



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 2019 (the “Review Period”) together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | Notes | For the six months ended 30 June | |
|--|-------|----------------------------------|------------------|
| | | 2019 HK\$'000 | 2018 HK\$'000 |
| Revenue | 4 | 284,429 | 342,405 |
| Cost of sales and services rendered | | (227,832) | (301,255) |
| Gross profit | | 56,597 | 41,150 |
| Other income and gains | | 73,237 | 13,881 |
| Selling and distribution expenses | | (10,238) | (12,803) |
| Administrative expenses and other net operating expenses | | (245,659) | (259,512) |
| Finance costs | 5 | (42,117) | (9,403) |
| Fair value gains on investment properties | 14(b) | 700 | 3,800 |
| Gain on disposal of subsidiaries | 14 | 99,293 | – |
| Impairment loss on amounts due from associates | | (93,289) | – |
| Share of losses of associates | | (5,787) | (10,262) |
| Share of (losses)/profits of joint ventures | | (1) | 22 |
| Loss before taxation | 6 | (167,264) | (233,127) |
| Taxation | 7 | 1,552 | 4,015 |
| Loss for the period | | (165,712) | (229,112) |
| Loss attributable to: | | | |
| – Owners of the Company | | (161,625) | (225,620) |
| – Non-controlling interest | | (4,087) | (3,492) |
| | | (165,712) | (229,112) |
| Loss per share: | 8 | | |
| – Basic and diluted | | HK cent (0.556) | HK cent (0.874) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Loss for the period | (165,712) | (229,112) |
| Other comprehensive income | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Currency translation differences | 6,897 | (4,368) |
| Share of other comprehensive income of associates | 82 | (12,883) |
| Share of other comprehensive income of joint ventures | (1) | (11) |
| Net other comprehensive income that may be reclassified subsequently to profit or loss | 6,978 | (17,262) |
| <i>Items that will not be reclassified to profit or loss:</i> | | |
| Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax | (57,382) | – |
| Net other comprehensive income that will not be reclassified to profit or loss | (57,382) | – |
| Other comprehensive income for the period, net of tax | (50,404) | (17,262) |
| Total comprehensive income for the period | (216,116) | (246,374) |
| Total comprehensive income attributable to: | | |
| – Owners of the Company | (212,667) | (241,038) |
| – Non-controlling interest | (3,449) | (5,336) |
| | (216,116) | (246,374) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

| | Notes | Unaudited 30 June 2019 HK\$'000 | Audited 31 December 2018 HK\$'000 |
|--|-------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | | 80,418 | 106,917 |
| Right-of-use assets | | 118,176 | – |
| Intangible assets | 10 | 1,416,292 | 1,460,853 |
| Interests in associates | | 68,439 | 5,705 |
| Interests in joint ventures | | 16 | 16 |
| Financial asset measured at fair value through other comprehensive income | 11 | 108,594 | 165,976 |
| Deposits and prepayments | 12 | 11,216 | 12,585 |
| Deferred tax assets | | 15,749 | – |
| | | 1,818,900 | 1,752,052 |
| Current assets | | | |
| Inventories | | 17,716 | 16,253 |
| Trade receivables, other receivables and prepayments | 12 | 292,175 | 164,394 |
| Contract assets | | 5,269 | 7,731 |
| Bank balances and cash | | 271,603 | 75,926 |
| | | 586,763 | 264,304 |
| Assets of a disposal group classified as held for sale | 9 | – | 208,483 |
| Current liabilities | | | |
| Trade payables, other payables and accruals | 13 | 126,781 | 138,441 |
| Lease liabilities | | 56,620 | – |
| Contract liabilities | | 30,831 | 28,892 |
| Borrowings | | 147,355 | 328,829 |
| Obligations under finance leases | | – | 13,982 |
| Contingent consideration payable | | 54,776 | 43,468 |
| Tax payable | | 4,130 | 2,465 |
| | | 420,493 | 556,077 |
| Liabilities of a disposal group classified as held for sale | 9 | – | 95 |
| Net current assets/(liabilities) | | 166,270 | (83,385) |
| Total assets less current liabilities | | 1,985,170 | 1,668,667 |
| Non-current liabilities | | | |
| Borrowings | | 165,183 | 225,142 |
| Lease liabilities | | 103,402 | – |
| Obligations under finance leases | | – | 11,873 |
| Contingent consideration payable | | – | 55,075 |
| Deferred tax liabilities | | 65,723 | 66,621 |
| | | 334,308 | 358,711 |
| Net assets | | 1,650,862 | 1,309,956 |
| Capital and reserves | | | |
| Share capital | 15 | 320,561 | 267,314 |
| Reserves | | 1,255,612 | 964,160 |
| Equity attributable to owners of the Company | | 1,576,173 | 1,231,474 |
| Non-controlling interest | | 74,689 | 78,482 |
| Total equity | | 1,650,862 | 1,309,956 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---------------------------------------|---------------------------|---------------------------|--|---------------------------------|-----------------------------------|-------------------------------------|--|---------------------------|--------------------------------|-------------------|--------------------------------------|--------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | FVOCI reserve 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 | Other reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
| As at 1 January 2018 | 244,418 | 840,678 | - | 7,355 | 594,690 | 167,762 | 64,950 | 4,557 | 16,608 | (563,545) | 1,377,473 | 25,558 | 1,403,031 |
| Recognition of equity-settled share-based payment | - | - | - | - | - | 2,495 | 3,198 | - | - | - | 5,693 | - | 5,693 |
| Issue of shares on subscription, net of expenses | 21,757 | 387,382 | - | - | - | - | - | - | - | - | 409,139 | - | 409,139 |
| Issue of shares on exercise of share options | 5 | 14 | - | - | - | (17) | - | - | - | 17 | 19 | - | 19 |
| Additions from business combination | - | - | - | - | - | - | - | (5) | - | - | (5) | 63,341 | 63,336 |
| Loss for the period | - | - | - | - | - | - | - | - | - | (225,620) | (225,620) | (3,492) | (229,112) |
| Currency translation differences | - | - | - | - | - | - | - | (2,524) | - | - | (2,524) | (1,844) | (4,368) |
| Share of other comprehensive income of associates | - | - | - | - | - | - | - | (142) | (12,740) | - | (12,882) | - | (12,882) |
| Share of other comprehensive income of joint ventures | - | - | - | - | - | - | - | (11) | - | - | (11) | - | (11) |
| Total comprehensive income for the period | - | - | - | - | - | - | - | (2,677) | (12,740) | (225,620) | (241,037) | (5,336) | (246,373) |
| As at 30 June 2018 and 1 July 2018 | 266,180 | 1,228,074 | - | 7,355 | 594,690 | 170,240 | 68,148 | 1,875 | 3,868 | (789,148) | 1,551,282 | 83,563 | 1,634,845 |
| Recognition of equity-settled share-based payment | - | - | - | - | - | (1,108) | 3,197 | - | - | - | 2,089 | - | 2,089 |
| Issue of shares for being consideration of acquisition of subsidiaries completed in previous years | 1,007 | 54,790 | - | - | - | - | (55,828) | - | - | - | (31) | - | (31) |
| Issue of shares for acquisition of intangible assets completed in previous years | 127 | 7,593 | - | - | - | - | (7,750) | - | - | - | (30) | - | (30) |
| Issue of shares on exercise of share options | - | 30 | - | - | - | - | - | - | - | - | 30 | - | 30 |
| Capital contribution from non-controlling interest | - | - | - | - | - | - | - | - | 2,329 | - | 2,329 | 1,153 | 3,482 |
| Additions for business combination | - | - | - | - | - | - | - | 5 | - | - | 5 | - | 5 |
| Loss for the period | - | - | - | - | - | - | - | - | - | (292,410) | (292,410) | (3,975) | (296,385) |
| Currency translation differences | - | - | - | - | - | - | - | (1,062) | - | - | (1,062) | (2,259) | (3,321) |
| Share of other comprehensive income of associates | - | - | - | - | - | - | - | (464) | - | - | (464) | - | (464) |
| Share of other comprehensive income of joint ventures | - | - | - | - | - | - | - | (27) | - | - | (27) | - | (27) |
| Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax | - | - | (30,237) | - | - | - | - | - | - | - | (30,237) | - | (30,237) |
| Total comprehensive income for the period | - | - | (30,237) | - | - | - | - | (1,553) | - | (292,410) | (324,200) | (6,234) | (330,434) |
| As at 31 December 2018 | 267,314 | 1,290,487 | (30,237) | 7,355 | 594,690 | 169,132 | 7,767 | 327 | 6,197 | (1,081,558) | 1,231,474 | 78,482 | 1,309,956 |

