



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

(Incorporated in Bermuda with limited liability)

(Stock Code : 547)



INTERIM REPORT 2017



The board of directors (the “Directors” and the “Board” respectively) of Digital Domain Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017 (the “Review Period”) together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | Notes | For the six months ended 30 June | |
|--|-------|----------------------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | 2 | 416,457 | 348,133 |
| Cost of sales and services rendered | | (355,978) | (285,806) |
| Gross profit | | 60,479 | 62,327 |
| Other income and gains | | 6,666 | 4,630 |
| Selling and distribution expenses | | (8,188) | (9,542) |
| Administrative expenses and other net operating expenses | | (254,471) | (203,088) |
| Finance costs | 3 | (14,692) | (27,521) |
| Fair value gains on investment properties | 7 | 1,100 | 197 |
| Share of losses of joint ventures | | (592) | (626) |
| Loss before taxation | 4 | (209,698) | (173,623) |
| Taxation | 5 | (412) | 3,458 |
| Loss for the period | | (210,110) | (170,165) |
| Loss attributable to: | | | |
| – Owners of the Company | | (202,756) | (158,882) |
| – Non-controlling interest | | (7,354) | (11,283) |
| | | (210,110) | (170,165) |
| Loss per share: | 6 | | |
| – Basic and diluted | | HK cent (1.045) | HK cent (1.468) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Loss for the period | (210,110) | (170,165) |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Currency translation differences | 6,113 | 10,435 |
| Share of other comprehensive income of an associate | – | (5) |
| Share of other comprehensive income of joint ventures | (43) | – |
| Other comprehensive income for the period, net of tax | 6,070 | 10,430 |
| Total comprehensive income for the period | (204,040) | (159,735) |
| Total comprehensive income attributable to: | | |
| – Owners of the Company | (198,035) | (150,185) |
| – Non-controlling interest | (6,005) | (9,550) |
| | (204,040) | (159,735) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

| | <i>Notes</i> | Unaudited 30 June 2017 HK\$'000 | Audited 31 December 2016 HK\$'000 |
|--|--------------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | | 94,791 | 59,843 |
| Investment properties | 7 | 211,700 | 210,600 |
| Intangible assets | 8 | 1,033,172 | 1,029,722 |
| Interests in joint ventures | | – | 6,388 |
| | | 1,339,663 | 1,306,553 |
| Current assets | | | |
| Inventories | | 125 | 637 |
| Trade receivables, other receivables and prepayments | 9 | 222,809 | 146,775 |
| Bank deposits with original maturity over three months | | 7,649 | – |
| Bank balances and cash | | 219,566 | 465,838 |
| | | 450,149 | 613,250 |
| Current liabilities | | | |
| Trade payables, other payables and accruals | 10 | 136,683 | 101,853 |
| Deferred revenue | | 30,542 | 10,856 |
| Borrowings | | 72,347 | 73,162 |
| Promissory note | | – | 34,314 |
| Convertible notes | | – | 370,273 |
| Tax payable | | 2,258 | 1,565 |
| | | 241,830 | 592,023 |
| Net current assets | | 208,319 | 21,227 |
| Total assets less current liabilities | | 1,547,982 | 1,327,780 |
| Non-current liabilities | | | |
| Borrowings | | 215,302 | 216,085 |
| Deferred tax liabilities | | 47,928 | 46,267 |
| | | 263,230 | 262,352 |
| Net assets | | 1,284,752 | 1,065,428 |
| Capital and reserves | | | |
| Share capital | 11 | 224,264 | 126,187 |
| Reserves | | 1,023,719 | 896,467 |
| Equity attributable to owners of the Company | | 1,247,983 | 1,022,654 |
| Non-controlling interest | | 36,769 | 42,774 |
| Total equity | | 1,284,752 | 1,065,428 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | Attributable to owners of the Company | | | | | | | | | | | |
|--|--|---------------------------|--|--|---------------------------------|-----------------------------------|-------------------------------------|--|--------------------------------|-------------------|--------------------------------------|--------------------------|
| | Share capital HK\$'000 (Note 11) | Share premium HK\$'000 | Convertible notes – equity component HK\$'000 | Land and buildings revaluation reserve HK\$'000 | Contributed surplus HK\$'000 | Share options reserve HK\$'000 | Deferred shares reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 | Non-controlling interest HK\$'000 | Total equity 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 |
| Changes in equity for the six months ended 30 June 2016 | | | | | | | | | | | | |
| Recognition of equity-settled share-based payment (Note 12) | - | - | - | - | - | 41,542 | 3,198 | - | - | 44,740 | - | 44,740 |
| Issue of shares on placement, net of expenses | 7,000 | 337,625 | - | - | - | - | - | - | - | 344,625 | - | 344,625 |
| Issue of shares for acquisition of subsidiaries | 870 | 52,231 | - | - | - | - | - | - | - | 53,101 | - | 53,101 |
| Additions from business combination | - | - | - | - | - | - | - | - | - | - | 7,561 | 7,561 |
| Acquisition of additional interests on a group of subsidiaries from non-controlling interest | 3,901 | 189,199 | - | - | - | - | - | - | (218,016) | (24,916) | 24,916 | - |
| Loss for the period | - | - | - | - | - | - | - | - | (158,882) | (158,882) | (11,283) | (170,165) |
| Currency translation differences | - | - | - | - | - | - | - | 8,702 | - | 8,702 | 1,733 | 10,435 |
| Share of other comprehensive income of an associate | - | - | - | - | - | - | - | (5) | - | (5) | - | (5) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | 8,697 | (158,882) | (150,185) | (9,550) | (159,735) |
| As at 30 June 2016 and 1 July 2016 | 118,777 | 1,201,451 | 96,630 | 7,355 | 49,510 | 84,897 | 156,234 | 3,346 | (777,407) | 940,793 | 51,740 | 992,533 |
| Changes in equity for the six months ended 31 December 2016 | | | | | | | | | | | | |
| Recognition of equity-settled share-based payment (Note 12) | - | - | - | - | - | 33,210 | 3,197 | - | - | 36,407 | - | 36,407 |
| Issue of shares on placement, net of expenses | 6,154 | 332,236 | - | - | - | - | - | - | - | 338,390 | - | 338,390 |
| Issue of shares for acquisition of subsidiaries completed in previous year | 1,065 | 57,922 | - | - | - | - | (58,987) | - | - | - | - | - |
| Issue of shares for acquisition of intangible assets | 191 | 11,443 | - | - | - | - | 23,268 | - | - | 34,902 | - | 34,902 |
| Loss for the period | - | - | - | - | - | - | - | - | (320,495) | (320,495) | (7,720) | (328,215) |
| Currency translation differences | - | - | - | - | - | - | - | (7,345) | - | (7,345) | (1,246) | (8,591) |
| Share of other comprehensive income of an associate | - | - | - | - | - | - | - | 2 | - | 2 | - | 2 |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (7,343) | (320,495) | (327,838) | (8,966) | (336,804) |
| 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 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | Attributable to owners of the Company | | | | | | | | | | | |
|--|---|---------------------------|--|--|---------------------------------|-----------------------------------|-------------------------------------|--|--------------------------------|-------------------|--------------------------------------|--------------------------|
| | Share capital HK\$'000 <i>(Note 11)</i> | Share premium HK\$'000 | Convertible notes – equity component HK\$'000 | Land and buildings revaluation reserve HK\$'000 | Contributed surplus HK\$'000 | Share options reserve HK\$'000 | Deferred shares reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
| As at 1 January 2017 | 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 |
| Recognition of equity-settled share-based payment <i>(Note 12)</i> | - | - | - | - | - | 40,937 | 3,197 | - | - | 44,134 | - | 44,134 |
| Issue of shares upon conversion of convertible bonds | 98,000 | 377,116 | (96,630) | - | - | - | - | - | - | 378,486 | - | 378,486 |
| Issue of shares on exercise of share options | 77 | 679 | - | - | - | - | - | - | - | 756 | - | 756 |
| Lapse of share options | - | - | - | - | - | (265) | - | - | 265 | - | - | - |
| Release on dissolution of subsidiaries | - | - | - | - | - | - | - | (12) | - | (12) | - | (12) |
| Share premium balance transferred to contributed surplus <i>(Note)</i> | - | (1,603,052) | - | - | 1,603,052 | - | - | - | - | - | - | - |
| Contributed surplus set off against accumulated losses <i>(Note)</i> | - | - | - | - | (1,057,871) | - | - | - | 1,057,871 | - | - | - |
| Loss for the period | - | - | - | - | - | - | - | - | (202,756) | (202,756) | (7,354) | (210,110) |
| Currency translation differences | - | - | - | - | - | - | - | 4,764 | - | 4,764 | 1,349 | 6,113 |
| Share of other comprehensive income of joint ventures | - | - | - | - | - | - | - | (43) | - | (43) | - | (43) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | 4,721 | (202,756) | (198,035) | (6,005) | (204,040) |
| As at 30 June 2017 | 224,264 | 377,795 | - | 7,355 | 594,691 | 158,779 | 126,909 | 712 | (242,522) | 1,247,983 | 36,769 | 1,284,752 |

