	98,540	21,666	27,853	1,029,722
As at 31 December 2015	587,739	144,110	34,186	7,690	60,378	20,879	18,990	873,972

## 15. INTANGIBLE ASSETS (continued)

Notes:

- (a) For the purpose of impairment testing, goodwill is allocated to CGUs identified as follows:

	2016 HK\$'000	2015 HK\$'000
Visual effects production	209,044	209,233
360 degree digital capture technology	378,506	378,506
Post production service	102,387	–
	<b>689,937</b>	587,739

The recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to a professional valuation report issued by Knight Frank Asset Appraisal Limited (“KF”), an independent firm of professionally qualified valuers. The value-in-use calculations used cash flow projections based on latest financial budgets approved by the Group’s management covering a period of 5 to 10 years. The cash flow projections beyond the budget period are extrapolated using a growth rate of 2 to 3%.

The key assumptions used for the value-in-use calculations are as follows:

	Visual effects production CGU	360 degree digital capture technology CGU	Post production service CGU
Average growth rate within budget period	7%	34%	18%
Pre-tax discount rate	16.5%	17.4%	22.0%

Cash flows projections during the budget are based on the expected gross margins during the budget period. Budget gross margins have been determined based on past performance and the Group’s management’s expectations for the market development and future performance of the CGUs.

The recoverable amounts of the goodwill in relation to the above CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill as at 31 December 2016.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 15. INTANGIBLE ASSETS (continued)

Notes: (continued)

- (b) Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. Trademarks will expire in 2019 to 2023, respectively. The Directors 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, 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 trademarks are allocated to the Group's visual effects production business and 360 degree digital capture technology CGUs for the purpose of impairment testing, which are outlined as follows:

	2016 HK\$'000	2015 HK\$'000
Visual effects production	19,388	19,377
360 degree digital capture technology	128,789	124,733
	148,177	144,110

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

As at 31 December 2016, no proprietary software was held under finance lease (2015: HK\$553,000). The lease does not include contingent rental.

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

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

The participation rights are allocated to CGUs in connection with respective movies involved.

## 15. INTANGIBLE ASSETS (continued)

Notes: (continued)

- (e) Patents mainly represent certain intellectual properties which are licensed including patents, trademarks and software.

On 9 December 2016, the Group acquired a portfolio of patents in relation to interactive entertainment technology from an independent third party in consideration of HK\$42,658,000 including (i) cash of HK\$7,756,000; and (ii) 57,172,131 shares of the Company out of which 19,057,377 shares of the Company issued on 9 December 2016 (Note 25(e)) and 38,114,754 shares of the Company to be issued in 3 annual instalments by 9 December 2019. The patents are measured at their fair values as at the date of acquisition with reference to a professional valuation report issued by KF.

Patents are allocated to the Group's 360 degree digital capture technology CGU for the purpose of impairment testing.

- (f) Licenses for intellectual property rights granted the Group (i) an exclusive right of development, exploitation, production, publishing and distribution of the works of virtual human and holograms of a well-known deceased singer using three-dimensional technology and exploitation of these works in the entertainment business; and (ii) a right of development, sale/distribution and promotion of digital articles of merchandise (such as 360 degree video, interactive virtual reality, augmented reality environment experience, and similar immersive media content) incorporating the licensed material.

The licenses are allocated to the CGU on virtual human and holograms.

- (g) Virtual human know-how represented the capitalised costs incurred directly attributable to the development of the virtual human and holograms of a well-known deceased singer.

The know-how is allocated to the CGU on virtual human and holograms.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 16. SHARE OF LOSS OF AN ASSOCIATE

On 17 February 2015, the Group acquired a 12.91% equity interest in Immersive Ventures Inc. (“Immersive”) and its subsidiaries (collectively referred to as the “Immersive Group”) in a net consideration of approximately HK\$20,370,000, whose principal activities were the provision of interactive media technology through 360 degree video. Although the Group’s ownership interest in Immersive Group was less than 20%, the Directors considered the Group has the power to exercise significant influence over the Immersive Group through the Group’s representation on the board of directors of Immersive.

Details of the associate during the year ended 31 December 2015 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Principal activity
Immersive	Canada/USA	Corporation	Provision of interactive media technology through 360 degree video

The above table lists the associate of the Group, which, in the opinion of the Directors, principally affected the results for the year ended 31 December 2015.

On 30 December 2015, the Group completed the acquisition of additional equity interest in Immersive, and the Immersive Group became subsidiaries of the Company since then. Changes in fair value on interest in an associate upon further acquisition to subsidiaries were approximately HK\$35,777,000. Further details of the acquisition of subsidiaries are set out in Note 31(b).

The share of loss and other comprehensive income of an associate (Immersive) for the year ended 31 December 2015 amounted to approximately HK\$425,000 and HK\$431,000, respectively.

The Group has no associate as at 31 December 2016 and during the year then ended.

## 17. INTERESTS IN JOINT VENTURES

	2016 HK\$'000	2015 HK\$'000
Share of net assets	4,203	4,922
Amounts due from joint ventures	8,406	7,654
Less: Impairment loss on amounts due from joint ventures	12,609 (6,221)	12,576 –
	<b>6,388</b>	12,576

The amounts due from joint ventures are unsecured, interest-free and not repayable within twelve months after the end of reporting period.

Impairment loss on amounts due from joint ventures of HK\$6,221,000 (2015: Nil) was recognised as at 31 December 2016 because their recoverable amounts were estimated to be less than their carrying amounts.

Particulars of material joint ventures as at 31 December 2016 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
DD-POW US, LLC ("DD-POW")	Delaware	Corporation	75*	Media Entertainment

\* Pursuant to the contractual agreement signed between the Group and another investor of DD-POW, the relevant activities of DD-POW require unanimous consent of both parties, therefore both parties are sharing joint control of DD-POW. Accordingly, DD-POW is accounted for as a joint arrangement by the Group.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 17. INTERESTS IN JOINT VENTURES (continued)

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

	DD Tencent Company Limited and its subsidiary, DD Tencent Fund I LP		DD-POW US, LLC	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
<b>At 31 December:</b>				
Current assets	21,048	21,343	–	–
Current liabilities	(199)	(227)	(8,294)	(7,514)
Net assets/(liabilities)	20,849	21,116	(8,294)	(7,514)
Group's share of net assets/(liabilities)	10,424	10,558	(6,221)	(5,636)
Included in the above amounts are:				
Cash and cash equivalents included in current assets	21,048	21,318	–	–
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	–	–	–	–
<b>Year ended 31 December:</b>				
Revenue	–	–	–	–
Interest income	2	2	–	–
Interest expense	–	–	–	–
Taxation	–	–	–	–
Loss from continuing operations	(267)	(306)	(776)	(7,517)
Other comprehensive income	–	–	(4)	–
Total comprehensive income	(267)	(306)	(780)	(7,517)
Group's share of losses	(134)	(153)	(582)	(5,637)
Group's share of other comprehensive income	–	–	(3)	–

## 18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2016 HK\$'000	2015 HK\$'000
Trade receivables	56,819	34,158
Accrued income	25,779	9,903
Other receivables	13,782	8,637
Deposits	27,149	4,903
Prepayments	23,246	9,219
	<b>146,775</b>	66,820

- (i) The Directors consider that the carrying amounts of trade receivables, other receivables, deposits and prepayments approximate their fair values as at 31 December 2016 and 2015.