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

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | Attributable to owners of the Company | | | | | | | | | | | Non-controlling interest HK\$'000 | Total equity HK\$'000 |
|---|---------------------------------------|---------------------------|---------------------------|--|---------------------------------|-----------------------------------|-------------------------------------|--|---------------------------|--------------------------------|-------------------|--------------------------------------|--------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | FVOCI reserve 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 | Other reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 | | |
| As at 31 December 2018 | 267,314 | 1,290,487 | (30,237) | 7,355 | 594,690 | 169,132 | 7,767 | 327 | 6,197 | (1,081,558) | 1,231,474 | 78,482 | 1,309,956 |
| Initial application of HKFRS 16 (Note 2) | - | - | - | - | - | - | - | - | - | (1,022) | (1,022) | (344) | (1,366) |
| As at 1 January 2019 (Restated) | 267,314 | 1,290,487 | (30,237) | 7,355 | 594,690 | 169,132 | 7,767 | 327 | 6,197 | (1,082,580) | 1,230,452 | 78,138 | 1,308,590 |
| Recognition of equity-settled share-based payment | - | - | - | - | - | 4,768 | - | - | - | - | 4,768 | - | 4,768 |
| Issue of shares on subscription, net of expenses | 53,237 | 500,319 | - | - | - | - | - | - | - | - | 553,556 | - | 553,556 |
| Issue of shares on exercise of share options | 10 | 54 | - | - | - | (34) | - | - | - | 34 | 64 | - | 64 |
| Disposal of subsidiaries | - | - | - | (7,355) | - | - | - | - | - | 7,355 | - | - | - |
| Loss for the period | - | - | - | - | - | - | - | - | - | (161,625) | (161,625) | (4,087) | (165,712) |
| Currency translation differences | - | - | - | - | - | - | - | 6,259 | - | - | 6,259 | 638 | 6,897 |
| Share of other comprehensive income of associates | - | - | - | - | - | - | - | 82 | - | - | 82 | - | 82 |
| Share of other comprehensive income of joint ventures | - | - | - | - | - | - | - | (1) | - | - | (1) | - | (1) |
| Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax | - | - | (57,382) | - | - | - | - | - | - | - | (57,382) | - | (57,382) |
| Total comprehensive income for the period | - | - | (57,382) | - | - | - | - | 6,340 | - | (161,625) | (212,667) | (3,449) | (216,116) |
| As at 30 June 2019 | 320,561 | 1,790,860 | (87,619) | - | 594,690 | 173,866 | 7,767 | 6,667 | 6,197 | (1,236,816) | 1,576,173 | 74,689 | 1,650,862 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Cash flows from operating activities | | |
| Loss before taxation | (167,264) | (233,127) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 22,712 | 30,418 |
| Depreciation of right-of-use assets | 16,545 | – |
| Gain on disposal of intangible assets | (3,036) | – |
| Amortisation of intangible assets | 49,871 | 41,961 |
| Loss on disposal of property, plant and equipment | – | 512 |
| Gain on disposal of subsidiaries | (99,293) | – |
| Equity-settled share-based payment expenses | 4,768 | 5,693 |
| Net exchange losses | 2,272 | 1,438 |
| Fair value gains on investment properties | (700) | (3,800) |
| Share of losses of associates | 5,787 | 10,262 |
| Share of losses/(profits) of joint ventures | 1 | (22) |
| Impairment loss on trade receivables and contract assets | 1,233 | 191 |
| Impairment loss on amounts due from associates | 93,289 | – |
| Interest income | (9,611) | (10,333) |
| Finance costs | 42,117 | 9,403 |
| Operating loss before working capital changes | (41,309) | (147,404) |
| Increase in trading merchandise goods | (1,463) | (621) |
| Increase in trade receivables, other receivables and prepayments | (129,795) | (53,324) |
| Decrease/(increase) in contract assets | 2,462 | (14,473) |
| Decrease in trade payables, other payables and accruals | (952) | (53,522) |
| Increase in contract liabilities | 1,939 | 17,828 |
| Decrease in deferred revenue | – | (16,218) |
| Cash used in operations | (169,118) | (267,734) |
| Income tax paid | (112) | (856) |
| Interest paid | (31,995) | (7,604) |
| Net cash used in operating activities | (201,225) | (276,194) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | For the six months ended 30 June | |
|---|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Cash flows from investing activities | | |
| Interest received | 9,521 | 10,362 |
| Purchases of property, plant and equipment | (3,542) | (15,820) |
| Proceeds from disposal of property, plant and equipment | – | 119 |
| Additions to intangible assets | (34,158) | (24,150) |
| Proceeds from disposal of intangible assets | 4,046 | – |
| Advance to associates | (48,401) | – |
| Settlement of contingent consideration | (45,614) | – |
| Capital injection in an associate | – | (19,602) |
| Decrease in bank deposits with more than three months to maturity when placed or pledged | – | 7,659 |
| Investment in financial asset measured at fair value through other comprehensive income (“FVOCI”) | – | (196,213) |
| Net cash flow from business combination | – | (119,158) |
| Net cash inflow from disposal of subsidiaries (Note 14) | 233,412 | – |
| Net cash generated from/(used in) investing activities | 115,264 | (356,803) |
| Cash flows from financing activities | | |
| Proceeds from exercise of share options | 64 | 49 |
| Proceeds from issue of ordinary shares, net of issuing expenses | 553,556 | 409,110 |
| Repayment of obligations under finance leases | – | (5,975) |
| New borrowings | 226,752 | 223,012 |
| Repayment of borrowings | (468,044) | (6,553) |
| Repayment of principal portion of lease liabilities | (29,763) | – |
| Net cash generated from financing activities | 282,565 | 619,643 |
| Net increase/(decrease) in cash and cash equivalents | 196,604 | (13,354) |
| Effect of foreign exchange rate changes | (927) | (837) |
| Cash and cash equivalents at 1 January | 75,926 | 217,675 |
| Cash and cash equivalents at 30 June | 271,603 | 203,484 |
| Represented by: | | |
| Bank balances and cash | 271,603 | 203,484 |

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 2019 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 (“HKICPA”) 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 and except for certain properties and financial instruments which are measured at fair value.

These unaudited condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2018 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2019. This is the first set of the Group’s financial statements in which Hong Kong Financial Reporting Standard 16 Leases (“HKFRS 16”) has been adopted. Details of any changes in accounting policies are set out in note 2. Except for the adoption of HKFRS 16, the adoption of the new and revised HKFRSs have no material effect on these unaudited condensed consolidated interim financial statements. The Group has not early adopted any new and revised HKFRSs that has been issued but not yet effective in the current accounting period.

The preparation of these unaudited condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These unaudited condensed consolidated interim financial statements are presented in Hong Kong Dollars (“HK\$”), unless otherwise stated. These unaudited condensed consolidated interim financial statements contain unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. These unaudited condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) and should be read in conjunction with the 2018 consolidated financial statements.

2. CHANGES IN HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

2. CHANGES IN HKFRSs (continued)

The impact of the adoption of HKFRS 16 Leases have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases for which the underlying assets are of low-value or which are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on condensed consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

| <i>Statement of financial position as at 1 January 2019</i> | HK\$'000 |
|---|----------|
| Right-of-use assets | 120,337 |
| Deferred tax assets | 15,093 |
| Other payables | (5,450) |
| Lease liabilities (current) | 41,956 |
| Lease liabilities (non-current) | 126,145 |
| Obligations under finance leases (current) | (13,982) |
| Obligations under finance leases (non-current) | (11,873) |
| Accumulated losses | 1,022 |
| Non-controlling interest | (344) |

2. CHANGES IN HKFRSs (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the condensed consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitments to lease liabilities

| | HK\$'000 |
|---|----------------|
| Operating lease commitments as of 31 December 2018 | 216,889 |
| Add: finance lease liabilities as at 31 December 2018 | 25,855 |
| Less: short-term leases for which lease terms end within 12 months at the commencement date | (20,063) |
| Less: non-lease components | (3,556) |
| Less: future interest expenses | (49,465) |
| Others | (1,559) |
| Total lease liabilities as of 1 January 2019 | 168,101 |

The weighted average incremental borrowing rate applied to lease liabilities recognised in the lessee's condensed consolidated statement of financial position as at 1 January 2019 is 10.6%.

(ii) The new definition of lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has not applied the practical expedient and account for non-lease components applying other applicable HKFRSs.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases which at the commencement date have a lease term less than 12 months, if any. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

2. CHANGES IN HKFRSs (continued)**(iii) Accounting as a lessee (continued)****Right-of-use asset**

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these unaudited condensed consolidated interim financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

2. CHANGES IN HKFRSs (continued)

(v) Transition (continued)

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with terms that will end within 12 months at the commencement date and accounted for those leases as short-term leases; (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

The Group has also leased its software and computer equipment which previously were classified as finance leases under HKAS 17. As the Group has elected to adopt the cumulative effect method over the adoption of HKFRS 16, for those finance leases under HKAS 17, the right-of-use assets and the corresponding lease liabilities at 1 January 2019 were the carrying amount of the lease assets and lease liabilities under HKAS 17 immediately before that date. For those leases, the Group has accounted for the right-of-use assets and the lease liabilities applying HKFRS 16 from 1 January 2019.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2018 annual financial statements, except for new significant judgements related to the application of HKFRS 16 as described in note 2.