Note:

Pursuant to a special resolution passed at the annual general meeting held on 1 June 2017, on 2 June 2017 the entire sum standing to the credit of the share premium account of the Company was reduced to nil (the "Share Premium Reduction"); the credit arising from the Share Premium Reduction was transferred to the contributed surplus account of the Company ("Contributed Surplus Account"), and the directors of the Company were authorised to apply the credit standing in the Contributed Surplus Account to set-off the entire amount of the accumulated losses of the Company as at 31 December 2016 amounting to HK\$1,057,871,000.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Cash flows from operating activities | | |
| Loss before taxation | (209,698) | (173,623) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 15,825 | 10,353 |
| Amortisation of intangible assets | 14,371 | 10,164 |
| Loss on disposal of property, plant and equipment | 1,676 | – |
| Equity-settled share-based payment expenses | 44,134 | 44,740 |
| Net exchange gains | (3,335) | (549) |
| Fair value gains on investment properties | (1,100) | (197) |
| Share of losses of joint ventures | 592 | 626 |
| Loss on dissolution of joint ventures | 9 | – |
| Impairment loss on trade receivables | 365 | – |
| Write-down of inventories | 159 | – |
| Reversal of impairment loss on amount due from joint ventures | (3,938) | – |
| Interest income | (302) | (118) |
| Finance costs | 14,692 | 27,521 |
| Operating loss before working capital changes | (126,550) | (81,083) |
| Decrease/(increase) in trading merchandise goods | 353 | (308) |
| Increase in trade receivables, other receivables and prepayments | (76,487) | (112,869) |
| Increase in trade payables, other payables and accruals | 35,311 | 16,292 |
| Increase/(decrease) in deferred revenue | 19,687 | (9,062) |
| Cash used in operations | (147,686) | (187,030) |
| Hong Kong profits tax refunded | – | 131 |
| Overseas tax paid | (14) | (35) |
| Interest paid | (6,273) | (3,372) |
| Net cash used in operating activities | (153,973) | (190,306) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Cash flows from investing activities | | |
| Interest received | 390 | 118 |
| Purchases of property, plant and equipment | (51,939) | (4,044) |
| Proceeds from disposal of property, plant and equipment | 750 | – |
| Additions to intangible assets | (9,096) | (10,865) |
| Additions to investment properties | – | (1,203) |
| Advance to a joint venture | (725) | (914) |
| Increase in bank deposits with original maturity over three months | (7,649) | – |
| Proceeds from dissolution of joint ventures | 10,407 | – |
| Net cash flow from business combination | – | (4,997) |
| Net cash used in investing activities | (57,862) | (21,905) |
| Cash flows from financing activities | | |
| Proceeds from exercise of share options | 756 | – |
| Proceeds from issue of ordinary shares, net of issuing expenses | – | 344,625 |
| Repayment of obligations under finance leases | – | (2,568) |
| New borrowings | 5,139 | – |
| Repayment of borrowings | (8,014) | (12,227) |
| Repayment of promissory note | (35,000) | – |
| Decrease in amount due to a related party | – | (161) |
| Net cash (used in)/generated from financing activities | (37,119) | 329,669 |
| Net (decrease)/increase in cash and cash equivalents | (248,954) | 117,458 |
| Effect of foreign exchange rate changes | 2,682 | 2,004 |
| Cash and cash equivalents at 1 January | 465,838 | 344,726 |
| Cash and cash equivalents at 30 June | 219,566 | 464,188 |
| Represented by: | | |
| Bank balances and cash | 219,566 | 464,188 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 – “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis, as modified for investment properties, which are carried at fair value.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016.