No interest is charged on trade and other receivables.

- (ii) The Group normally allows an average credit period of 30 days (2015: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debt, based on the due date as of the end of reporting period, is as follows:

	2016 HK\$'000	2015 HK\$'000
Current	4,980	1,122
1 to 30 days	28,218	8,792
31 to 60 days	2,844	3,666
61 to 90 days	2,027	2,201
Over 90 days	18,750	18,377
	<b>56,819</b>	34,158

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

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

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

	2016 HK\$'000	2015 HK\$'000
Less than 1 month past due	28,218	8,792
1 to 3 months past due	4,871	5,867
Over 3 months past due	18,750	18,377
As at 31 December	51,839	33,036

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

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

(iv) The below table reconciled the impairment loss of trade debtors for the year:

	2016 HK\$'000	2015 HK\$'000
At 1 January	–	–
Impairment loss recognised	1,214	–
At 31 December	1,214	–

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

## 19. BANK BALANCES AND CASH

As at 31 December 2016, included in the bank balances and cash of the Group was an amount of HK\$12,416,000 (2015: HK\$4,508,000) 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

	2016 HK\$'000	2015 HK\$'000
Trade payables	20,258	10,324
Other payables	36,438	19,220
Accruals	45,157	29,435
	<b>101,853</b>	58,979

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2016 and 2015.

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

	2016 HK\$'000	2015 HK\$'000
Current	6,117	5,362
1 to 30 days	3,030	3,726
31 to 60 days	2,666	854
61 to 90 days	4,298	19
Over 90 days	4,147	363
	<b>20,258</b>	10,324

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 21. BORROWINGS

The borrowings were due for repayment as follows:

	2016 HK\$'000	2015 HK\$'000
<b>Bank loans – secured:</b>		
On demand or within one year	14,291	19,821
After one year but within two years	2,928	2,835
In the second to fifth years inclusive	9,373	9,074
Over five years	40,295	43,522
<b>Other loans – unsecured:</b>		
On demand or within one year	–	–
After one year but within two years	104,618	30,949
In the second to fifth years inclusive	–	77,507
<b>Secured note:</b>		
On demand or within one year	58,871	58,836
After one year but within two years	58,871	58,836
In the second to fifth years inclusive	–	58,836
	<b>289,247</b>	360,216
Current portion	<b>73,162</b>	78,657
Non-current portion	<b>216,085</b>	281,559
	<b>289,247</b>	360,216

The Group's borrowings consisted of the following:

- (i) As at 31 December 2016, mortgage bank loans with the principal amount of HK\$55,436,000 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 with the principal amount of HK\$55,436,000 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 obtained by the Group in December 2016, the lender of these mortgage bank loans has undertaken not to demand the Group for repayment until 31 July 2018 unless certain conditions (the "Conditions") are breached.

## 21. BORROWINGS (continued)

- (ii) 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 2016 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.

As at 31 December 2011, a bank loan granted to a then subsidiary of the Company (the “Subsidiary”) under the Special Loan Guarantee Scheme (the “SME loan”) of the Hong Kong Special Administrative Region Government (the “Government”) to the extent of HK\$6,000,000. It represented a 5-year instalment loan which was 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary’s immediate holding company which is also an indirect wholly-owned subsidiary of the Company as at 31 December 2016, 2015, 2014 and 2013.

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

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

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 2016, 2015, 2014, 2013 and 2012.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 21. BORROWINGS (continued)

- (iii) As at 31 December 2016, the carrying amount of the SME loan and the related accrued interest payable was HK\$4,854,000 (2015: HK\$4,854,000) and HK\$4,315,000 (2015: HK\$3,158,000), 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 2016 and 2015. No further action has been taken against the Group during the current year.

Up to the date of approval of these financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the Directors 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.

- (iv) As at 31 December 2016, one of other loans with the principal amount of HK\$27,065,000 is unsecured, interest-free and not repayable within 13 months from 31 December 2016.
- (v) As at 31 December 2016, the remaining other loan with the principal amount of HK\$77,553,000 is a term loan facility guaranteed by the Company, interest-bearing at interest rate from prime rate quoted by banks in Hong Kong and repayable within 36 months from the date of first drawdown on 17 December 2015.
- (vi) As at 31 December 2016 and 31 December 2015, the secured note formed part of the consideration of the business combination during the year ended 31 December 2015 as set out in Note 31(b). The note bears fixed interest rate at 4% per annum and repayable by three equal instalments respectively on the first, second and third anniversaries of 30 December 2015, of which the first instalment has been made during the year. Further details of the business combination are set out in Note 31(b).
- (vii) As at 31 December 2016 and 2015, all the loans of the Group are denominated in HK\$ and United States dollars ("US\$").

The bank loans bear floating interest rates at effective rates ranging from 3.25% to 6.25% (2015: 3.25% to 6.25%) per annum.

The Directors consider that the carrying amounts of the Group's bank borrowings and other loan approximate their fair values as at 31 December 2016 and 2015.

Further details of the Group's management of liquidity risk are set out in Note 40(b).

## 22. PROMISSORY NOTE

	2016 HK\$'000	2015 HK\$'000
<b>Promissory note:</b>		
Payable within one year	<b>34,314</b>	–

The promissory note payable with the principal amount of HK\$65,000,000 formed part of the consideration of the business combination during the year ended 31 December 2016 as set out in Note 31(a). As at 31 December 2016, the promissory note is unsecured and interest free. The promissory note was partially repaid during the year and the remaining portion is to be repaid on 14 April 2017. Further details of the business combination are set out in Note 31(a).

The movements of the promissory note payable during the years ended 31 December 2016 and 2015 are as follows:

	HK\$'000
As at 1 January 2015, 31 December 2015 and 1 January 2016	–
Additions from business combination (Note 31(a))	62,133
Repayment during the year	(30,000)
Effective imputed interest expense recognised (Note 9)	2,181
As at 31 December 2016	34,314

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 23. CONVERTIBLE NOTES

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

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

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

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

Subsequent to the end of the reporting period, on 27 January 2017 and 17 March 2017, all Convertible Notes holders exercised their conversion rights attaching to outstanding Convertible Notes with aggregate principal amount of HK\$392,000,000. An aggregate of 9,800,000,000 shares were issued. There are no outstanding Conversion Notes immediately after the conversion.