4. 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, post production, 360 degree digital capture technology application, sales of hardware and solution services)
- 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) An analysis of the Group's revenue from its principal activities for the period is as follows:

| | For the six months ended 30 June | |
|---|---|-------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Revenue from contracts with customer within the scope of HKFRS 15: | | |
| Provision of | | |
| - visual effects production service | 211,479 | 285,224 |
| - post production service | 11,506 | 9,212 |
| - 360 degree digital capture technology application, sales of hardware and solution services | 61,379 | 45,647 |
| | 284,364 | 340,083 |
| Revenue from other source | | |
| Rental income | 65 | 2,322 |
| | 284,429 | 342,405 |

4. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

(b) Disaggregation of revenue from contracts with customers

| | Media entertainment | |
|---|---|----------------|
| | For the six months ended 30 June | |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Segments | | |
| Types of goods or services | | |
| Provision of | | |
| – visual effects production service | 211,479 | 285,224 |
| – post production service | 11,506 | 9,212 |
| – 360 degree digital capture technology application, sales of hardware and solution services | 61,379 | 45,647 |
| Total | 284,364 | 340,083 |
| Geographical markets | | |
| Hong Kong (place of domicile) | – | 166 |
| The People's Republic of China (the "PRC") | 91,897 | 69,762 |
| The United States of America ("USA") | 86,927 | 109,748 |
| Canada | 99,251 | 130,582 |
| United Kingdom | 2,964 | 29,418 |
| Other countries/regions | 3,325 | 407 |
| Total | 284,364 | 340,083 |
| Timing of revenue recognition | | |
| A point in time | 59,990 | 35,069 |
| Over time | 224,374 | 305,014 |
| Total | 284,364 | 340,083 |

4. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

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

| | Media entertainment For the six months ended 30 June | | Property investment For the six months ended 30 June | | Consolidated For the six months ended 30 June | |
|---|--|--|--|--|---|--|
| | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Reportable segment revenue from external customers | 284,364 | 340,083 | 65 | 2,322 | 284,429 | 342,405 |
| Reportable segment (loss)/profit | (110,014) | (131,184) | (230) | 1,789 | (110,244) | (129,395) |
| | As at 30 June 2019 HK\$'000 | As at 31 December 2018 HK\$'000 | As at 30 June 2019 HK\$'000 | As at 31 December 2018 HK\$'000 | As at 30 June 2019 HK\$'000 | As at 31 December 2018 HK\$'000 |
| Reportable segment assets | 1,893,018 | 1,659,970 | 79 | 208,483 | 1,893,097 | 1,868,453 |
| Reportable segment liabilities | 653,192 | 589,041 | – | 95 | 653,192 | 589,136 |

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

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Loss before taxation | | |
| Reportable segment loss | (110,244) | (129,395) |
| Impairment loss on trade receivables and contract assets | (1,233) | (191) |
| Impairment loss on amounts due from associates | (93,289) | – |
| Fair value gains on investment properties | 700 | 3,800 |
| Share of losses of associates | (5,787) | (10,262) |
| Share of (losses)/profits of joint ventures | (1) | 22 |
| Auditor's remuneration | (428) | (888) |
| Depreciation of unallocated property, plant and equipment and amortisation of unallocated intangible assets | (21,187) | (23,835) |
| Professional fees | (15,986) | (14,632) |
| Finance costs | (42,117) | (9,403) |
| Equity-settled share-based payment expenses | (4,768) | (5,693) |
| Unallocated lease expenses | (74) | – |
| Unallocated rental expenses | – | (3,530) |
| Unallocated other income and gains | 72,726 | 11,652 |
| Gain on disposal of subsidiaries | 99,293 | – |
| Other unallocated corporate expenses* | (44,869) | (50,772) |
| Consolidated loss before taxation | (167,264) | (233,127) |

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

4. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

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

| | As at | |
|------------------------------------|-----------------------------|---------------------------------|
| | 30 June 2019 HK\$'000 | 31 December 2018 HK\$'000 |
| Assets | | |
| Reportable segment assets | 1,893,097 | 1,868,453 |
| Unallocated bank balances and cash | 182,894 | 33,377 |
| Unallocated corporate assets | 329,672 | 323,009 |
| Consolidated total assets | 2,405,663 | 2,224,839 |

| | As at | |
|-----------------------------------|-----------------------------|---------------------------------|
| | 30 June 2019 HK\$'000 | 31 December 2018 HK\$'000 |
| Liabilities | | |
| Reportable segment liabilities | 653,192 | 589,136 |
| Tax payable | 4,130 | 2,465 |
| Deferred tax liabilities | 65,723 | 66,621 |
| Unallocated borrowings | 4,909 | 62,125 |
| Unallocated corporate liabilities | 26,847 | 194,536 |
| Consolidated total liabilities | 754,801 | 914,883 |

(e) 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 | |
|-------------------------------|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Hong Kong (place of domicile) | 65 | 2,488 |
| The PRC | 91,897 | 69,762 |
| USA | 86,927 | 109,748 |
| Canada | 99,251 | 130,582 |
| United Kingdom | 2,964 | 29,418 |
| Europe | 297 | 245 |
| Other countries/regions | 3,028 | 162 |
| | 284,429 | 342,405 |

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

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

(f) Revenue

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers.

| | Unaudited | |
|----------------------|---------------------|-----------------------|
| | 30 June 2019 | 1 January 2019 |
| | HK\$'000 | HK\$'000 |
| Trade receivables | 81,528 | 51,679 |
| Contract assets | 5,269 | 7,731 |
| Contract liabilities | 30,831 | 28,892 |

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on revenue related to the provision of visual effects production and post production service. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group provides the invoice to the customer.

The contract liabilities are mainly related to the advance consideration received from customers.

5. FINANCE COSTS

| | For the six months ended 30 June | |
|----------------------------------|---|-------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Imputed interest on: | | |
| Contingent consideration payable | 1,817 | 948 |
| Lease liabilities | 8,447 | – |
| Interest on: | | |
| Bank and other loans | 31,164 | 4,592 |
| Secured note | 689 | 1,190 |
| Finance leases | – | 2,673 |
| | 42,117 | 9,403 |

6. LOSS BEFORE TAXATION

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| This is arrived at after crediting/charging: | | |
| <i>Crediting:</i> | | |
| Interest income | 9,611 | 10,333 |
| <i>Charging:</i> | | |
| Staff costs (including directors' remuneration) | 268,742 | 342,413 |
| Depreciation of property, plant and equipment | 22,712 | 30,418 |
| Depreciation of right-of-use assets | 16,545 | – |
| Amortisation of intangible assets | 49,871 | 41,961 |
| Impairment loss on trade receivables and contract assets | 1,233 | 191 |
| Short-term lease expenses | 367 | – |

7. TAXATION

Taxation credited in the unaudited condensed consolidated income statement represents:

| | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Current taxation – Hong Kong profits tax | – | – |
| Current taxation – Overseas tax | | |
| – provision for the period | 1,758 | 1,390 |
| – over-provision in respect of prior years | – | (257) |
| Deferred taxation | (3,310) | (5,148) |
| | (1,552) | (4,015) |

Hong Kong profits tax is calculated at applicable tax rate on the estimated assessable profits for both periods (six months ended 30 June 2018: 16.5%). 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.

8. 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 | |
|--|---|----------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Loss for the period attributable to owners of the Company for the purpose of basic loss per share | (161,625) | (225,620) |
| | Number of shares | |
| | 2019 | 2018 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 29,068,472,612 | 25,827,980,414 |

Diluted loss per share

Since share options outstanding and the shares to be issued to the former option holders of share options in relation to the acquisition of subsidiaries completed in prior periods had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options and the issue of deferred shares to the former option holders of share options in relation to the aforesaid acquisition of subsidiaries 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.

9. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

During the period, the board disposed of 100% interest in Sun Innovation HK Properties Holdings Limited, a wholly owned subsidiary of the Group, and its subsidiaries (collectively known as "Disposal Group"). The Disposal Group is principally engaged in property investment. The Group intends to realise its investment in the properties and to deploy its financial resources through this disposal.

The following major classes of assets and liabilities relating to this operation were classified as held for sale in the consolidated statement of financial position of the Group as at 31 December 2018.

| | HK\$'000 |
|--|----------------|
| Investment properties (Note 14(b)) | 208,300 |
| Trade receivables, other receivables and prepayments | 79 |
| Bank balances and cash | 104 |
| | 208,483 |
| Trade payables, other payables and accruals | 95 |

10. INTANGIBLE ASSETS

| | Goodwill | Trademarks | Proprietary software | Participation rights | Patents | Virtual human know-how | Backlog contracts | Licenses for intellectual property rights | Other licenses | Total |
|---|----------|------------|----------------------|----------------------|----------|------------------------|-------------------|---|----------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| COST | | | | | | | | | | |
| As at 1 January 2019 | 854,831 | 147,739 | 164,998 | 383,112 | 294,400 | 31,446 | 18,178 | 26,082 | 2,198 | 1,922,984 |
| Additions | - | - | 17,568 | - | 1,935 | - | - | - | 14,655 | 34,158 |
| Disposal | - | - | - | - | (1,216) | - | - | - | (860) | (2,076) |
| Disposal of subsidiaries | - | - | - | - | - | (31,446) | - | (22,000) | - | (53,446) |
| Exchange realignment | (285) | 4,977 | 808 | (661) | 2,314 | - | - | - | - | 7,153 |
| As at 30 June 2019 | 854,546 | 152,716 | 183,374 | 382,451 | 297,433 | - | 18,178 | 4,082 | 15,993 | 1,908,773 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS | | | | | | | | | | |
| As at 1 January 2019 | - | - | 96,478 | 301,199 | 34,437 | 10,151 | 7,574 | 11,206 | 1,086 | 462,131 |
| Amortisation for the period | - | - | 1,814 | 21,147 | 18,303 | 273 | 4,544 | 780 | 3,010 | 49,871 |
| Disposal | - | - | - | - | (206) | - | - | - | (860) | (1,066) |
| Disposal of subsidiaries | - | - | - | - | - | (10,424) | - | (7,904) | - | (18,328) |
| Exchange realignment | - | - | 134 | (663) | 448 | - | - | - | (46) | (127) |
| As at 30 June 2019 | - | - | 98,426 | 321,683 | 52,982 | - | 12,118 | 4,082 | 3,190 | 492,481 |
| CARRYING AMOUNT | | | | | | | | | | |
| As at 30 June 2019 | 854,546 | 152,716 | 84,948 | 60,768 | 244,451 | - | 6,060 | - | 12,803 | 1,416,292 |
| As at 31 December 2018 | 854,831 | 147,739 | 68,520 | 81,913 | 259,963 | 21,295 | 10,604 | 14,876 | 1,112 | 1,460,853 |

11. FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at | |
|---|-----------------------------|---------------------------------|
| | 30 June 2019 HK\$'000 | 31 December 2018 HK\$'000 |
| Unlisted equity investment, at fair value | 108,594 | 165,976 |

Note:

On 30 May 2018, the Group has acquired the unlisted equity instrument at the consideration of HK\$196,213,000. During the period, fair value loss of HK\$57,382,000 has been recognised in other comprehensive income (six months ended 30 June 2018: nil).