In the current period, the Group has adopted all the new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the financial statements of the Group for both the current and prior reporting periods.

The Group has not early adopted the following new/revised HKFRSs that have been issued, potentially relevant to the Group’s operations, but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs. The Group is not yet in a position to state whether these new/revised HKFRSs will result in substantial changes to the Group’s accounting policies and financial statements:

| | | Effective date |
|------------------------------------|---|-----------------------|
| 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 | (iv) |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) | (ii) |
| Amendments to HKAS 40 | Transfers of Investment Property | (ii) |
| HKFRSs (Amendments) | Annual Improvements 2014-2016 Cycle | (i) |
| HKFRS 15 | Revenue from Contracts with Customers | (ii) |
| HKFRS 9 | Financial Instruments | (ii) |
| HKFRS 16 | Leases | (iii) |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration | (ii) |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments | (iii) |

Effective date:

- (i) Annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.
- (ii) Annual periods beginning on or after 1 January 2018.
- (iii) Annual periods beginning on or after 1 January 2019.
- (iv) 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. REVENUE AND SEGMENT REPORTING

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° 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.

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

| | Media entertainment | | Property investment | | Consolidated | |
|--|--------------------------|-------------|--------------------------|-------------|--------------------------|-------------|
| | For the six months ended | | For the six months ended | | For the six months ended | |
| | 30 June | | 30 June | | 30 June | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Reportable segment revenue from external customers | 412,353 | 344,198 | 4,104 | 3,935 | 416,457 | 348,133 |
| Reportable segment (loss)/profit | (87,977) | (44,565) | 3,585 | 3,554 | (84,392) | (41,011) |
| | As at | As at | As at | As at | As at | As at |
| | 30 June | 31 December | 30 June | 31 December | 30 June | 31 December |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Reportable segment assets | 1,359,493 | 1,304,834 | 217,178 | 214,932 | 1,576,671 | 1,519,766 |
| Reportable segment liabilities | 378,076 | 320,336 | 2,647 | 2,749 | 380,723 | 323,085 |

2. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

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

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Loss before taxation | | |
| Reportable segment loss | (84,392) | (41,011) |
| Fair value gains on investment properties | 1,100 | 197 |
| Share of losses of joint ventures | (592) | (626) |
| Auditor's remuneration | (536) | (668) |
| Depreciation of unallocated property, plant and equipment | (2,699) | (2,771) |
| Professional fees | (14,351) | (19,159) |
| Finance costs | (14,692) | (27,521) |
| Equity-settled share-based payment expenses | (44,134) | (44,740) |
| Unallocated rental expenses | (5,793) | (4,614) |
| Unallocated other revenue and gains | 4,411 | 326 |
| Unallocated corporate expenses* | (48,020) | (33,036) |
| Consolidated loss before taxation | (209,698) | (173,623) |

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

| | As at | |
|------------------------------------|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Assets | | |
| Reportable segment assets | 1,576,671 | 1,519,766 |
| Unallocated bank balances and cash | 145,832 | 357,950 |
| Unallocated corporate assets | 67,309 | 42,087 |
| Consolidated total assets | 1,789,812 | 1,919,803 |

| | As at | |
|---------------------------------------|-----------------------------|---------------------------------|
| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
| Liabilities | | |
| Reportable segment liabilities | 380,723 | 323,085 |
| Tax payable | 2,258 | 1,565 |
| Deferred tax liabilities | 47,928 | 46,267 |
| Convertible notes | – | 370,273 |
| Unallocated borrowings | 58,876 | 94,659 |
| Unallocated corporate liabilities | 15,275 | 18,526 |
| Consolidated total liabilities | 505,060 | 854,375 |

2. REVENUE AND SEGMENT REPORTING (continued)**Reportable segments (continued)**

(c) Geographic information

An analysis of the Group's revenue from external customers by geographic location is as follows:

| | For the six months ended 30 June | |
|-------------------------------|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Hong Kong (place of domicile) | 4,104 | 3,935 |
| Mainland China | 38,693 | 13,517 |
| The United States of America | 221,510 | 127,614 |
| Canada | 143,331 | 133,162 |
| United Kingdom | 2,962 | 61,480 |
| Europe | 514 | – |
| Other countries | 5,343 | 8,425 |
| | 416,457 | 348,133 |

3. FINANCE COSTS

| | For the six months ended 30 June | |
|----------------------|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Imputed interest on: | | |
| Convertible notes | 8,214 | 19,151 |
| Promissory note | 686 | 918 |
| Interests on: | | |
| Bank and other loans | 3,432 | 3,764 |
| Secured note | 2,360 | 3,538 |
| Finance leases | – | 150 |
| | 14,692 | 27,521 |

4. LOSS BEFORE TAXATION

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| This is arrived at after crediting/charging: | | |
| <i>Crediting:</i> | | |
| Interest income | 302 | 118 |
| <i>Charging:</i> | | |
| Staff costs (including directors' remuneration) | 421,218 | 355,377 |
| Depreciation of property, plant and equipment | 15,825 | 10,353 |
| Amortisation of intangible assets | 14,371 | 10,164 |

5. TAXATION

Taxation charged/(credited) in the unaudited condensed consolidated income statement represents:

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Current taxation – Hong Kong profits tax | – | – |
| Current taxation – Overseas tax | | |
| – provision for the period | 690 | 28 |
| – over-provision in respect of prior years | – | (2,589) |
| Deferred taxation | (278) | (897) |
| | 412 | (3,458) |

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods. No provision for Hong Kong profits tax has been made for both periods as the Group has estimated tax losses brought forward to offset against the estimated assessable profits. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. LOSS PER SHARE

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

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Loss for the purpose of basic loss per share | (202,756) | (158,882) |

| | Number of shares | |
|---|------------------|----------------|
| | 2017 | 2016 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 19,408,659,303 | 10,820,777,680 |

Diluted loss per share

Since both convertible notes and share options outstanding, and the shares to be issued to the former option holders of share options of a subsidiary for replacement of the options during the current and prior periods 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 share options of a subsidiary were not assumed in the computation of diluted loss per share. Except for the above, there is no other dilutive potential share during the current and prior periods. Therefore, the basic and diluted loss per share in the current and prior periods are equal.