## 23. CONVERTIBLE NOTES (continued)

The movements of the liability component and equity component of the Convertible Notes during the years ended 31 December 2016 and 2015 are as follows:

	Liability component of Convertible Notes HK\$'000	Equity component of Convertible Notes HK\$'000	Total HK\$'000
As at 1 January 2015, with liability component classified under non-current liabilities	295,648	96,630	392,278
Effective imputed interest expense recognised (Note 9)	35,215	–	35,215
As at 31 December 2015, with liability component classified under non-current liabilities	330,863	96,630	427,493
Effective imputed interest expense recognised (Note 9)	39,410	–	39,410
As at 31 December 2016, with liability component classified under current liabilities	370,273	96,630	466,903

Effective imputed interest on the Convertible Notes for the year ended 31 December 2016 is calculated using the effective interest method by applying the average effective interest rate of 11.91% (2015: 11.88%) per annum.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 24. OBLIGATIONS UNDER FINANCE LEASES

	2016		2015	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Minimum finance lease payments payable under finance leases:				
Within one year	–	–	3,246	3,096
Less: Future finance charges	–	–	(150)	–
<b>Total net finance lease payables</b>	<b>–</b>	<b>–</b>	<b>3,096</b>	<b>–</b>
Less: Amount due within one year	–	–	(3,096)	–
<b>Amount due after one year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The Group leased certain software and computer equipment under finance leases. The average lease term is three years. Interest rates underlying the obligation under finance leases are fixed at respective contract dates and the average effective borrowing rate is 17.74% (2015: 17.03%) per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

All obligations under finance leases have been fully repaid during the year and there are no obligation under finance leases as at 31 December 2016.

## 25. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2016	2015	2016 HK\$'000	2015 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised				
As at 1 January 2015, 31 December 2015 and 31 December 2016 of HK\$0.01 each	<b>75,000,000,000</b>	75,000,000,000	<b>750,000</b>	750,000
Issued and fully paid ordinary shares:				
As at 1 January of HK\$0.01 each	<b>10,700,557,406</b>	9,832,685,768	<b>107,006</b>	98,327
Issue of shares on exercise of share options	–	10,000	–	1
Issue of shares on placement (note (a))	<b>1,315,454,546</b>	770,000,000	<b>13,154</b>	7,700
Issue of shares for acquisition of subsidiaries on acquisition completion date (note (b))	<b>87,051,143</b>	97,861,638	<b>870</b>	978
Issue of shares for acquisition of subsidiaries completed in previous year (note (c))	<b>106,474,573</b>	–	<b>1,065</b>	–
Issue of shares for acquisition of additional interests on a group of subsidiaries from non-controlling interest (note (d))	<b>390,100,671</b>	–	<b>3,901</b>	–
Issue of shares for acquisition of intangible assets (note (e))	<b>19,057,377</b>	–	<b>191</b>	–
As at 31 December	<b>12,618,695,716</b>	10,700,557,406	<b>126,187</b>	107,006

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 25. SHARE CAPITAL (continued)

Notes:

(a) On 10 June 2016, 700,000,000 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.5 each to independent third parties of the Group at an aggregate consideration of HK\$344,625,000, net of issuing expenses, of which HK\$7,000,000 was credited to share capital and the remaining balance of HK\$337,625,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 10 June 2016.

On 28 October 2016, 615,454,546 new ordinary shares of par value HK\$0.01 each were issued at subscription price of HK\$0.55 each to independent third parties of the Group at an aggregate consideration of HK\$338,390,000, net of issuing expenses, of which HK\$6,154,000 was credited to share capital and the remaining balance of HK\$332,236,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 28 October 2016.

(b) On 14 April 2016, the Company issued 87,051,143 shares of the Company as part of the consideration for the business combination during the year as set out in Note 31(a). HK\$870,000 was credited to share capital and HK\$52,231,000 was credited to the share premium account accordingly.

(c) On 30 December 2016, the Company issued a total of 106,474,573 shares of the Company comprising 79,831,086 deferred consideration shares and 26,643,487 option consideration shares, as part of the consideration for the business combination during the year ended 31 December 2015 as set out in Note 31(b). The Company will issue a total of 151,108,833 deferred consideration shares and 53,286,955 option consideration shares over the next two years. HK\$1,065,000 was credited to share capital and HK\$57,922,000 was credited to the share premium account accordingly.

(d) On 30 June 2016, the Company issued a total of 390,100,671 shares as part of the consideration for the acquisition of additional interests on a group of subsidiaries from non-controlling interest. Further details are set out in Note 30.

(e) On 9 December 2016, the Company issued 19,057,377 shares as part of the consideration for the acquisition of intangible assets. Further details are set out in Note 15(e).

## 26. RESERVES

### Company

	Share premium HK\$'000 (Note (j))	Convertible notes – equity component HK\$'000 (Note (ii))	Contributed surplus HK\$'000 (Note (iv))	Share option reserve HK\$'000 (Note (v))	Deferred share reserve HK\$'000 (Note (vi))	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2015	245,047	96,630	49,510	6,176	–	(282,147)	115,216
Recognition of equity-settled share-based payment	–	–	–	37,553	–	–	37,553
Issue of shares on placement, net of expenses	324,099	–	–	–	–	–	324,099
Release upon lapse of options	–	–	–	(370)	–	–	(370)
Deferred consideration for acquisition of subsidiaries (Note 31(b))	–	–	–	–	153,036	–	153,036
Issue of shares on exercise of share options	13	–	–	(4)	–	–	9
Issue of shares on acquisition completion date for being consideration of acquisition of subsidiaries	53,237	–	–	–	–	–	53,237
Loss and total comprehensive income for the year	–	–	–	–	–	(85,103)	(85,103)
As at 31 December 2015	622,396	96,630	49,510	43,355	153,036	(367,250)	597,677
Recognition of equity-settled share-based payment	–	–	–	74,752	6,395	–	81,147
Issue of shares on placement, net of expenses	669,861	–	–	–	–	–	669,861
Issue of shares on acquisition completion date for being consideration of acquisition of subsidiaries (Note 31(a))	52,231	–	–	–	–	–	52,231
Issue of shares for being consideration of acquisition of subsidiaries completed in previous year (Note 31(b))	57,922	–	–	–	(58,987)	–	(1,065)
Issue of shares for acquisition of intangible assets	11,443	–	–	–	23,268	–	34,711
Issue of shares for a acquisition of additional interests on a group of subsidiaries from non-controlling interest	189,199	–	–	–	–	39,400	228,599
Loss and total comprehensive income for the year	–	–	–	–	–	(730,019)	(730,019)
As at 31 December 2016	1,603,052	96,630	49,510	118,107	123,712	(1,057,869)	933,142



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 26. RESERVES (continued)

Notes:

**(i) Share premium**

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

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

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

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

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

**(iv) Contributed surplus**

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the year ended 31 December 2009 (the “Capital Reorganisation”) which was 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 were cancelled and the credit arising therefrom was transferred to the contributed surplus. Both took place in the year ended 31 December 2009.

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

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company’s assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

**(v) Share options reserve**

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

**(vi) Deferred shares reserve**

This reserve represents the shares to be issued of HK\$100,444,000 (2015: HK\$153,036,000) by the Company in 2 annual instalments by 30 December 2018 as part of the considerations for the business combination during the year ended 31 December 2015 as set out in Note 31(b); and the shares to be issued of HK\$23,268,000 (2015: Nil) in 3 annual instalments by 9 December 2019 as part of the considerations for the acquisition of intangible assets during the year ended 31 December 2016 as set out in Note 15(e).

## 26. RESERVES (continued)

Notes: (continued)

### (vii) 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 4 "Translation of foreign currencies".

No dividend was paid or proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of reporting period (2015: Nil).