The above investment represents an unlisted equity instrument which is held for medium or long-term strategic purpose. The Group has designated the investment in equity instrument as at fair value through other comprehensive income as the directors believe that this provides a more meaningful presentation for medium or long-term strategic investment, than reflecting changes in fair value immediately in profit or loss.

Fair value measurement

A number of assets and liabilities included in these unaudited condensed consolidated interim 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 utilised 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.

Financial instruments measured at fair value

The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 financial instruments, as well as the relationship between key observable inputs and fair value are set out below.

Information about level 2 fair value measurements

Fair value of the unlisted equity instrument has been determined with reference to the price of recent transaction under market approach.

There were no changes in valuation techniques during the period.

During the six months ended 30 June 2019, there was no transfer between level 1 and level 2 fair value hierarchy (six months ended 30 June 2018: nil) or transfer into or out of level 3 (six months ended 30 June 2018: nil).

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 days (as at 31 December 2018: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for impairment losses, based on invoice dates, is as follows:

| | 30 June 2019 | 31 December 2018 |
|--|-------------------------|-----------------------------|
| | HK\$'000 | HK\$'000 |
| Current portion | | |
| Trade receivables by ageing | | |
| 0 to 30 days | 48,282 | 31,576 |
| 31 to 60 days | 9,380 | 1,197 |
| 61 to 90 days | 5,157 | 2,288 |
| 91 to 365 days | 16,097 | 15,843 |
| Over 365 days | 2,612 | 775 |
| Total trade receivables | 81,528 | 51,679 |
| Other receivables | 138,299 | 67,506 |
| Deposits | 2,931 | 3,002 |
| Prepayments | 69,417 | 42,207 |
| Sub-total current portion | 292,175 | 164,394 |
| Non-current portion | | |
| Deposits | 11,196 | 12,585 |
| Prepayments | 20 | – |
| Sub-total non-current portion | 11,216 | 12,585 |
| Total trade receivables, other receivables and prepayments | 303,391 | 176,979 |

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

| | 30 June 2019 | 31 December 2018 |
|---|-------------------------|-----------------------------|
| | HK\$'000 | HK\$'000 |
| Trade payables by ageing | | |
| 0 to 30 days | 14,129 | 17,045 |
| 31 to 60 days | 7,251 | 1,598 |
| 61 to 90 days | 2,500 | 994 |
| 91 to 365 days | 2,766 | 10,171 |
| Over 365 days | 10,394 | 3,884 |
| Total trade payables | 37,040 | 33,692 |
| Other payables | 31,141 | 47,715 |
| Accruals | 58,600 | 57,034 |
| Total trade payables, other payables and accruals | 126,781 | 138,441 |

14. DISPOSAL OF SUBSIDIARIES

- (a) On 31 January 2019, the Group disposed of 70% interest of its subsidiaries which are engaged in virtual human business in the Greater China region. The disposal would allow the Group to retain certain equity interest in the virtual human business in the Greater China region and benefit from additional funding and other resources for future development from strategic investors. On 31 January 2019, the disposal has been completed. The net assets at the date of disposal were as follows:

| | 31 January 2019 |
|--|------------------------|
| | HK\$'000 |
| Property, plant and equipment | 7,323 |
| Intangible assets | 35,118 |
| Trade and other receivables | 2,338 |
| Cash and cash equivalents | 638 |
| Trade and other payables | (6,411) |
| Amounts due to holding companies | (113,327) |
| Net liabilities | (74,321) |
| Net asset value of subsidiaries disposed of | (74,321) |
| Fair value of identifiable assets retained by the Group | – |
| Gain on disposal of subsidiaries included in loss for the period in the condensed consolidated income statement | 92,569 |
| Total consideration | 18,248 |
| Satisfied by: | |
| Cash | 18,248 |
| Total | 18,248 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 18,248 |
| Cash and bank balances disposed of | (638) |
| | 17,610 |

Upon the completion of disposal, cash consideration of HK\$18,248,000 was received and a gain on disposal of subsidiaries of HK\$92,569,000 was recognised.

14. DISPOSAL OF SUBSIDIARIES (continued)

- (b) On 19 March 2019, the Group entered into a sale and purchase agreement with an independent purchaser in connection with disposal of a group of subsidiaries which are engaged in property investment business. The disposal was to realise the investment in property market due to the continuing softening of the real estate market in Hong Kong and also deploy its financial resources in the media entertainment business. On 18 June 2019, the disposal has been completed and a cash consideration of HK\$215,802,000 (consideration of HK\$216,000,000 per sale and purchase agreement adjusted by the net asset value of the Disposal Group at completion date). The net assets at the date of disposal were as follows:

| | 18 June 2019 |
|--|---------------------|
| | HK\$'000 |
| Investment properties (<i>Note</i>) | 209,000 |
| Trade and other receivables | 97 |
| Trade and other payables | (19) |
| Net assets | 209,078 |
| Gain on disposal of subsidiaries included in loss for the period in the condensed consolidated income statement | 6,724 |
| Total consideration | 215,802 |
| Satisfied by: | |
| Cash | 215,802 |
| Total | 215,802 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 215,802 |
| Cash and bank balances disposed of | – |
| | 215,802 |

Upon the completion of disposal, cash consideration of HK\$215,802,000 was received and a gain on disposal of subsidiaries of HK\$6,724,000 was recognised.

Note:

Investment properties**Fair value**

| | HK\$'000 |
|--|----------------|
| As at 1 January 2019 | 208,300 |
| Fair value gains | 700 |
| As at completion date of disposal | 209,000 |

The property rental income earned by the Group from its investment properties amounted to HK\$65,000 (six months ended 30 June 2018: HK\$2,322,000). Direct operating expenses arising on the investment properties in the period amounted to HK\$9,000 (six months ended 30 June 2018: HK\$491,000).

The Group's investment properties were located in Hong Kong.

The fair value of the Group's investment properties as at 18 June 2019 and 31 December 2018 have been arrived at on market value basis based on valuations carried out by Knight Frank Petty Limited and Cushman & Wakefield Limited respectively, both are independent firms of professionally qualified valuers, who hold recognised and relevant professional qualifications and have recent experience in the locations and category of properties being valued.

15. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$'000 |
|--|------------------------------|--------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| As at 31 December 2018 and 30 June 2019 | 75,000,000,000 | 750,000 |
| Issued and fully paid: | | |
| As at 31 December 2018 | 26,731,511,340 | 267,314 |
| Issue of shares on exercise of share options | 1,000,000 | 10 |
| Issue of shares on subscription | 5,323,600,000 | 53,237 |
| As at 30 June 2019 | 32,056,111,340 | 320,561 |

16. SHARE-BASED PAYMENT TRANSACTIONS

On 24 April 2019, 130,000,000 share options ("Options") were conditionally granted to employees of the Group (the "Grantees"). 109,999,999 Options have immediately vested on 24 April 2019, while 6,666,667 Options, 3,333,333 Options, 6,666,667 Options and remaining 3,333,334 Options will be vested on 29 February 2020, 24 April 2020, 28 February 2021 and 24 April 2021, respectively. All Options will be exercisable from their respective vesting dates until 23 April 2029. The exercise price of the Options is HK\$0.130, being the average closing price of the Company's ordinary shares for the five business days immediately before 24 April 2019.

During the six months ended 30 June 2019, no share options were forfeited (six months ended 30 June 2018: 2,066,665 share options were forfeited) and 1,000,000 (six months ended 30 June 2018: 500,000) share options were exercised.

As at 30 June 2019, the average exercise price of share options outstanding is HK\$0.306 (as at 31 December 2018: HK\$0.321) and their average remaining contractual life is 6.31 years (as at 31 December 2018: 6.47 years).

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 2018 an amount of approximately HK\$3,198,000 was recognised as remuneration costs in profit or loss.

16. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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 2019 was HK\$0.043. The key valuation parameters are as follows:

| | |
|--|-----------|
| Share price at grant date | HK\$0.126 |
| Exercise price | HK\$0.13 |
| Expected volatility | 35% |
| Life of the share options | 10 years |
| Expected dividend yield | 0% |
| Risk-free rate | 1.67% |
| Forfeiture rate | 5.5% |
| Suboptimal exercise behaviour multiple | 2.6 |

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 the average forecast rate obtained from Hong Kong Government Bonds. 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.