7. INVESTMENT PROPERTIES

| | |
|---------------------------|----------------|
| | HK\$'000 |
| FAIR VALUE | |
| As at 1 January 2017 | 210,600 |
| Fair value gains | 1,100 |
| As at 30 June 2017 | 211,700 |

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK\$4,104,000 (2016: HK\$3,935,000). Direct operating expenses arising from the investment properties during the period amounted to HK\$538,000 (2016: HK\$326,000).

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.

The fair value of the Group's investment properties as at 30 June 2017 have been arrived at on market value basis carried out by DTZ Cushman & Wakefield Limited, an independent firm of professionally qualified valuers, whose staff are qualified members of Hong Kong Institute of Surveyors with recent experience in the locations and category of properties being valued. Based on this valuation, it gave rise to fair value gains of HK\$1,100,000 during the period (2016: HK\$197,000).

8. 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 |
| COST | | | | | | | | |
| As at 1 January 2017 | 689,937 | 148,177 | 107,977 | 259,027 | 103,753 | 26,082 | 31,446 | 1,366,399 |
| Additions | - | - | 9,096 | - | - | - | - | 9,096 |
| Exchange realignment | (165) | 5,552 | 1,294 | 1,690 | 2,540 | - | - | 10,911 |
| As at 30 June 2017 | 689,772 | 153,729 | 118,367 | 260,717 | 106,293 | 26,082 | 31,446 | 1,386,406 |
| ACCUMULATED AMORTISATION | | | | | | | | |
| As at 1 January 2017 | - | - | 69,762 | 253,693 | 5,213 | 4,416 | 3,593 | 336,677 |
| Amortisation for the period | - | - | 7,203 | 1,194 | 2,637 | 1,698 | 1,639 | 14,371 |
| Exchange realignment | - | - | 663 | 1,660 | (137) | - | - | 2,186 |
| As at 30 June 2017 | - | - | 77,628 | 256,547 | 7,713 | 6,114 | 5,232 | 353,234 |
| CARRYING AMOUNT | | | | | | | | |
| As at 30 June 2017 | 689,772 | 153,729 | 40,739 | 4,170 | 98,580 | 19,968 | 26,214 | 1,033,172 |
| As at 31 December 2016 | 689,937 | 148,177 | 38,215 | 5,334 | 98,540 | 21,666 | 27,853 | 1,029,722 |

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 days (2016: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debts, based on due date, is as follows:

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|-----------------------------|--------------------------------------|---------------------------------|
| Trade receivables by ageing | | |
| Current | 19,091 | 4,980 |
| 1 to 30 days | 14,993 | 28,218 |
| 31 to 60 days | 4,038 | 2,844 |
| 61 to 90 days | 2,978 | 2,027 |
| Over 90 days | 15,792 | 18,750 |
| Total trade receivables | 56,892 | 56,819 |
| Accrued income | – | 25,779 |
| Other receivables | 36,187 | 13,782 |
| Deposits | 31,667 | 27,149 |
| Prepayments | 98,063 | 23,246 |
| | 222,809 | 146,775 |

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

| | 30 June 2017 HK\$'000 | 31 December 2016 HK\$'000 |
|--------------------------|--------------------------------------|---------------------------------|
| Trade payables by ageing | | |
| Current | 4,117 | 6,117 |
| 1 to 30 days | 6,314 | 3,030 |
| 31 to 60 days | 2,121 | 2,666 |
| 61 to 90 days | 5,117 | 4,298 |
| Over 90 days | 9,375 | 4,147 |
| Total trade payables | 27,044 | 20,258 |
| Other payables | 35,547 | 36,438 |
| Accruals | 74,092 | 45,157 |
| | 136,683 | 101,853 |

11. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$'000 |
|--|------------------------------|--------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| As at 31 December 2016 and 30 June 2017 | 75,000,000,000 | 750,000 |
| Issued and fully paid: | | |
| As at 31 December 2016 | 12,618,695,716 | 126,187 |
| Issue of shares on exercise of share options | 7,710,000 | 77 |
| Issue of shares on conversion of convertible notes | 9,800,000,000 | 98,000 |
| As at 30 June 2017 | 22,426,405,716 | 224,264 |

12. SHARE-BASED PAYMENT TRANSACTIONS

On 13 February 2017, 300,000,000 share options ("Options") were conditionally granted to an employee of the Group (the "Grantee"), subject to the approval by the shareholders of the Company. The Options have immediately vested on 13 February 2017, and will be exercisable from 13 February 2017 until 12 February 2027. The exercise price of the Options is HK\$0.469, being the average closing price of the Company's ordinary shares for the five business days immediately before 13 February 2017. The Options conditionally granted to the Grantee were approved by the shareholders of the Company at the annual general meeting held on 1 June 2017.

During the six months ended 30 June 2016, 479,500,000 share options were granted to one director and certain employees and advisors of the Group (the "Grantee"). Under the share option scheme of the Company, the Grantee paid the Company HK\$1 as consideration for the grant of the share options. Each option gives the holder the right to subscribe for ordinary shares of the Company at an exercise price of HK\$0.413 to HK\$0.495 per share.

During the six months ended 30 June 2017, 11,133,328 (2016: 20,720,000) share options were forfeited and 7,710,000 (2016: Nil) share options were exercised.

As at 30 June 2017, the average exercise price of share options outstanding is HK\$0.32 (As at 31 December 2016: HK\$0.29) and their average remaining contractual life is 7.96 years (As at 31 December 2016: 8.10 years).

The fair value of services received in return for the grant on shareholders' approval date is measured by reference to the fair value of share options granted. The fair value of the share options is determined based on binomial option pricing model. The weighted average fair value of each option granted during the six months ended 30 June 2017 was HK\$0.068. The key valuation parameters are as follows:

| | |
|--|-----------|
| Share price at grant date | HK\$0.315 |
| Exercise price | HK\$0.469 |
| Expected volatility | 40% |
| Life of the share options | 10 years |
| Expected dividend yield | 0% |
| Risk-free rate | 1.24% |
| Forfeiture rate | 5% |
| Suboptimal exercise behaviour multiple | 1.40 |

12. SHARE-BASED PAYMENT TRANSACTIONS (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 1 June 2017. 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 were no market vesting conditions associated with the share options granted.