## 27. SHARE-BASED PAYMENT TRANSACTIONS

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

### (i) Share option scheme

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

On 29 January 2016, 279,500,000 share options were granted to certain employees and advisors of the Group and 100,000,000 share options were conditionally granted to a director of the Company. One third of share options have immediately vested on the grant date of 29 January 2016, while one third of share options will vest on 29 January 2017 and the remaining one third of such options will vest on 29 January 2018. All these share options will be exercisable from their respective vesting dates until 28 January 2026. The exercise price is HK\$0.413 per share, being the average closing price of the Company's ordinary shares for the five business days immediately before the date of grant. The 100,000,000 share options conditionally granted to the director of the Company were approved by the shareholders of the Company at the annual general meeting held on 7 June 2016 when was the grant date of the 100,000,000 share options granted to the director of the Company.

On 22 June 2016, 100,000,000 share options were granted to an employee of the Group. 50,000,000 share options will vest on 22 June 2017 and the remaining 50,000,000 share options will vest on 22 June 2018. All these share options will be exercisable from their respective vesting dates until 21 June 2026. The exercise price is HK\$0.495 per share, being the closing price of the Company's ordinary shares on the date of grant.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (i) Share option scheme (continued)

On 29 July 2016, 50,000,000 share options were granted to certain employees of the Group. One third of share options have immediately vested on the grant date of 29 July 2016, while one third of share options will vest on 29 July 2017 and the remaining one third of such options will vest on 29 July 2018. All these share options will be exercisable from their respective vesting dates until 28 July 2026. The exercise price is HK\$0.566 per share, representing the highest of (i) the closing price of HK\$0.51 per share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of HK\$0.566 per share as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

During the year, 60,053,332 share options (2015: 94,020,000) were forfeited and no share option was exercised (2015: 10,000 share options was exercised and the weighted average share price at the date of exercise was HK\$1.32 per share), the average remaining contractual life is 8.10 years (2015: 8.49 years).

The fair value of services received in return for share options granted on the respective grant dates is measured by reference to the fair value of share options granted. The fair value is determined based on binomial option pricing model. The weighted average fair value of each option granted during the year is HK\$0.146 (2015: HK\$0.487). The key valuation parameters are as follows:

	2016	2015
Share price at grant date	<b>HK\$0.405 to HK\$0.560</b>	HK\$1.32
Exercise price	<b>HK\$0.413 to HK\$0.556</b>	HK\$1.32
Expected volatility	<b>45%</b>	55%
Life of the share options	<b>10 years</b>	10 years
Expected dividend yield	<b>0%</b>	0%
Risk-free rate	<b>0.96% to 1.60%</b>	1.42%
Forfeiture rate	<b>0% to 32%</b>	12.9%
Suboptimal exercise behaviour multiple	<b>1.40 to 1.45</b>	1.40

## 27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (i) Share option scheme (continued)

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

There was no market vesting condition or non-market performance condition associated with the share options granted.

Under this share option scheme, the fair value of the share options granted during the year was approximately HK\$77,222,000 (HK\$0.146 each). The Group recognised a share option expense in connection to all share options granted in current and prior years of approximately HK\$74,752,000 (2015: HK\$37,553,000) during the year ended 31 December 2016.

In addition, in connection with the acquisition of subsidiaries during the year ended 31 December 2015, 79,930,442 shares of the Company will be issued in 3 annual instalments by 31 December 2018 to the former option holders of share options of a subsidiary for replacement of the options. Since three years of post-combination services are required for certain former option holders, the acquisition completion date fair value of the options attributable to these post-combination services amounting to approximately HK\$19,186,000 will be recognised as remuneration costs in profit or loss over the three-year period after the acquisition completion date. Accordingly, for the year ended 31 December 2016 an amount of approximately HK\$6,395,000 (2015: Nil) was recognised as remuneration costs in profit or loss.

In aggregate, the Group has recognised an equity-settled share-based payment expenses of HK\$81,147,000 (2015: HK\$37,553,000) during the year ended 31 December 2016.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (i) Share option scheme (continued)

The following tables disclose movements in the Company's share options during the years ended 31 December 2016 and 2015.

#### 2016

Name or category of participants	At 1 January 2016	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2016	Date of grant	Exercise period	Exercise price per share (HK\$)
<b>Directors</b>								
Seah Ang	100,000,000	-	-	-	100,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Amit Chopra	48,000,000	-	-	-	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	5,000,000	-	-	-	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	5,000,000	-	-	-	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	5,000,000	-	-	-	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	-	33,333,334	-	-	33,333,334	7 Jun 2016†	29 Jan 2016 to 28 Jan 2026	0.413
	-	33,333,333	-	-	33,333,333	7 Jun 2016†	29 Jan 2017 to 28 Jan 2026	0.413
	-	33,333,333	-	-	33,333,333	7 Jun 2016†	29 Jan 2018 to 28 Jan 2026	0.413
<b>Employees and others providing similar services, in aggregate</b>								
- 2014	728,220,000	-	-	(36,920,000)	691,300,000	28 May 2014	28 May 2017 to 21 May 2024	0.098
- 2015	20,990,000	-	-	-	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	21,000,000	-	-	(1,000,000)	20,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	21,000,000	-	-	(2,000,000)	19,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
- 2016	-	93,166,677	-	-	93,166,677	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	-	93,166,665	-	(10,000,000)	83,166,665	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	-	93,166,658	-	(10,000,000)	83,166,658	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
	-	50,000,000	-	-	50,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	0.495
	-	50,000,000	-	-	50,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	0.495
	-	16,666,692	-	-	16,666,692	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	0.566
	-	16,666,662	-	(66,666)	16,599,996	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	0.566
	-	16,666,646	-	(66,666)	16,599,980	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
	954,210,000	529,500,000	-	(60,053,332)	1,423,656,668			
Weighted average exercise price	HK\$0.198	HK\$0.443	-	HK\$0.265	HK\$0.286			

## 27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### (i) Share option scheme (continued)

2015

Name or category of participants	At 1 January 2015	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2015	Date of grant	Exercise period	Exercise price per share (HK\$)
<b>Directors</b>								
Zhou Jian (resigned as an executive director on 12 January 2015)	150,000,000	-	-	-	150,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Fan Lei (resigned as an executive director on 18 May 2015)	150,000,000	-	-	-	150,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Seah Ang	100,000,000	-	-	-	100,000,000	23 July 2014*	28 May 2017 to 27 May 2024	0.098
Amit Chopra (appointed as an executive director and the chief operating officer on 18 May 2015)	48,000,000	-	-	-	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	-	5,000,000	-	-	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	-	5,000,000	-	-	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	-	5,000,000	-	-	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
<b>Employees, in aggregate</b>								
- 2014	522,240,000	-	-	(94,020,000)	428,220,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
- 2015	-	21,000,000	(10,000)	-	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	-	21,000,000	-	-	21,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	-	21,000,000	-	-	21,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	970,240,000	78,000,000	(10,000)	(94,020,000)	954,210,000			
Weighted average exercise price	HK\$0.098	HK\$1.32	HK\$1.32	HK\$0.098	HK\$0.198			

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

# The share option conditionally granted to Mr. Amit Chopra on 29 January 2016 was approved by the shareholders of the Company at the annual general meeting held on 7 June 2016.