In aggregate, the Group has recognised an equity-settled share-based payment expenses of HK\$4,768,000 (six months ended 30 June 2018: HK\$5,693,000) during the six months ended 30 June 2019.

17. RELATED PARTY TRANSACTION

During the six months ended 30 June 2019, the Group had the following material related party transaction:

| Related party relationship | Type of transaction | For the six months ended 30 June | |
|----------------------------|------------------------------------|----------------------------------|------------------|
| | | 2019 HK\$'000 | 2018 HK\$'000 |
| Associate | Advertising and promotion expenses | 1,090 | – |

18. CAPITAL COMMITMENT

The Group did not have any significant capital commitment as at 30 June 2019 and 31 December 2018.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group achieved a revenue of HK\$284,429,000 (2018: HK\$342,405,000), showing a decrease of approximately 17% compared to that of the previous corresponding period. The gross profit of the Group increased 38% and amounted to HK\$56,597,000 (2018: HK\$41,150,000) during the Review Period. The decrease in revenue and increase in gross profit were mainly attributable to the media entertainment segment. As at 30 June 2019, the total assets of the Group amounted to HK\$2,405,663,000 (as at 31 December 2018: HK\$2,224,839,000). The loss attributable to the owners of the Company for the Review Period was HK\$161,625,000 (2018: HK\$225,620,000), showing a decrease of 28%. The loss for the Review Period was approximately HK\$165,712,000 (2018: HK\$229,112,000), showing a decrease of 28%. 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 between 2014 and 2019 to the value of HK\$4,768,000 (2018: HK\$2,495,000);
 - (b) amortisation and depreciation expenses from the acquisition of 3Glasses group of HK\$26,453,000 (2018: HK\$8,116,000);
 - (c) amortisation expenses from the investment in TV drama series (grouped under “Participation Rights”) of HK\$20,256,000 (2018: HK\$20,256,000);
 - (d) other amortisation and depreciation expenses (besides the two items mentioned above) to the value of HK\$42,419,000 (2018: HK\$44,007,000); and
- (ii) operating losses from the media entertainment segment.

Media Entertainment Segment

During the Review Period, this segment recorded a revenue of approximately HK\$284,364,000 (2018: HK\$340,083,000). 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\$110,014,000 (2018: HK\$131,184,000). The loss included the research and development costs incurred during the Review Period relating to virtual human technology. The adjusted segment loss (before interest expenses and taxes), taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK\$59,401,000 (2018: HK\$82,640,000).

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. *New Media and Experiential – Augmented Reality (AR)/Virtual Reality (VR)*

This segment includes the business offering of augmented, immersive and virtual reality (collectively as “New Media”) technology services using digital capture technology, real-time game engine, computer graphics (CG) and 360° video capture.

Digital Domain offers a variety of products and services in the emerging VR, AR, New Media and Experiential markets. The Group has developed a VR streaming platform and interactive toolset to support an end-to-end solution from concept to consumption of immersive content. Digital Domain teams use proprietary cameras and software for capturing 360° video footage, and their digital artists produce VR experiences in real time and for video on demand (VOD). In addition to using its own app for hosting VR content, Digital Domain technical teams also create custom VR apps for brands and telecommunication entities. Digital Domain has also extended its reach into the fast expanding AR market sector by integrating “real-time” game engine technology and processes to produce product and deliver content for mobile platforms as well as live installations and pre-recorded events.

Digital Domain’s VR/AR, new media and experiential team executed several livestream broadcasts, experiences and installations, including these in 2019:

- **Google Cubs AR experience** – Digital Domain delivered a customised AR experience that featured data visualisation and integrated media experience focused on the Cubs baseball team and Wrigley Field.
- **Google Jigsaw VR training** – Digital Domain partnered with the Jigsaw team to create characters and then provide hours of animation for an interactive training program.
- **Detective Pikachu Realtime Character** – Digital Domain created a version of the popular anime character that runs in a real-time game engine and is capable of being “driven” by a human performer.
- **11:11** – Digital Domain produced this interactive story led by NBCUniversal Networks (NBCUIN) launched with three custom experiences designed for tethered VR headsets, mobile VR headsets and AR devices. Digital Domain’s expert immersive team helped tell the story set on an island planet placing users at the center of the action as characters count down the final 11 minutes and 11 seconds to an extinction-level event.

The global studio participated in several events, including:

- Head of Research and Development Mr. Doug ROBLE participated in a panel on “Influencers in AI: Companies Accelerating the Future” at the **National Association of Broadcaster (NAB)**.
- Head of Research and Development Mr. Doug ROBLE and his Digital Human team captured audiences at the 2019 **TED conference** held in April 2019 when the first digital human took the stage. Mr. Roble’s digital likeness known as DigiDoug as well as the team’s original character Elbor demonstrated the team’s latest technology.
- At **FMX**, Head of Research and Development Mr. Doug ROBLE presented “Machine Learning: Real Time Photorealistic Humans at Digital Domain” and discussed how the characters were created, how they work in real-time, what had to be done to achieve this level of detail and subtle motion as well as the limits and potentials of this technology.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. New Media and Experiential – Augmented Reality (AR)/Virtual Reality (VR) (continued)

- Head of Digital Humans Mr. Darren HENDLER took to **Collision conference** in Toronto as well to present “The Rise of Digital Humans.” During his nearly 20-minute presentation Darren explained how the team used Digital Domain’s cutting-edge Digital Human technology to help create 2019’s most popular villain Thanos for “*Avengers: Infinity War*” and “*Avengers: Endgame*.”
- **Effects America 2019:** Digital Domain Associate VFX Supervisor Mr. Scott EDELSTEIN gave a keynote address called “Endgame: Evolution of Thanos” that highlighted the team’s work on “*Avengers: Infinity War*” and “*Avengers: Endgame*” at Effects MTL 2019, the largest international conference for the VFX and animation industries on the North American East Coast. FX Supervisor Mr. Jeffrey HIGGINS also gave a presentation discussing “Automating FX on *Avengers: Endgame*.”

In January 2019, Digital Domain garnered the “Most Promising Company in VR Development of the Year” award in OneTV’s “Outstanding Enterprise and Leaders” award ceremony in Hong Kong to recognise Digital Domain’s persistent innovation and active development in VFX and VR.

3Glasses Group

On 22 March 2018, a wholly-owned subsidiary of the Company (the “Purchaser”), Mr. Lin Che Chu George (the “Vendor”), Lead Turbo Limited (the “Target”) and the guarantor entered into the agreement, pursuant to which the Purchaser conditionally agreed to acquire (or procure the acquisition of), and the Vendor conditionally agreed to sell, the 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration (including a contingent consideration of RMB90,000,000, equivalent to approximately HK\$112,000,000, by two payments) of up to RMB240,000,000 (equivalent to approximately HK\$298,000,000), subject to adjustments. The consideration adjustment mechanisms are based on the target profit of RMB30,000,000 and RMB50,000,000 for the two years ending 31 December 2018 and 31 December 2019 respectively. For details, please refer to the Company’s announcement dated 22 March 2018. The acquisition has been completed on 31 March 2018.

The Target and its subsidiaries (the “Target Group”) is principally engaged in the research, development and sale of VR and AR hardware, smart wearable devices, VR software development kit and other related products. The management team of the Target Group has more than 10 years of experiences in VR/AR technology development and is a pioneer in providing VR and AR solutions in the PRC. The major product of the Target Group is the self-developed VR headset, which is a head-mounted display device that provides VR for wearers and is widely used with computer games, simulators and trainers, under the brand name of “3Glasses” . 3Glasses has launched China’s first (the world’s second) VR headset (3Glasses D1) and China’s first mixed reality headset (3Glasses Blubur S1, development version for Microsoft). 3Glasses has undertaken more than 200 successful VR projects serving a very broad variety of industry sectors including entertainment, education, tourism, exhibition and display, architecture, design, healthcare, film and television and security.

The Target Group has been collaborating with various famous international corporations in Target Group’s products development. The Target Group is one of the Microsoft’s Windows mixed reality headset (“Microsoft Headset”) partners (others well-known partners for the Microsoft Headset are Samsung, Acer, ASUS, Dell, HP and Lenovo) and cooperating with Microsoft in developing the Microsoft Headset. The Target Group collaborates with Qualcomm in developing Target Group’s mobile VR boxes with Qualcomm’s processors. According to a market report issued by Canalys, an independent analyst company focusing on technology market, the Target Group ranked the third in terms of VR headset sold by volume (with market share of 9.4% by volume), in the PRC in 2016.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. *New Media and Experiential – Augmented Reality (AR)/Virtual Reality (VR) (continued)*

3Glasses Group (continued)

As at 30 June 2019, 3Glasses group has applied for 401 VR independent core patents. As an innovative technology company, 3Glasses possesses a comprehensive range of products and service capabilities covering various aspects such as R&D, production, sales and value-added services in the realms of virtual reality and mixed reality. While maintaining its technological leading edge in the area of hardware products such as VR headset, it also actively expands its solutions services (including of hardware, VR games and content services and industry applications). At the same time, 3Glasses also has certain strategic cooperation, such as (1) integration VR services co-provided with subsidiaries of Forgame Holdings Limited (Touhao Wanka) and Hangzhou Shunwang Technology Co., Ltd. and (2) strategic co-operation with Fujian Tianqing Interactive Entertainment Co., Ltd (福建省天晴互動娛樂有限公司) for offline VR experience services.