Under this share option scheme, the Group has recognised an equity-settled share-based payment expenses of HK\$40,937,000 (2016: HK\$41,542,000) during the six months ended 30 June 2017.

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 six months ended 30 June 2017 an amount of approximately HK\$3,197,000 (2016: HK\$3,198,000) was recognised as remuneration costs in profit or loss.

In aggregate, the Group has recognised an equity-settled share-based payment expenses of HK\$44,134,000 (2016: HK\$44,740,000) during the six months ended 30 June 2017.

13. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2017, the Group had the following material related party transaction:

| Related party relationship | Type of transaction | For the six months ended 30 June | |
|---|---------------------|----------------------------------|------------------|
| | | 2017 HK\$'000 | 2016 HK\$'000 |
| Related companies of the non-controlling interest | Production costs | – | 22 |

14. CAPITAL COMMITMENT

The Group did not have any significant capital commitment as at 30 June 2017 and 31 December 2016.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group achieved a revenue of HK\$416,457,000 (2016: HK\$348,133,000), showing a modest growth of approximately 20% compared to that of the previous corresponding period. The increase in turnover was mainly attributable to the (i) post-production business that the Group acquired in April 2016 and (ii) visual effects and virtual reality businesses. The gross profit of the Group amounted to HK\$60,479,000 (2016: HK\$62,327,000) during the Review Period. As at 30 June 2017, the total assets of the Group amounted to HK\$1,789,812,000 (as at 31 December 2016: HK\$1,919,803,000). The loss attributable to owners of the Company was HK\$202,756,000 (2016: HK\$158,882,000). The loss for the Review Period was approximately HK\$210,110,000 (2016: HK\$170,165,000). The loss for the Review Period was mainly caused by:

- (i) the recognition of non-cash outflow expenses, including:
 - (a) equity-settled share-based payments for the share options granted in 2014 to 2017 respectively to the value of HK\$40,937,000 (2016: HK\$41,542,000);
 - (b) amortisation and depreciation expenses to the value of HK\$30,196,000 (2016: HK\$20,517,000); and
 - (c) imputed interest expenses for the convertible notes and a promissory note to the value of HK\$8,900,000 (2016: HK\$20,069,000).
- (ii) increased administrative and other project 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 and public relations); and
- (iii) operating losses from the media entertainment segment.

Media Entertainment Segment

During the Review Period, this segment recorded a revenue of approximately HK\$412,353,000 (2016: HK\$344,198,000). The revenue from this segment accounted for approximately 99% of the Group's revenue for the Review Period. This segment incurred a loss of approximately HK\$87,977,000 (2016: HK\$44,565,000). The loss was primarily due to operating losses (including amortisation and depreciation expenses). 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\$60,481,000 (2016: HK\$26,819,000).

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. Virtual Reality (“VR”) and 360° Video Production

This segment includes businesses offering 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.

Between January and August 2017, Digital Domain’s VR and 360° camera team executed several livestream broadcasts, including:

- **The Golden Globe Awards Red Carpet:** Exclusive 360° footage of popular actors and entertainment personalities as they entered the awards ceremony.
- **2017 Presidential Inauguration:** This curated livestream of the 58th presidential inauguration of the United States of America (“US”) was the first-ever immersive 360° broadcasts of this globally significant event.
- **Grammy Award Red Carpet:** Giving audiences the opportunity to see their favorite music stars at the red carpet entrance to the acclaimed music industry awards.
- **Academy Awards Red Carpet:** 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.
- **2017 Met Gala:** In a partnership between Digital Domain, The Met Gala, Facebook, Moet and Vogue, this was the Met Gala’s first 360° broadcast.
- **Ultimate Fighting Championship (UFC) 212 Aldo vs. Holloway:** Samsung Gear VR owners watch its next pay-per-view headline event – UFC 212 – as a 360° audio-visual live stream, along with a pre- and post-match show.
- **X Games Minneapolis 2017:** For the first in the history of the event, ESPN, alongside Samsung and Digital Domain, will offer live productions of select events in virtual reality. Three X Games disciplines – Skateboard Vert, BMX Street and Skateboard Street Amateurs – will be streamed live exclusively to 48 countries on Samsung Gear VR through the Samsung VR app.
- **2017 Miss Teen USA:** 360° livestream of the 2017 competition.
- **Samsung Unpacked:** 360° livestream of Samsung’s global Galaxy launch.
- **2017 CCTV Spring Festival Gala:** Teamed up with China Central Television (CCTV) to produce a VR promotional video for the Xichang session. Digital Domain worked with the Xichang session of the Spring Festival Gala to connect with parallel sessions in Shanghai, Guilin and Harbin. The Xichang session adopted “fire” as the theme of the Gala to represent its city, the capital of Liangshan Prefecture, and to honor the importance of the fire element in the Yi ethnic group. The bright red fiery scenes in Liangshan were a sharp contrast to the ice and snow scenery in the distant Harbin.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. Virtual Reality (“VR”) and 360° Video Production (continued)

- **Smartisan Technology New Product Launch, Spring 2017:** Digital Domain became Smartisan’s exclusive partner to VR live stream the much-anticipated Smartisan Release Conference on 9 May 2017. Digital Domain’s leading VR technology, as well as its latest VR 360° camera Kronos, were used in the event. With VR devices, Fans of Smartisan were able to get an unparalleled immersive watching experience and meet the new mobile phone at zero distance, as of 23:00 that very day, online cumulative viewing had exceeded 700,000.

Between January and August 2017, Digital Domain’s VR teams created original content including:

- **Skydance Interactive “Archangel”:** Realtime 3D interactive VR game on Sony PlayStation®VR. The game won best VR experience of E3.
- **Digital Domain’s “Monkey King”:** An action-packed cinematic virtual reality series born from 16th Century Chinese mythology and explored through 21st Century technology.
- **Hong Kong International Film and Television Exhibition 2017 (FILMART 2017):** The Company released the trailer of its latest VR creation, Micro Giants. Depicting real-world insect behaviours and jungle conditions, *Micro Giants* offers a unique sensory experience while sharing in story form the laws of the insect kingdom.