### (ii) Option granted under general mandate

No option was granted under general mandate during the year (2015: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		675	758
Interests in subsidiaries		1,203,000	803,716
		<b>1,203,675</b>	804,474
<b>Current assets</b>			
Other receivables and prepayments		6,383	3,105
Bank balances and cash		318,605	292,031
		<b>324,988</b>	295,136
<b>Current liabilities</b>			
Other payables and accruals		9,311	5,889
Borrowings		2,839	2,744
Promissory note		34,314	–
Convertible notes		370,273	–
		<b>416,737</b>	8,633
<b>Net current (liabilities)/assets</b>		<b>(91,749)</b>	286,503
<b>Total assets less current liabilities</b>		<b>1,111,926</b>	1,090,977
<b>Non-current liabilities</b>			
Borrowings		52,597	55,431
Convertible notes		–	330,863
		<b>52,597</b>	386,294
<b>NET ASSETS</b>		<b>1,059,329</b>	704,683
<b>Capital and reserves</b>			
Share capital	25	126,187	107,006
Reserves	26	933,142	597,677
<b>TOTAL EQUITY</b>		<b>1,059,329</b>	704,683

On behalf of the Board

On behalf of the Board

**Seah Ang**  
Director

**Amit Chopra**  
Director

## 29. SUBSIDIARIES

Particulars of the Company's material subsidiaries as at 31 December 2016 and 2015 are as follows:

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Alpha Image Holdings Limited	British Virgin Islands	US\$1	–	100%	Dormant
Choice Excel Holdings Limited*	British Virgin Islands	US\$100	–	85% (2015: –)	Investment holdings
Chosen Elite Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
City Trend International Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Cornwick Investments Limited	Hong Kong	HK\$2	–	100%	Holding investment properties in Hong Kong
Cosmos Glory Limited*	Hong Kong	HK\$27,392,698	–	85% (2015: –)	Investment holdings
Creation Smart Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
DD & TT Company Limited	Hong Kong	HK\$55,000,000	–	60%	Holding licence for intellectual property right of a well-known deceased singer
DD Asset Management (BVI) Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
DD Holdings US, LLC	USA	US\$35,000,000	–	100%	Investment holdings
DD Investments US, Inc.	USA	US\$1	–	100%	Dormant
DD Licensing Limited	British Virgin Islands	US\$1	–	100%	Investment holdings
DD Licensing (HK) Limited	Hong Kong	HK\$1	–	100%	Investment holdings



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
DD Licensing (US), Inc.	USA	US\$1	–	100%	Dormant
DD Micoy, Inc. <sup>#</sup>	USA	US\$1	–	100% (2015: –)	Holding assets
DD IP Management Limited	British Virgin Islands	US\$1	–	100%	Dormant
DDH Assets Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
DDH Management Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
DDHK Asset Management Limited	Hong Kong	HK\$1	–	100%	Dormant
DDHK IP Management Limited	Hong Kong	HK\$1	–	100%	Dormant
DDHU Management Limited	British Virgin Islands	US\$1	–	100%	Investment holdings
DDLTV (BVI) Company Limited	British Virgin Islands	US\$1	–	100%	Investment holdings
DDPO (BVI) Company Limited	British Virgin Islands	US\$1	–	100%	Investment holdings
DDVR, Inc.	USA	US\$1	–	100%	Investment holdings and virtual reality businesses
Digital Domain (International) Limited	Hong Kong	HK\$1	–	100%	Dormant
Digital Domain 3.0 Virtual Performer Productions (BC) Ltd.	Canada	CAD100	–	100%	Dormant
Digital Domain (Taiwan) Limited <sup>#</sup>	Taiwan	NT\$15,000,000	–	100% (2015: –)	Dormant

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Digital Domain (Taiwan) Company Limited	British Virgin Islands/ Hong Kong	US\$1	–	100%	Virtual reality businesses
DDR(US), LLC (formerly known as “Digital Domain – Reliance, LLC”) <sup>^</sup>	USA	US\$50,000,000	–	100% (2015: 70%)	Investment holdings
Digital Domain 3.0, Inc. <sup>^</sup>	USA	US\$50	–	100% (2015: 70%)	Visual effects production
Digital Domain Assets Limited	Hong Kong	HK\$1	–	100%	Investment holdings
Digital Domain Broadcasting Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Broadcasting (Hong Kong) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Consultancy Limited	Hong Kong	HK\$1	–	100%	Provision of management services
Digital Domain Content Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Content (Hong Kong) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Virtual reality businesses
Digital Domain Content Studio, Inc. <sup>#</sup>	USA	US\$1	–	100% (2015: –)	Dormant
Digital Domain Distribution Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings

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for the year ended 31 December 2016

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Digital Domain Distribution (Hong Kong) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Development Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Digital Domain Development Limited	Hong Kong	HK\$1	–	100%	Investment holdings
Digital Domain Education Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Education (HK) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Enterprise Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Digital Domain Enterprises Group (BVI) Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Digital Domain Enterprises Group Limited	Hong Kong	HK\$1	–	100%	Dormant
Digital Domain Entertainment Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Entertainment (HK) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100%	Investment holdings
Digital Domain Group Limited	Hong Kong	HK\$1	–	100%	Dormant
Digital Domain Interactive, LLC <sup>#</sup>	USA	–	–	100% (2015: –)	Virtual reality businesses

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Digital Domain International Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Digital Domain Investments (BVI) Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Digital Domain Investments Limited	Hong Kong	HK\$1	–	100%	Dormant
Digital Domain Management Limited	Hong Kong	HK\$100	–	100%	Dormant
Digital Domain Media (AM) Company Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Virtual Human Business
Digital Domain Media (HK) Limited	Hong Kong	HK\$1	–	100%	Investment holdings
Digital Domain Media Group Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Digital Domain Music Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Music (HK) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Network Technology Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Network Technology (Hong Kong) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Pictures Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Pictures (HK) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Digital Domain Production Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Production (HK) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Studio Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain Studio (HK) Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Digital Domain Productions 3.0 (BC), Ltd. <sup>^</sup>	Canada	CAD1	–	100% (2015: 70%)	Visual effects production
Digital Domain Resources Limited	Hong Kong	HK\$2	–	100%	Provision of management services
Digital Domain Technology Limited	Hong Kong	HK\$1	–	100%	Dormant
Digital Domain Technology (US), Inc. <sup>#</sup>	USA	US\$1	–	100% (2015: –)	Virtual reality businesses
Digital Domain Trading Limited	Hong Kong	HK\$1	–	100%	Dormant
Digital Domain YK Company Limited <sup>#</sup>	British Virgin Islands	US\$1	–	100% (2015: –)	Investment holdings
Digital Domain YK (HK) Company Limited <sup>#</sup>	Hong Kong	HK\$1	–	100% (2015: –)	Dormant
Driven Global Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holdings