According to a market report issued in June 2019, by IDC, a consulting firm focused on information technology, telecommunication and consumer technology markets, 3Glasses's market share of the 1st quarter of year 2019 in the PRC has expanded to 13.1%. Also in April 2019, 3Glasses released the world's first ultra-thin consumer VR glasses, X1, with only one-third of comparable product's weight and size in the market, levelled up current VR glasses' benchmark with a striking standard.

Being the first partner of Qualcomm in the ultra-thin short focal length field, 3Glasses has co-operated with other famous corporations such as BOE Technology Group Co., Ltd. for development of ultra-thin VR optical components to iterate VR industry.

B. *Visual Effects Production and Post-Production Business*

This segment provides visual effects ("VFX") production and post-production services, which includes visualisation, previsualisation, postvisualisation, visual effects, CG, animation, motion capture, virtual production and design for major motion picture studios, networks, streaming services, advertisers, brands and games.

Digital Domain North America (USA and Canada):

The following list of recent award and nominations offers recognition for Digital Domain's artists and technology:

VES – For the Visual Effects Society Awards held on 5 February 2019, Digital Domain received several wins and nominations.

Including two nominations in Outstanding Visual Effects in a Photoreal Feature for:

- VFX Supervisor Mr. Matthew E. BUTLER nominated for "*Ready Player One*".
- VFX Supervisor Mr. Kelly PORT nominated for "*Avengers: Infinity War*", which also received the award.

Digital Domain also received the VES Award for Outstanding Animated Character in a Photoreal Feature for "*Avengers: Infinity War*"/Thanos, an honor shared by Digital Domain and Weta Digital. Head of Digital Humans Mr. Darren HENDLER and Animation Supervisor Mr. Phil CRAMER were named in the award.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

B. Visual Effects Production and Post-Production Business (continued)

BAFTAS – For the British Academy of Film and Television Arts Awards held on 10 February 2019, Digital Domain received several nominations in the category of Best Special Visual Effects including:

- VFX Supervisor Mr. Matthew E. BUTLER nominated for “*Ready Player One*”.
- VFX Supervisor Mr. Kelly PORT nominated for “*Avengers: Infinity War*”.
- “*Black Panther*” received a nomination & the award – Digital Domain artists worked on revisualization for the epic third act battle.

OSCARS – For the Academy Awards held on 24 February 2019, Digital Domain received several nominations in the category of Best Visual Effects including:

- VFX Supervisor Mr. Matthew E. BUTLER nominated for “*Ready Player One*”.
- VFX Supervisor Mr. Kelly PORT nominated for “*Avengers: Infinity War*”.

THE TELLY AWARDS – Digital Domain received a Silver Telly Award for Videography/Cinematography for work on “*Assassin’s Creed Odyssey*.”

Since 1 January 2019, the features artists of Digital Domain 3.0, Inc. (“DD3I”, a subsidiary of the Company) have provided VFX services for work including:

- “*Captain Marvel*” – Stunning environments for the film as well as some beautiful transition shots of the Skrull characters were completed by VFX Supervisor Mr. Dave HODGINS and his team.
- “*The Curse of La Llorona*” – VFX Supervisor Mr. Nikos KALAITZIDIS and his team worked on the end sequence of the film and were responsible for disintegrating the witch in a whirlwind of destruction.
- “*Shazam!*” – For Warner Brothers’, VFX Supervisor Mr. Nikos KALAITZIDIS and his team recreated the promenade of Philadelphia replacing the entire background of the shot and shot lightning from the titular character’s hands.
- “*Avengers: Endgame*” – Following up on the extremely anticipated conclusion of “*Avengers: Infinity War*,” VFX Supervisor Mr. Kelly PORT and his team delivered work on one of the most photorealistic CG characters of all time for Marvel Studios: the villain, and lead character, Thanos. Additionally, the team completed work on several other characters such as Nebula, Ebony Maw, Red Skull and more.

For episodic, Digital Domain’s visual effects teams completed work on several episodes for hit television and streaming shows such as:

- “*Lost In Space*” – Digital Domain artists worked on several episodes in season 2 for the Netflix studios episodic set to air later this year, led by VFX Supervisor Mr. Aladino DEBERT.
- “*Twilight Zone*” – VFX Supervisor Mr. Nikos KALAITZIDIS and his team created a photoreal CG Human of the late Rod Serling along with set extension.
- “*Siren*” – VFX Supervisor Mr. Jean-Luc DINSDALE and his team completed work on season 2 of the Freeform show creating realistic water and underwater shots.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

B. Visual Effects Production and Post-Production Business (continued)

For commercials, we provided VFX services for advertisements, special venue projects and games. Work completed in 2019 includes:

- For **Ubisoft**, Digital Domain's Director Mr. Pierre-Michel ESTIVAL, VFX Supervisor Mr. Matt DOUGAN and Producer Ms. Alexandra MICHAEL, crafted a 30 second game cinematic for the game "Tom Clancy's The Division 2" utilizing the studio's cutting edge digital human technology to bring the game characters to life.
- For **Pepsico/Mountain Dew**, Digital Domain's VFX Supervisor Mr. Randall SMITH and VFX Producer Ms. Carla ATTANASIO worked with directing team TWIN at RESET and ad agency HEAT to create two spots for Mountain Dew Game Fuel. The first spot called "Win Sauce," features a young male gamer chugging Game Fuel, before using a gaming console to activate a missile launcher from his battle tank. In the second ad called "Loser Tears" a female character pursued by a barbaric horde pays tribute to "Game of Thrones" and hops aboard dragon as she drinks the beverage.
- For **Partizan**, Digital Domain's crew led by VFX Supervisor Mr. Randall SMITH and Producer Ms. Christina CALDWELL created perfectly timed shadows and seamless environment work for singer P!nk's single "Walk Me Home."
- Digital Domain's Art Director Mr. Cody WILLIAMS and Producer Ms. Alexandra MICHAEL created and developed a graphic character for a yet-to-be-launched brand that exemplified the company's ideals in a series of individualized animations for an App.
- For **NBC**, VFX Supervisor Mr. Matt DOUGAN and Producer Ms. Alexandra MICHAEL created three promotional spots for NBC's new reality songwriting competition show, Songland.
- For **Aetna**, a health care company, Art Director Mr. Cody WILLIAMS and Producer Ms. Alexandra MICHAEL created a motion graphic film to play at a future leadership conference for the brand.
- For the **US Air Force**, Digital Domain's Director Mr. Aladino DEBERT, VFX Supervisor Mr. Randall SMITH and VFX Producer Ms. Carla ATTANASIO created a nearly 5-minute stereoscopic film. We shot all the live action, created CG environments, CG planes and stitched all the scenes together. This film will be traveling around the US in a moving bus that will serve as a 4D ride experience.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

B. Visual Effects Production and Post-Production Business (continued)

Possible Indemnification

A wholly-owned subsidiary of the Company based in the United States (the “US Subsidiary”) has used a combination of physical equipment and intellectual property to record images of human faces (the “Disputed IP”). The 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. The US Subsidiary’s use of the Disputed IP had been under a 2013 license from an unaffiliated company based in the PRC (the “Original Owner”).

In 2014, a dispute over the ownership of the Disputed IP between the Original Owner and another company based in the United States (the “Claimant”) resulted in the filing of a lawsuit (the “Lawsuit”) in the United States District Court, Northern District of California. Neither the Original Owner nor the Claimant is a member company of the Group. Another subsidiary of the Company 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. On 11 August 2017, the court issued a statement of decision which concluded that the Claimant owned the Disputed IP. The US Subsidiary had already used alternate technologies. An appeal of the statement of decision has been filed. It is anticipated that the proceedings in the appeal will be concluded in early 2020.

During 2017, the Claimant filed four separate lawsuits against certain clients of the US Subsidiary relating to the use of the Disputed IP in certain visual effects projects that the US Subsidiary had completed (“Other Lawsuits”). In its production services agreements for these projects, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested that the 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’s clients filed two separate motions to dismiss the lawsuits brought against them. In response to these motions, the court dismissed a significant portion of the claims, but allowed Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. Claimant later voluntarily dismissed several of its claims.

The US Subsidiary’s clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court has allowed both parties in the Other Lawsuits to conduct further discovery and investigation into these remaining claims before hearing further arguments in favour of and against the motion.

The US Subsidiary has submitted the indemnity requests that it has received from these clients to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company initially acknowledged its obligation to provide a defence to the US Subsidiary’s clients, but subsequently communicated to US Subsidiary that it was re-evaluating its coverage obligations under the insurance policy. The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary’s clients in the Other Lawsuits.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

B. Visual Effects Production and Post-Production Business (continued)

Digital Domain China:

Through the investment in Lucrative Skill Holdings Limited (“Lucrative Skill”) in April 2016 – the holding company of the Post Production Office group of companies (collectively rebranded as “Digital Domain China (DD China)”), the Group made significant progress in establishing a strong operating platform in China with studios located in Beijing and Shanghai.