In addition to the Flagship Digital Domain App, Digital Domain also created several Apps for partners, including:

- **The National Basketball Association, USA (NBA):** Digital Domain created a new series called “*House of Legends*” for NBA VR app within the Google Daydream VR platform.
- **Modern Times Group, Sweden (MTG):** Digital Domain created and launched Viareal, a VR app that offers viewers in the Nordic region immersive and interactive experiences.
- **Sky TV, UK (Sky):** Digital Domain created and launched their new VR app that puts viewers at the heart of the action like never before. The app allows viewers to enjoy fully immersive VR content that would make viewers feel like they are actually there.

2017 International Consumer Electronics Show (“CES”)

During the CES 2017, 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 at CES 2017 in Las Vegas.

2017 Comic-Con International San Diego (“Comic-Con”)

During the 2017 Comic-Con, the Company launched its original virtual reality series, “*Monkey King*” on Sony PlayStation®VR. The studio’s first cinematic VR experience is an epic fantasy starring the mythological Chinese character set in a lush 360° environment. Press and consumers were able to experience the first chapter in the series in a Digital Domain-branded booth.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

B. Visual Effects (“VFX”) Productions

This segment also provides VFX production services for major motion picture studios, advertisers and games. Since 1 January 2017, the artists of the Group have completed VFX production services for feature films “*Beauty and the Beast*”, “*Fast and Furious 8*” and “*SpiderMan: Homecoming*”, Saban’s “*Power Rangers*”, Spike’s “*The Mist*”, and marketing campaigns for major brands including NBA, BMW, Dell, Electronic Arts, and Budweiser Bud Light. The Digital Domain Motion Capture studio was also utilized for Sucker Punch (video game), The Mummy and Archangel.

A wholly-owned subsidiary of the Company based in the United States (“US Subsidiary”) has used a combination of physical equipment and intellectual property to record images of human faces (“Disputed IP”). Disputed IP is one of several different technologies available to capture elements of a human face prior to visual effects enhancements that create the final image. US Subsidiary’s use of Disputed IP had been under a 2013 license from an unaffiliated company based in China (“Original Owner”).¹

In 2014, a dispute over ownership of Disputed IP between the Original Owner and another company based in the United States (“Claimant”) resulted in the filing of a lawsuit (the “Lawsuit”) in the United States District Court, Northern District of California. Neither Original Owner nor Claimant is a member company of the Group. On 11 August 2017, the court issued a statement of decision which concluded that Claimant owned Disputed IP. US Subsidiary had already used alternate technologies.

Recently, Claimant filed four separate lawsuits against certain clients of US Subsidiary relating to the use of Disputed IP in certain visual effects projects that US Subsidiary had completed (“Other Lawsuits”). In its production services agreements for these projects, US Subsidiary had agreed to indemnify these clients for claims arising from allegations that technology that it used was not properly licensed or acquired. As a result, these clients have requested or will request that US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits.

The US Subsidiary is in the course of seeking legal advice in respect of the request for indemnity by US Company’s clients. The Group is not yet in a position to state whether the above lawsuits will result in substantial adverse impact to the operations of the Group.

C. Post-Production Work Business

Through the investment in Lucrative Skill Holdings Limited (“Lucrative Skill”) – the holding company of the Post Production Office group of companies (collectively rebranded as “DDPO” – upon completion of 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 featured films.

In 2017, DDPO continued to provide post-production services for various high-profile commercials profiling leading brands like McDonald’s, Apple, L’Oréal, Huawei, Mercedes-Benz, Coca-Cola, Bvlgari, Amazon, Disney, Air China, Hermes, etc. There was a VR type commercial for Porsche Panamera.

¹ Another subsidiary of the Company has agreed in 2015 to purchase the Disputed IP, the completion of the transfer of such Disputed IP is subject to the favourable outcome of the Lawsuit.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

C. Post-Production Work Business (continued)

Featured films projects included star-studded “Wolf Warrior 2”, “Cook up a storm”, “Journey to the West: The Demons Strike Back”, “The Wasted Times” and “Our Shining Days”, etc.

During the period under review, this business unit has expanded into VR/360° production for commercials, MTV, concerts, and feature film trailers for online media broadcast. The key projects it conducted in 2017 include: “Spring Festival Gala”, “The Hammer Live”, “China’s Youth Day”, etc.

D. 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 cooperation framework agreement (“Framework Agreement”) for the formation of a joint venture company to engage in the production and utilisation of 3D hologram technology of 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 in the production of a series of 3D holograms of Miss Teng, targeting audiences in the Chinese communities around the world. The latest 3D hologram technology can be widely applied in the entertainment business, including – but not limited to – concerts, albums, movies and advertisements.

In May 2017, the Digital Domain Group unveiled Teresa Teng Magical Musical in 5D with “Virtual Human Miss Teresa Teng” appearance through collaboration with Syntrend Creative Park. The show was presented from 6 to 10 May 2017 at the Syntrend Clapper Studio in Taipei. This show showcased the results of the long-term collaboration between Digital Domain and Syntrend Creative Park in expanding the use of “virtual humans” in cultural and entertainment industries through the use of new technology. Certain Virtual Human Miss Teresa Teng concerts has been planned in 2017. Making use of a virtual image reconstruction technique, the Group reproduced the glamour of the Taiwanese pop diva on stage.

Corporate Event

The Company held its 2017 strategy conference in Hong Kong. During the event, the Company announced new industry leaders joining its ranks, and shared Digital Domain’s global business updates, particularly its Greater China development strategies. Digital Domain also showcased its latest capabilities on VFX, VR and applications of virtual human Teresa Teng. At the conference, Digital Avatar, a technology researched and developed by Digital Domain, was unveiled to the world.

The newly appointed Board members of Digital Domain presented at the strategy conference, including:

- (a) Mr. PU Jian, Non-executive Director, who is the Executive Director, vice president, and member of the executive committee of CITIC Limited (“CITIC”);
- (b) Dr. Alan SONG, Non-executive Director, who is the managing partner of SB China Venture Capital (“Softbank China”); and
- (c) Mr. WEI Ming, Executive Director, Vice Chairman of the Board and CEO of Greater China of the Company.