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Ever Champ Management Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Ever Ultra Limited	British Virgin Islands	US\$100	–	100%	Investment holdings
Ever Union Medial Services Group Limited	Hong Kong	HK\$100	–	100%	Investment holdings
Ever Union Services Development Limited	Hong Kong	HK\$100	–	100%	Investment holdings and provision of consultancy services
Golden Stream Global Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
IM360 Entertainment Inc.	Canada	CAD7,307,647	–	91.71%	Interactive media technology through 360 degree video
Immersive Licensing, Inc	USA	US\$1,000	–	83.10%	Manage intellectual property licences and trademarks
Immersive Media Company	USA	US\$15	–	83.10%	Interactive media technology through 360 degree video
Immersive Ventures Inc.	Canada	CAD 11,108,656	–	83.10%	Interactive media technology through 360 degree video
Lucrative Skill Holdings Limited*	British Virgin Islands	US\$100	–	85% (2015: –)	Investment holdings
Mothership Media, Inc.^	USA	US\$0.01	–	100% (2015: 70%)	Visual effects production
Post Production Office Limited*	Hong Kong	HK\$16,993,446	–	85% (2015: –)	Investment holdings

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
Rise Honour Development Limited	Hong Kong	HK\$1	–	100%	Investment holdings
S. I. Travel Group Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Trading
Sai Chak Company Limited	Hong Kong	HK\$100,000	–	100%	Holding investment properties in Hong Kong
Sun Innovation HK Properties Holdings Limited	British Virgin Islands	US\$1	–	100%	Investment holdings
Sun Innovation International Group Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Sun Innovation Management Services Limited	Hong Kong	HK\$2	100%	–	Provision of management services
Sun Innovation Properties Holdings Limited	British Virgin Islands	US\$2	100%	–	Investment holdings
Tower Talent Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Treasure Well Development Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Upfield Sky Limited	British Virgin Islands	US\$10,000	–	100%	Investment holdings
Vibrant Global Group Limited	British Virgin Islands	US\$1	100%	–	Investment holdings
Virtue Global Holdings Limited	British Virgin Islands	US\$1	–	100%	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK\$1	–	100%	Securities investment and investment holding
Wide Profit Enterprises Limited	British Virgin Islands	US\$100	–	100%	Investment holdings

## 29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2016 and 2015		Nature of business
			Direct	Indirect	
長和投資諮詢(深圳)有限公司*	The People's Republic of China (the "PRC")	RMB1,500,358.72	-	100%	Provision of consultancy services
數字王國(深圳)科技發展有限公司°	The PRC	HK\$1,503,000	-	100%	Virtual reality businesses
文靈廣告製作(北京)有限公司•	The PRC	RMB3,001,379.23	-	85% (2015: -)	Visual effects production and post production
朝靈廣告製作(上海)有限公司•	The PRC	RMB6,000,000	-	85% (2015: -)	Visual effects production and post production

Notes:

- # These subsidiaries were newly incorporated/established during the year.
- 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 2017.
- ° The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HKD10,000,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.
- ^ The effective equity interest attributable to the Company of these subsidiaries increased from 70% to 100% since the acquisition of their additional interests from non-controlling interest completed during the year. Further details of the acquisition are set out in Note 30.

All the above are limited liability companies.

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

None of the subsidiaries had issued any debt securities at the end of the year.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 30. NON-CONTROLLING INTEREST

The following table lists out the information relating to Digital Domain 3.0, Inc., Digital Domain Productions 3.0 (BC), Ltd., Immersive Ventures Inc., IM360 Entertainment Inc., DD & TT Company Ltd. and Lucrative Skill Holdings Limited, subsidiaries of the Company which have material non-controlling interest ("NCI"). Lucrative Skill Holdings Limited was acquired during the year ended 31 December 2016. 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.		Immersive Ventures Inc.		IM360 Entertainment Inc.		DD & TT Company Ltd.		Lucrative Skill Holdings Limited	
	2016 HK\$'000 (note 25(d))	2015 HK\$'000	2016 HK\$'000 (note 25(d))	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
<b>At 31 December:</b>												
NCI percentage	-	30%	-	30%	16.9%	16.9%	8.281%	8.281%	40%	40%	15%	-
Non-current assets	-	90,775	-	54,836	204,856	182,762	6,500	6,642	57,537	49,074	15,039	-
Current assets	-	60,650	-	20,646	2,791	25,041	37,215	29,790	4,515	3,344	56,992	-
Non-current liabilities	-	(232)	-	(401)	(46,242)	-	-	-	-	-	-	-
Current liabilities	-	(223,359)	-	(61,679)	(49,233)	(66,022)	(27,011)	(6,239)	(17,529)	(2,465)	(41,202)	-
Net (liabilities)/assets	-	(72,166)	-	13,402	112,172	141,781	16,704	30,193	44,523	49,953	30,829	-
Accumulated NCI	-	(21,650)*	-	4,021*	18,957*	23,961*	1,383*	2,500*	17,810*	19,981*	4,624*	-
<b>Year ended 31 December:</b>												
Revenue	165,812	327,869	150,077	207,028	4,726	-	43,139	31,547	3,925	-	98,583	-
(Loss)/profit for the year	(16,599)	(64,865)	(8,388)	10,987	(33,140)	(526)	(14,702)	(11,572)	(5,430)	(5,047)	(16,781)	-
Total comprehensive income	(16,549)	(64,850)	(9,137)	9,455	(26,049)	(1,917)	(15,914)	(15,439)	(5,430)	(5,047)	(19,461)	-
(Loss)/profit allocated to NCI	(4,980)*	(19,459)*	(2,516)*	3,296*	(5,601)*	(89)*	(1,218)*	(4,938)*	(2,171)*	(2,019)*	(2,517)*	-
Dividend paid to NCI	-	-	-	-	-	-	-	-	-	-	-	-
Net cash inflows from operating activities	47,527	8,230	(2,606)	(6,133)	(2,768)	-	(19,756)	(15,143)	16	(683)	(9,446)	-
Net cash outflows from investing activities	(6,574)	(16,198)	(3,631)	(17,526)	-	-	-	(7,757)	(14)	(29,583)	(1,854)	-
Net cash (outflows)/inflows from financing activities	(6,537)	(1,908)	-	-	-	-	-	45,632	-	33,000	(2,999)	-

\* The aggregate NCI as at 31 December 2016 amounted to credit balance of approximately HK\$42,774,000 (2015: HK\$28,813,000) and the aggregate net losses allocated to NCI for the year then ended amounted to approximately HK\$19,003,000 (2015: HK\$23,209,000).

### **30. NON-CONTROLLING INTEREST (continued)**

On 30 June 2016, the Company acquired additional interests on a group of subsidiaries from non-controlling interest in consideration of approximately HK\$232,500,000 which was settled by the issue and allotment of 390,100,671 shares of the Company. The fair value of the 390,100,671 shares of the Company issued on acquisition completion date was approximately HK\$193,100,000. HK\$3,901,000 was credited to share capital and HK\$189,199,000 was credited to the share premium account accordingly.