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

Colour grading projects for featured films and TV drama series include “*The Bravest*”, “*My Best Summer*”, “*Zhou Enlai Returned To Yanan*”, “*The Wandering Earth*” (Netflix version), “*Pegasus*”, “*The Youth and the Sea*”, “*Peppa Celebrates Chinese New Year*”, and “*The Crossing*”.

In 2019, DD China continued to provide post-production and production (e.g. shooting, editing, colour grading, music production etc.) services for various high-profile commercials profiling leading brands like McDonald’s – Angus Beef, STARBUCKS, Bailian Group, vivo – V15, RELX × Okamoto, DOUBLEMINT – Bounce Tea, JD × Avengers: Endgame, Kris Wu – music video, JD × OPPO, FIFA, MEIZU – 16s, FENDI – Peekaboo, SFG Avenger water CGI, Hongqi, Mengniu, and Minecraft etc.

Digital Domain India:

The Group’s India facility is located in Hyderabad and has been functional since October 2017. The studio caters internally to Digital Domain’s North America and China facilities and also independent clients, both local and international.

The Hyderabad facility with a maximum capacity of 500 has touched upon more than 25 shows & continues to provide production support across departments from previsualisation to full shot production.

In the first half of 2019, Digital Domain India provides services across platforms, i.e. features, television, web and over-the-top (“OTT”). Digital Domain India gives utmost importance to data security and also passed security audits of The Motion Picture Association of America, Inc. (“MPAA”), Walt Disney Studios Motion Pictures (“Disney”) and Marvel Studios, LLC (“Marvel”). Digital Domain India is a certified secured facility to handle content for all “A” list Hollywood and other international shows.

In continuation to 2018’s agenda of offering Digital Domain’s level of expertise at affordable rates, Digital Domain India has seen success in securing some of the top industry brands/clients. In 2019, Digital Domain India anticipates scaling up to full capacity and rolling out the new state of the art pipeline tools currently being deployed in North America. This will help not only in aligning all of Digital Domain facilities’ production pipeline but also improving overall efficiencies to offer competitive margins.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

C. Virtual Human Business in the Greater China Region

Teresa Teng 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 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. The joint venture company, DD & TT Company Limited (“DDTT”), was formed in 2015. 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.

- In March, Virtual Human Teresa Teng performed on China Central Television’s (CCTV) program “Everlasting Classics”. This program is dedicated to the combination of Chinese poetry and music. Through the Virtual Human Teresa Teng deductive classic song “Wishing We Last Forever”, it was a perfect display of beautiful song and Su Shi’s beautiful poems.
- In April, the Virtual Human Teresa Teng collaborated with Poly Culture Group to perform at the Yiwu China Yiwu Cultural Products Trade Fair, performing a new show “Classic Melody”, which attracted more than 4,000 times of visits.

Other Virtual Human Businesses

Besides Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (e.g. famous singers/movie stars or corporations). Since 2018, the Group created its own Digital Domain’s virtual human characters/IPs (e.g. Lydia, STAR). The Group also deployed resources towards research and development for enhancement of the interactive functions between virtual human characters and audience.

We produced or launched other types of virtual human projects, including:

- In February, we participated in the performance of Mr. Wayne LIM Jun Jie’s (JJ LIN) World Tour Concert “Sanctuary”, which enabled the Virtual Human JJ Lin and the real person JJ Lin to interact on stage. During the two consecutive concerts, audience felt so surprised for this performance.
- In April, 3Glasses held a new product launch and strategic conference in Beijing. Our virtual human STAR was performed in the conference and 3Glasses also announced to use our virtual human STAR as a spokesperson for their new product called “X1”.
- In May, we created Yao Ming Virtual Human with Tencent Public Welfare and Yao Fund, and appeared in the Guangzhou China Internet Public Welfare Summit. Through the interpretation and display of virtual human cross-media, we fully explained the concept of internet and technology public welfare.

In order to speed up the business development of virtual human, the Group continues to seek opportunities for financing and collaboration with strategic partners and recruitment of appropriate global talent. In January 2019, the Group invited two strategic investors to invest into the Greater China region virtual human sub-group (exclude the North American virtual human sub-group) and companies within this sub-group have been reclassified as associates of the Group from 1 February 2019.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

D. Co-Production

Feature Film:

The film “Ender’s Game” was released in November 2013 in USA. The film continues to generate income from non-box office channels both within and outside the USA. “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 in “Other income and gains” in the Company’s consolidated income statement.

TV Drama Series:

In December 2017, Digital Domain announced a collaboration with Talent Television and Film and Cenic Media to explore advanced technologies and resources from Hollywood and other regions in order to build an all-new ecosystem for IP development, content creation and distribution. The first initiative from this new strategic partnership includes the production of the new IP-protected TV Drama “*Ten Years Late*,” which tells an inspiring workplace story set in multiple cities. Digital Domain will provide VFX and VR solutions for the drama, so that viewers can enjoy a high-quality immersive experience. At the same time, Digital Domain also invested in and provided the VFX works for “*The Legends of Monkey King*” from Cenic Media.

During the Review Period, there were amortization expenses from investment in TV drama series mentioned above (grouped under “Participation Rights”) of HK\$20,256,000 (2018: HK\$20,256,000). The profit from the investment of TV drama series was recognised in “Other income and gains” in the Company’s consolidated income statement.

E. Investment in Handy

In 2018, the Group had its US\$25,000,000 (approximately HK\$196,213,000) equity investment in Mango International Group Limited (“Mango”), with its flagship product handy, is leveraging millions of hotel rooms globally to create a comprehensive travel ecosystem encompassing a traveller’s end-to-end journey, from pre-trip to in-destination to post-travel. The strategic investment is to create synergies between Mango’s hardware-as-a-service business model and the Group’s expertise in VR and virtual human related products, content and services, which will in turn generate further value for the Group and its investment in Mango. For preparation of this report, the Group engages an independent professional valuer to estimate its fair value as at 30 June 2019 and a fair value adjustment (downward) of HK\$57,382,000 was made. The fair value adjustment was reflected in consolidated statement of other comprehensive income with items that will not be reclassified to profit or loss. As at 30 June 2019, the investment was classified as financial asset measured at fair value through other comprehensive income.

Property Investment Segment

The Group owned two shops on the ground floor and ten car parking spaces in the Citicorp Centre, Causeway Bay, Hong Kong (the “Property”). During 2018, the Group reviewed the business strategies and property portfolio of this segment and decided to realise the value of this property portfolio by a disposal. As at 31 December 2018, the investment properties were reclassified as assets of a disposal group classified as held for sale.

During the Review Period, some car parking spaces were leased out. The revenue of this segment decreased by approximately 97% to HK\$65,000 (2018: HK\$2,322,000). The revenue accounted for approximately 1% of the Group’s overall revenue during the Review Period. The loss of this segment during the Review Period, amounting to HK\$230,000 (2018: profit of HK\$1,789,000).

FINANCIAL AND BUSINESS REVIEW (continued)

Property Investment Segment (continued)

Discloseable transaction in relation to the disposal of company which owns certain properties in Hong Kong

On 19 March 2019 (after the trading hours of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the vendor (a wholly owned subsidiary of the Company), the purchaser and the Company (as guarantor of the vendor) entered into the sale and purchase agreement, pursuant to which the vendor conditionally agreed to sell, and the purchaser conditionally agreed to acquire, the entire issued share capital and the shareholder’s loans of Sun Innovation HK Properties Holdings Limited at cash consideration of HK\$216,000,000 (subject to adjustment). The principal business of the target group is property investment in Hong Kong and its principal asset, is the Property. As certain applicable percentage ratios under Rule 14.07 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) in respect of the disposal are more than 5% but less than 25%, the disposal constitutes a discloseable transaction of the Company under Rule 14.06 of the Listing Rules. For details, please refer to the Company’s announcement dated 19 March 2019. The transaction was completed in June 2019.

INTERESTS IN ASSOCIATES

Digital Domain Space (VR Theatre)

In September 2017, Digital Domain announced its collaboration with Poly Capital and Hony Capital, to establish 數字王國空間(北京)傳媒科技有限公司(Digital Domain Space). In 2018, CITIC Press Group invested in Digital Domain Space as a strategic investor and business partner.

Digital Domain Space’s aim is to develop and execute an innovative VR experience with VR theatres opened in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space’s VR theatres have already been installed inside and outside cinemas in Beijing, Shanghai, Changzhou, Guangzhou, Xi’an, Wuhan, Changsha, Jilin, Fushun and elsewhere. While waiting for movies to start, consumers can take a virtual tour of the latest VR technology. Compared to extant domestic VR technologies, Digital Domain Space presents consumers with elevated VR content and total immersion in VR experiences. Leveraging the influence and scale of its brand, store locations and consumer volume, Digital Domain Space offers enhanced product and advertising placement to provide additional and diversified business opportunities. The share of losses from this associate was amounted to approximately HK\$5,787,000 (2018: HK\$10,262,000).

EVENTS AFTER THE REPORTING PERIOD

Placing of new shares under general mandate

On 3 July 2019, the Company entered into a placing agreement with Ever Joy Securities Limited (“Placing Agent”) in relation to the placing, on a best effort basis, of up to 2,000,000,000 placing shares at the placing price of HK\$0.104 per placing share. The conditions of the placing were fulfilled and completion of the placing took place on 25 July 2019. The Placing Agent has placed an aggregate of 2,000,000,000 placing shares to not less than six independent placees at the placing price of HK\$0.104 per placing share. The placing shares were allotted and issued pursuant to the general mandate of the Company. The 2,000,000,000 placing shares in aggregate represent approximately 5.87% of the issued share capital of the Company as enlarged by the placing (i.e. 34,061,111,340 shares).