FINANCIAL AND BUSINESS REVIEW (continued)

Corporate Event (continued)

Mr. John LAGERLING, another newly appointed Independent Non-executive Director, former vice president of business development for mobile and product partnerships, Facebook, Inc. participated the event by giving a speech via a video.

The Digital Avatar technology unveiled at the event is actually an adaption for the consumer of motion capturing technology first used in professional movies and game productions. It is a technological breakthrough in that it allows for the first time to capture and transfer expressions in real time. Thanks to Digital Domain's proprietary technology, consumers can create their own avatars in the virtual world by using just a consumer-grade lens. Using the lowest cost, the highest efficiency and the best effects, what was technology originally existing only in B2B has been upgraded for use in B2C. Digital Avatar holds the hope of ushering in change to so many application areas, such as e-commerce applications and virtual social interactions.

Property Investment Segment

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

During the Review Period, the revenue of this segment increased by approximately 4% to HK\$4,104,000 (2016: HK\$3,935,000). The revenue accounted for approximately 1% of the Group's overall revenue during the Review Period. The profit of this segment increased during the Review Period, amounting to HK\$3,585,000 (2016: HK\$3,554,000).

INTERESTS IN JOINT VENTURES

Joint venture with Tencent

During the Review Period, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 700)) was HK\$9,000. 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 new business model to enhance the co-operation between 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 joint venture was completed in the first half of 2017.

CAPITAL

Shares

As at 30 June 2017, the total number of shares of the Company of HK\$0.01 each in issue was 22,426,405,716 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 Review Period and since the grant-date (28 May 2014), 7,710,000 share options were exercised. No share options were cancelled or lapsed during the Review Period 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 Review Period, no share options were exercised. 10,000 share options have been exercised since the grant-date (6 May 2015). No share options were cancelled or lapsed during the Review Period and 3,000,000 share options were cancelled or lapsed since the grant-date (6 May 2015).

CAPITAL (continued)

Share Options (continued)

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. During the Review Period, no share options were exercised and 1,999,999 share options were cancelled or lapsed. No share options were exercised and 21,999,999 share options were cancelled or lapsed since the grant-date (29 January 2016).

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 Review Period and since the grant-date (22 June 2016), 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 Review Period, no share options were exercised and 9,133,329 share options were cancelled or lapsed. No share options were exercised and 9,266,661 share options were cancelled or lapsed since the grant-date (29 July 2016).

On 13 February 2017, a total of 300,000,000 share options were granted under the Company's share option scheme to a grantee. The share options entitle the grantee to subscribe for up to a total of 300,000,000 new shares at an exercise price of HK\$0.469 per share. For details, please refer to the Company's announcements dated 13 February 2017 and 1 June 2017, and the circular dated 27 April 2017. During the Review Period, no share options were exercised, cancelled or lapsed.

Convertible Notes

On 27 January 2017, the Company received conversion notices from three holders of convertible notes, CITIC, SBCVC Digital Fund, L.P. and Zheng Hao Investments Limited 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, was issued to the holders of the convertible notes on 7 February 2017.

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.

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.

As at 30 June 2017, the Group had banking facilities in the form of instalment loans for a principal amount of approximately HK\$53,967,000. These banking facilities were secured by the Group's investment properties with the aggregate net book value of HK\$211,700,000 as at 30 June 2017. The Group also had a working capital loan facility in amount of HK\$15,433,000 and HK\$5,139,000 was drawn down during the Review Period. It was secured by time deposit amounted to HK\$7,649,000. During the Review Period, the Group had a working capital loan for a principal amount of approximately HK\$6,544,000 and this working capital loan was fully repaid in the Review Period. This working capital loan was secured by (a) future receipts from participation rights in the film Ender's Game and (b) 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\$105,124,000 as at 30 June 2017. Other loans include a loan in amount 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 June 2017. 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 30 June 2017 was US\$10 million. This loan was 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).

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive Ventures, Inc. ("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"). 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 respectively.

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 in amount of HK\$65 million was issued. As at 31 December 2016, the outstanding amount of the promissory note was HK\$34 million and it was fully settled in April 2017. For details, please refer to the Company's announcements dated 22 January 2016 and 14 April 2016 respectively.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO (continued)

The total cash and bank balance (including bank deposits with original maturity over three months) as at 30 June 2017 was approximately HK\$227,215,000. As at 30 June 2017, the Group had banking facilities of approximately HK\$69,400,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK\$58,876,000 are denominated in Hong Kong dollars and loans amounting to approximately HK\$5,139,000 are denominated in Renminbi. During the Review Period, 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 30 June 2017 was spread over a period of 15 years, with approximately 6% repayable within one year, 6% repayable between one to two years, 18% repayable between two to five years and 70% repayable after five years.

The Group's current assets were approximately HK\$450,149,000 while the current liabilities were approximately HK\$241,830,000 as at 30 June 2017. As at 30 June 2017, the Group's current ratio was 1.9 (as at 31 December 2016: 1.0).

As at 30 June 2017, the Group's gearing ratio, representing the Group's bank loans, other loans, convertible notes, obligations under finance leases, secured notes and promissory note divided by the equity attributable to owners of the Company was 23% (as at 31 December 2016: 68%).

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 Review Period. As some of the financial statements for the business operations in North America and Mainland 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 Mainland China 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.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2017, the total headcount of the Group was 987. 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 proactively seek new projects and business opportunities despite the 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 business. The Group already set up its own studio in Hyderabad, India for VFX and VR productions. With the expansion in China and India, this will increase the working capacity of the Group and reduce the production cost in the long run. The effectiveness and efficiency of this kind of expansions will be reflected in the coming years.

Building on the patents acquired from Immersive and Micoy Corporation, 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 2017, the Company made advances in 360° livestreaming, producing virtual reality experiences for events in North American Region. With the Company's new and innovative super high-definition 360° VR cameras, Zeus, Kronos and future new models, the Group is well positioned for further expansion in 360° shooting and livestreaming in VR business.

Besides 360° shooting and livestreaming, the Group also develops VR cinematic series and/or 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. Other VR products will be launched in the second half of 2017.