### **31. BUSINESS COMBINATION**

- (a) On 14 April 2016, the Group completed its acquisition of 85% issued share capital of Lucrative Skill Holdings Limited (“Lucrative Skill”) in consideration of approximately HK\$145,234,000 (including (i) cash of HK\$30,000,000; (ii) 87,051,143 shares of the Company issued on 14 April 2016 to a shareholder of Lucrative Skill; and (iii) promissory notes payable amounting to approximately HK\$62,133,000 (with principal amount of HK\$65,000,000 with an effective interest rate of 7%). Lucrative Skill and its subsidiaries (collectively the “Lucrative Skill Group”) are principally engaged in conducting post production work on advertisements, featured films, TV programmes, music videos, internet and mobile applications content, visual matters on corporate events. The acquisition was made by the Group with the aim to expand the Group’s visual effect business in the PRC, and bring synergy to the Group’s existing visual effect business based in the North America by more efficient deployment of resources and talents.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 31. BUSINESS COMBINATION (continued)

(a) (continued)

The fair value of identifiable assets and liabilities of the Lucrative Skill Group as at the date of completion was:

	HK\$'000
Property, plant and equipment ( <i>Note 13</i> )	19,281
Trade receivables, other receivables and prepayments	33,152
Amount due from immediate holding company	4
Bank balances and cash	25,003
Trade payables, other payables and accruals	(20,410)
Amount due to a related party	(236)
Tax payable	(3,386)
Borrowings	(2,999)
Net assets	50,409
Non-controlling interest	(7,561)
	42,848
Goodwill ( <i>Note 15</i> )	102,386
Total consideration	145,234
Total consideration consisted of:	
– Cash consideration	30,000
– Fair value of the 87,051,143 shares of the Company issued on acquisition completion date* ( <i>Note 25 (b)</i> )	53,101
– Promissory note payable ( <i>Note 22</i> )	62,133
	145,234

\* Fair value is determined with reference to market value of the Company's shares as at the acquisition completion date

### 31. BUSINESS COMBINATION (continued)

(a) (continued)

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

	HK\$'000
Cash consideration	(30,000)
Cash and bank balances acquired	25,003
<b>Net outflow of cash and cash equivalents included in cash flows from investing activities</b>	<b>(4,997)</b>

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

Since the completion of the acquisition, the Lucrative Skill Group has contributed approximately HK\$98,583,000 to the Group's revenue and approximately HK\$16,660,618 to the Group's loss for the year. If the acquisition had occurred on 1 January 2016, the Group's revenue and loss for the year would have been approximately HK\$783,911,000 and HK\$502,650,000 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 2016, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK\$386,000 have been expensed and are included in administrative expenses.

(b) On 30 December 2015, the Group completed its further acquisition of issued share capital of Immersive in consideration of HK\$442,628,000 (including (i) cash of HK\$58,869,000, (ii) 71,218,144 shares of the Company issued on 30 December 2015 and 230,939,919 shares of the Company to be issued in 3 annual instalments by 30 December 2018 to the former shareholders of Immersive, (iii) 26,643,494 shares of the Company issued on 31 December 2015 and 79,930,442 shares to be issued, unconditionally, in 3 annual instalments by 31 December 2018 to the former option holders of share options of Immersive (the "Immersive Options") for replacement of the Immersive Options; and (iv) secured note payable amounting to HK\$176,508,000 (Note 21)). On 30 December 2016, the Company issued 79,831,086 shares to the former shareholders of Immersive and 26,643,487 shares to the former option holders of the Immersive Options. Subsequent to the acquisition completion, the Group's aggregate equity interest in Immersive and its subsidiaries (collectively referred to as the Immersive Group) is 83.10%. The Immersive Group is principally engaged in the provision of interactive media technology through 360 degree video. The acquisition was made by the Group with the aim to commence the business of 360 degree digital capture technology.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 31. BUSINESS COMBINATION (continued)

(b) (continued)

The fair value of identifiable assets and liabilities of the Immersive Group as at the date of completion was:

	Fair value HK\$'000
Property, plant and equipment (Note 13)	226
Intangible assets other than goodwill (Note 15)	184,452
Investment in an associate	20,009
Inventories – merchandise goods	329
Trade receivables, other receivables and prepayments	356
Amount due from an associate	114
Bank balances and cash	4,234
Trade payables, other payables and accruals	(2,993)
Deferred revenue	(8,119)
Borrowings	(9,598)
Deferred tax liabilities (Note 11(b))	(45,312)
Net assets	143,698
Fair value of previously held equity interest	(55,291)
Non-controlling interest	(24,285)
Goodwill (Note 15)	64,122 378,506
Total consideration	442,628
Total consideration consisted of:	
– Fair value of the 71,218,144 shares of the Company issued on acquisition completion date (Note 25)	39,455
– Acquisition completion date fair value of the Immersive Options replaced by 26,643,494 shares of the Company issued on 31 December 2015 (Note 25)	14,760
– Cash consideration	58,869
– Fair value of the 230,939,919 shares of the Company to be issued (Note 26 (vi))	127,941*
– Acquisition completion date fair value of the Immersive Options replaced by 79,930,442 shares of the Company to be issued (Note 26 (vi))	44,281*
– Acquisition completion date fair value of the Immersive Options attributable to post-combination services of certain former Immersive Options holders# (Note 26(vi))	(19,186)*
– Secured note payable (Note 21)	176,508
	442,628

### 31. BUSINESS COMBINATION (continued)

(b) (continued)

# Since three years of post-combination services are required for certain former holders of the Immersive Options, the acquisition completion date fair value of the Immersive Options attributable to these post-combination services amounting to approximately HK\$19,186,000 will be recognised as remuneration costs in profit or loss over the three-year period after the acquisition completion date.

\* The aggregate amount of approximately HK\$153,036,000 has been credited to deferred shares reserve.

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

	HK\$'000
Cash consideration	(58,869)
Cash and bank balances acquired	4,234
Net outflow of cash and cash equivalents included in cash flows from investing activities	(54,635)

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 32. MAJOR NON-CASH TRANSACTIONS

	2016 HK\$'000	2015 HK\$'000
Significant non-cash transactions are as follows:		
<i>Investing activities</i>		
Consideration for additions of intangible assets		
– shares	11,634	–
– deferred shares	23,268	–
– capital contribution from non-controlling shareholder of a subsidiary	–	22,000
	<b>34,902</b>	22,000
Consideration for business combination		
– shares	53,101	54,215
– promissory note	62,133	–
– secured note	–	176,508
	<b>115,234</b>	230,723
	<b>150,136</b>	252,723

## 33. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the “MPF Scheme”), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees’ monthly salaries up to a maximum of HK\$1,500 (2015: HK\$1,500) (the “Mandatory Contribution”). The employees are entitled to 100% of the employer’s Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer’s contribution net of forfeited contribution made by the Group under the MPF Scheme was HK\$475,000 (2015: HK\$440,000).

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer’s contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK\$582,000 (2015: Nil).