With the successful performance of the Virtual Human Miss Teresa Teng Musical Show in Taipei, the Group is also in discussion with other business partners on collaborations with respect to movies and TV series as well as variety shows and concerts for virtual human Teresa Teng. The Group will continue to explore business opportunities in virtual human aspects by developing new technologies which will enhance the interactive function between virtual human and 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 the year 2016) as well as recruitment of global talent in order to upgrade its shareholding and management structures from a corporate perspective.

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

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.

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

| Name and category of participant | Number of Options | | | | At 30 June 2017 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|----------------------------------|--------------------------------|----------------------------------|------------------------------------|--|-----------------|---------------|--------------------------|---------------------------------|
| | At 1 January 2017 | Granted during the Review Period | Exercised during the Review Period | Cancelled/ lapsed during the Review Period | | | | |
| Directors | | | | | | | | |
| 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 |

SHARE OPTION SCHEME (continued)

| Name and category of participant | Number of Options | | | | At 30 June 2017 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|----------------------------------|--------------------------------|----------------------------------|------------------------------------|--|----------------------|---------------|--------------------------|---------------------------------|
| | At 1 January 2017 | Granted during the Review Period | Exercised during the Review Period | Cancelled/ lapsed during the Review Period | | | | |
| Employees of the Group | | | | | | | | |
| 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 |
| Wei Ming | - | 300,000,000 (Note 9) | - | - | 300,000,000 | 13/02/2017 | 13/02/2017 to 12/02/2027 | 0.469 |
| Other employees, in aggregate | 391,300,000 (Note 2) | - | (7,710,000) | - | 383,590,000 | 28/05/2014 | 28/05/2017 to 27/05/2024 | 0.098 |
| | 20,990,000 (Note 4) | - | - | - | 20,990,000 | 06/05/2015 | 06/05/2015 to 05/05/2025 | 1.320 |
| | 20,000,000 (Note 4) | - | - | - | 20,000,000 | 06/05/2015 | 06/05/2016 to 05/05/2025 | 1.320 |
| | 19,000,000 (Note 4) | - | - | - | 19,000,000 | 06/05/2015 | 06/05/2017 to 05/05/2025 | 1.320 |
| | 93,166,677 (Note 5) | - | - | - | 93,166,677 | 29/01/2016 | 29/01/2016 to 28/01/2026 | 0.413 |
| | 83,166,665 (Note 5) | - | - | - | 83,166,665 | 29/01/2016 | 29/01/2017 to 28/01/2026 | 0.413 |
| | 83,166,658 (Note 5) | - | - | (1,999,999) | 81,166,659 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 0.413 |
| | 50,000,000 (Note 7) | - | - | - | 50,000,000 | 22/06/2016 | 22/6/2017 to 21/06/2026 | 0.495 |
| | 50,000,000 (Note 7) | - | - | - | 50,000,000 | 22/06/2016 | 22/6/2018 to 21/06/2026 | 0.495 |
| | 16,666,692 (Note 8) | - | - | - | 16,666,692 | 29/07/2016 | 29/07/2016 to 28/07/2026 | 0.566 |
| | 16,599,996 (Note 8) | - | - | (4,566,665) | 12,033,331 | 29/07/2016 | 29/07/2017 to 28/07/2026 | 0.566 |
| | 16,599,980 (Note 8) | - | - | (4,566,664) | 12,033,316 | 29/07/2016 | 29/07/2018 to 28/07/2026 | 0.566 |
| Total | 1,423,656,668 | 300,000,000 | (7,710,000) | (11,133,328) | 1,704,813,340 | | | |

SHARE OPTION SCHEME (continued)

Notes:

1. Options are valid for 10 years from the date of grant.
2. Options granted on 28 May 2014 are 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 are 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 are 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 are 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 are 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.
9. The Options conditionally granted to Mr. Wei Ming on 13 February 2017 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 1 June 2017 and are exercisable from the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.465 per share. Mr. Wei Ming was appointed as an executive Director and the vice chairman of the Board on 5 July 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2017, 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) | 11.46% |
| | Interest of controlled corporation (Note 1) | 602,561,746 | – | 602,561,746 (Short position) | 2.69% |
| 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% |
| 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% |

Notes:

- 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.
- 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.
- 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.
- 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”.
- 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.
- 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 30 June 2017, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30 June 2017, 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% |
| 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% |

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 |
|--------------------------------------|---|------------------------------|---|---|---|
| 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) | 22.46% |
| Tang Elaine Yilin | Interest of controlled corporation (Note 11) | 5,037,200,000 | – | 5,037,200,000 (Long position) | 22.46% |
| CITIC Limited | Interest of controlled corporation (Note 12) | 2,281,818,182 | – | 2,281,818,182 (Long position) | 10.17% |
| CITIC Group Corporation | Interest of controlled corporation (Note 12) | 2,281,818,182 | – | 2,281,818,182 (Long position) | 10.17% |
| SBCVC Digital Fund, L.P. | Beneficial owner (Note 13) | 2,281,818,182 | – | 2,281,818,182 (Long position) | 10.17% |
| SBCVC Management V, L.P. | Interest of controlled corporation (Note 13) | 2,281,818,182 | – | 2,281,818,182 (Long position) | 10.17% |

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.
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 30 June 2017, 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.

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 30 June 2017, 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 Review Period.

CORPORATE GOVERNANCE

During the Review Period, the Company was in compliance with the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules except for the following:

- (a) The Chairman of the Board of the Company 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;
- (b) 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
- (c) Due to other pre-arranged business commitments which must be attended to by Mr. Peter Chou, the Chairman of the Board and Ms. Lau Cheong, the independent non-executive Director, they were not present at the annual general meeting of the Company held on 1 June 2017.

CHANGES IN DIRECTOR’S INFORMATION

Pursuant to Rule.13.51B(1) of the Listing Rules, changes in the Director’s information are set out as follows:

Mr. Wong Ka Kong Adam, the independent non-executive Director, currently holds a senior executive position in the corporate investment function of a Shenzhen main board listing conglomerate.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ securities transactions.

Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the Review Period.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the interim report of the Company for the Review Period.

By Order of the Board
Seah Ang
Executive Director and Chief Executive Officer