### 34. OPERATING LEASE COMMITMENTS

- (i) As at 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Not later than one year	33,574	23,895	410	592
Later than one year and not later than five years	99,625	83,801	374	58
Later than five years	70,393	93,920	–	–
	<b>203,592</b>	201,616	<b>784</b>	650

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 2016, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases as follows:

	Investment properties	
	2016 HK\$'000	2015 HK\$'000
Not later than one year	6,886	7,031
Later than one year and not later than five years	35	6,732
	<b>6,921</b>	13,763

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



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 35. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

- (a) As at 31 December 2016, the Group had aggregate banking facilities of HK\$66,887,000 (2015: HK\$75,252,000) from banks for guarantees and loans. The banking facilities are secured by:
- (i) Pledge of all investment properties of the Group as at 31 December 2016 (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 2016, 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 2016 (2015: Nil).
  - (iv) As at 31 December 2016, the Group's bank loan with a carrying amount of approximately HK\$6,542,000 (2015: HK\$12,167,000) is secured by an assignment of all proceeds of a subsidiary from its income on its participation right on a movie, the entire equity interests and all assets and property of two subsidiaries of the Company, and guarantees granted by the two subsidiaries of the Company to the bank. In addition, a subsidiary of the Company has agreed to subordinate all of its rights, title and interests in any assets in favour of the bank as collateral for the bank facilities granted to the Group.
- (b) The secured note payable is secured by all personal property of each of DDVR, Inc. and Immersive, both of which are subsidiaries of the Company, and their entire issued share capital.
- (c) In December 2016, a subsidiary obtained a term loan facility of HK\$77,553,000 (2015: HK\$77,507,000) denominated in US\$ provided by a substantial shareholder of the Company, Wise Sun Holdings Limited, which the Company as a guarantor. The loan facility has been fully utilised since 7 December 2015.

## 36. CAPITAL COMMITMENTS

Other than those disclosed elsewhere in these financial statements, the Group did not have any significant capital commitment as at 31 December 2016 and 2015.

### 37. RELATED PARTY TRANSACTIONS

- (i) Details of transaction between the Group and other related party during the year ended 31 December 2016, save as disclosed elsewhere in these financial statements, are as follows:

Related party relationship	Type of transaction	2016 HK\$'000	2015 HK\$'000
Related companies of the non-controlling interest	Production costs	22	3,520

- (ii) Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in Note 10.

### 38. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

- (a) On 27 January 2017, three convertible notes holders exercised their conversion rights attaching to outstanding convertible notes with aggregate principal amount of HK\$190,512,000. An aggregate of 4,762,800,000 shares were issued. Subsequent after the conversion, there are outstanding conversion notes with principal amount of HK\$201,488,000.

On 17 March 2017, a convertible notes holder exercised the conversion rights attaching to outstanding convertible notes with aggregate principal amount of HK\$201,488,000. An aggregate of 5,037,200,000 shares were issued. There are no outstanding convertible notes immediately after the conversion.

- (b) On 13 February 2017, 300,000,000 share options ("Options") were granted to an employee of the Group (the "Grantee"), subject to the acceptance of the Grantee and the approval by the shareholders of the Company, under the share option scheme of the Company. The Options will entitle the Grantee to subscribe for up to a total of 300,000,000 new shares, exceeding 1% of all shares of the Company in issue as at 13 February 2017. Accordingly, the grant of the Options to the Grantee is conditional upon the approval by the shareholders of the Company under the Listing Rules.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt (including the borrowings disclosed in Note 21, promissory note disclosed in Note 22, convertible notes disclosed in Note 23, obligations under finance leases disclosed in Note 24, less bank balances and cash disclosed in Note 19) and total equity.

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

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

	2016 HK\$'000	2015 HK\$'000
Debts	693,834	694,175
Bank balances and cash	(465,838)	(344,726)
Net debt	227,996	349,449
Total equity	1,065,428	702,241
Net debt to equity ratio	21%	50%

## 40. 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 (2015: 30 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

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

At 31 December 2016, the Group has a concentration of credit risk as 29% and 61% (2015: 34% and 68%) respectively of the total gross trade receivables were due from the Group's largest customer and the five largest customers respectively.

The credit risk of the Group's financial assets, which comprise gross trade receivables, other receivables and bank balances and cash, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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.

The credit risk for bank balances is limited because the counter-parties are bank, with high credit rating.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 40. FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk

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

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

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

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
<b>2016</b>						
SME loan	4,854	5,125	5,125	-	-	-
Other bank loans	62,033	77,094	11,216	4,594	13,783	47,501
Other loan	104,618	112,213	3,877	108,336	-	-
Secured note	117,742	124,807	63,581	61,226	-	-
Trade payables, other payables and accruals	97,333	97,333	97,333	-	-	-
Promissory note	34,314	35,000	35,000	-	-	-
Convertible notes	370,273	392,000	392,000	-	-	-
	<b>791,167</b>	<b>843,572</b>	<b>608,132</b>	<b>174,156</b>	<b>13,783</b>	<b>47,501</b>

## 40. FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

Group	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000
2015						
SME loan	4,854	4,854	4,854	–	–	–
Other bank loans	70,398	87,472	17,000	4,594	13,783	52,095
Other loan	108,456	119,934	3,886	34,825	81,223	–
Secured note	176,508	190,629	65,896	63,543	61,190	–
Trade payables, other payables and accruals	57,706	57,706	57,706	–	–	–
Obligations under finance leases	3,096	3,246	3,246	–	–	–
Convertible notes	330,863	392,000	–	392,000	–	–
	751,881	855,841	152,588	494,962	156,196	52,095

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and other loans. All bank borrowings and one of the other loans 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 net borrowings at the end of reporting period:

	2016		2015	
	Effective interest rate%	HK'000	Effective interest rate%	HK'000
<b>Variable-rate borrowings</b>				
Bank loans	3.25 – 6.25	66,887	3.25 – 6.25	75,252
Other loan	Prime rate	77,553	Prime rate	77,507
		144,440		152,759

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 40. FINANCIAL RISK MANAGEMENT (continued)

### (c) Interest rate risk (continued)

#### *Sensitivity analysis*

As at 31 December 2016, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after taxation and decrease/increase the accumulated losses by HK\$1,444,000/HK\$2,080,000 (2015: HK\$1,527,000/HK\$1,884,000) 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 2015.

### (d) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in HK\$ which is different from the functional currency of the Group entities, i.e. RMB, US\$ and Canadian dollar ("CAD") which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise.

## 41. 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 2016 and 2015 may be categorised as follows:

	2016 HK\$'000	2015 HK\$'000
<b>Financial assets</b>		
Loans and receivables (including bank balances and cash), at amortised cost	559,714	390,984
<b>Financial liabilities</b>		
Financial liabilities, at amortised cost	791,167	751,881

# FIVE YEARS FINANCIAL SUMMARY

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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 are summarised below:

	2016	2015	2014	2013	2012		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Continuing operations HK\$'000	Discontinued operations HK\$'000	Total HK\$'000
<b>Results</b>							
Revenue	<b>763,501</b>	527,341	849,952	467,311	184,457	–	184,457
(Loss)/profit attributable to owners of the Company	<b>(479,377)</b>	(156,298)	43,323	(192,215)	5,641	318	5,959
<b>Assets and Liabilities</b>							
Total assets	<b>1,919,803</b>	1,540,353	750,746	835,042	427,733	44	427,777
Total liabilities	<b>(854,375)</b>	(838,112)	(483,986)	(608,022)	(82,181)	(5,800)	(87,981)
	<b>1,065,428</b>	702,241	266,760	227,020	345,552	(5,756)	339,796
Non-controlling interest	<b>(42,774)</b>	(28,813)	1,011	(8,829)	–	–	–
Equity attributable to owners of the Company	<b>1,022,654</b>	673,428	267,771	218,191	345,552	(5,756)	339,796



# 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