The gross proceeds and net proceeds from the placing are approximately HK\$208,000,000 and HK\$205,730,000 respectively, and are intended to be applied towards media entertainment segment and as general working capital of the Group. For details, please refer to the Company’s announcements dated 3 July 2019, 18 July 2019 and 25 July 2019.

CAPITAL

Shares

On 22 March 2019, the Company entered into the subscription agreement with Poly Culture Group Corporation Limited (a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3636), the “Subscriber”) in relation to the subscription. Pursuant to the subscription agreement, the Company had conditionally agreed to allot and issue 5,323,600,000 shares to the Subscriber at the subscription price of HK\$0.104 per subscription share. The subscription was completed on 12 April 2019 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. The subscription shares represent approximately 19.91% of the issued share capital of the Company of 26,732,511,340 shares as at the date of the announcement and approximately 16.61% of the issued share capital of the Company of 32,056,111,340 shares as enlarged by the subscription.

The gross proceeds and net proceeds from the subscription are approximately HK\$553,654,000 and HK\$553,461,000 respectively, and are intended to be applied towards media entertainment segment and as general working capital of the Group. For details, please refer to the Company’s announcements dated 22 March 2019 and 12 April 2019.

As at 30 June 2019, the total number of the Company shares of HK\$0.01 each in issue (the “Shares”) was 32,056,111,340 shares. As at the date of this report, the total number of Shares was 34,061,111,340 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, 1,000,000 share options were exercised. No share options were cancelled or have lapsed during the Review Period. 41,570,000 share options were exercised and 140,760,000 share options were cancelled or have 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, cancelled or have lapsed. 10,000 share options were exercised and 3,000,000 share options were cancelled or have 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. During the Review Period, no share options were exercised, cancelled or have lapsed. No share options were exercised and 25,666,665 share options were cancelled or have 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 a 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 have lapsed.

CAPITAL (continued)

Share Options (continued)

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, cancelled or have lapsed. No share options were exercised and 13,199,986 share options were cancelled or have 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 and since the grant-date (13 February 2017), no share options were exercised, cancelled or have lapsed.

On 24 April 2019, a total of 130,000,000 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 130,000,000 new shares at an exercise price of HK\$0.130 per share. For details, please refer to the Company's announcement dated 24 April 2019. During the Review Period, no share options were exercised, cancelled or have lapsed.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on 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.

In 2019, the Company has banking facilities from a bank in Hong Kong amounted to US\$13,000,000 (approximately HK\$101,553,000). These banking facilities were credit limits for issuing standby letters of credit and the utilised portions (US\$9,961,000, approximately HK\$77,815,000) were secured by time deposits of the Group. The Group had working capital loans in amount of RMB6,600,000 (approximately HK\$7,509,000) and each working capital loan was secured by a standby letter of credit issued by the bank in Hong Kong mentioned above. The Group had a banking facilities from a bank in Canada amounted to CAD6,800,000 (approximately HK\$40,573,000) secured by corporate guarantee provided by the subsidiaries, which utilised portion was CAD657,000 (approximately HK\$3,920,000). The Group also had working capital loans in amount of US\$9,000,000 (approximately HK\$70,306,000) and each working capital loan was secured by a standby letter of credit issued by the bank in Hong Kong mentioned above.

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.

As at 30 June 2019, the Group had lease liabilities of HK\$160,022,000, which were determined at the present value of the lease payments that are payable at that date. Apart from lease payments related to office premises and certain office equipment, the Group had lease liabilities of US\$2,357,000 (approximately HK\$18,411,000) related to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. Among these leased assets, the terms of payments were 30 months. Payments were on a fixed repayment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

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

The Group had other loans of approximately HK\$226,180,000 as at 30 June 2019. One indirect wholly-owned subsidiary has loans in amount of US\$3,500,000 (approximately HK\$27,065,000) and HK\$10,000,000, which is unsecured, interest-free and is not repayable within 13 months from 30 June 2019. One indirect wholly-owned subsidiary also had a term loan facility of US\$10,000,000 (approximately HK\$78,118,000) and HK\$50,000,000, with a guarantee provided by the Company. The subsidiary drew down the facility in 2015 and 2018. The outstanding balance of these loans as at 30 June 2019 was US\$10,000,000 (approximately HK\$78,118,000) and HK\$50,000,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 13 months from 30 June 2019. There is an other loan in amount of RMB53,614,000 (approximately HK\$60,997,000), from a minority shareholder of the 3Glasses group.

During the Review Period, the Company repaid an other loan in amount of HK\$80,000,000. This loan was secured by two share charges of shares of two indirect wholly-owned subsidiaries which hold the Group's investment properties mentioned above, with a fixed interest rate. In 2018, the Group arranged an other loan with a pledge of the guaranteed returns from the two co-productions of TV drama series mentioned above. The facility was in amount of HK\$92,774,000 with a fixed interest rate and was repaid during the Review Period. During the Review Period, the Company arranged other loans in amount of HK\$157,800,000 with a fixed interest rate. These loans were secured by share charge of share of an indirect wholly-owned subsidiary which hold interests in an associate and financial asset measured at fair value through other comprehensive income of the Group. The Company repaid these loans during the Review Period.

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. As at 31 December 2018, the outstanding value of secured notes on the book is US\$7,579,000 (approximately HK\$59,358,000) and was paid during the Review Period. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015, 30 December 2016, 29 December 2017 and 28 December 2018 respectively.

The total cash and bank balance as at 30 June 2019 was approximately HK\$271,603,000. As at 30 June 2019, the Group had banking facilities of approximately HK\$224,850,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK\$70,306,000 are denominated in United States dollars, loans amounting to HK\$3,919,000 are denominated in Canadian dollars and loans amounting to approximately HK\$7,224,000 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 as at 30 June 2019 was 100% repayable within one year.

The Group's current assets were approximately HK\$586,763,000 while the current liabilities were approximately HK\$420,493,000 as at 30 June 2019. As at 30 June 2019, the Group's current ratio was 1.4 (as at 31 December 2018: 0.9).

As at 30 June 2019, the Group's gearing ratio, representing the Group's financial liabilities (i.e., if any, bank loans, other loans, convertible notes, obligations under finance leases and secured notes) divided by the equity attributable to owners of the Company was 21% (as at 31 December 2018: 47%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's revenue, expenses, assets and liabilities were mainly denominated in Hong Kong dollars ("HKD"), United States dollars ("USD"), Canadian dollars ("CAD"), Renminbi ("RMB") and Indian Rupees ("INR"). 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, Mainland of China and India were reported in CAD, RMB and INR, respectively, if the CAD or RMB or INR were to depreciate relative to the HKD, the reported earnings/expenses for the Canadian portion, Mainland of China portion or Indian portion would decrease.

At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB, CAD and/or INR. 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

Save as disclosed under “Possible Indemnification” of Media Entertainment Segment above, as at 30 June 2019, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2019, the total headcount of the Group was 950. 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 establishment of Digital Domain China (Beijing and Shanghai) and Digital Domain India (Hyderabad), the Group is proactively exploring opportunities to develop its Greater China and Indian markets in the VFX, VR, CG, virtual human and immersive entertainment businesses. In 2019, the Group also set up a studio in Montréal, Québec, Canada which can provide additional production capacity and the Montréal Studio can also enjoy the tax and other benefits provided by the Québec provincial/Canadian federal governments. The Group will also evaluate the cost structure and operation of each studio and we expect that we can increase the working capacity and reduce production costs in the long run. The effectiveness and efficiency expansions will be improved in the coming years.

Building on the patents acquired and self-developed, Digital Domain is uniquely positioned to play a key role in the new media and experiential market (including AR and VR, from content to hardware and from standalone product to one-stop total solution for clients). Following years of experience creating visual effects for Hollywood feature films, advertisements and video games, in 2019 the Group produces different types of virtual reality experiences for audiences in the North America and Asia. The Group developed some VR products (e.g. content, cinematic series and games – “*Micro Giants*”) and these products had been launched in VR theatres of Digital Domain Space in Mainland of China and some were also launched in VR facilities/channels in Europe/North America. These products were highly praised by audience. We believed the Digital Domain’s VR products will be further distributed in different countries, platforms or channels in coming years.

Following the successful performance of the holographic virtual human concert “*Teresa Teng • The Legend*” in Hangzhou in 2018 and other virtual human projects, like Mr. Wayne LIM Jun Jie’s (JJ LIN) concerts at Taipei in 2019. The Group will continue to explore new virtual human business opportunities with strategic investors by developing new technologies which will enhance the interactivity between virtual humans and creating new virtual human characters for entertainment and cultural/educational business.

Similar to most advanced technology companies, the Group will continue to deploy substantial financial and human resources in continuing research & development in virtual human and VR technologies. The Group will continue to seek opportunities for financing and collaboration with strategic partners/investors on Group level and/or project/subsidiary level. The Group will recruit and retain appropriate global talents to support the Group’s future development. With these continuing efforts and policies, it will enhance our VFX business ecosystem and expand our new media and experiential business ecosystem, virtual human business ecosystem and other capabilities.

Looking ahead, the Group will continue to build on its strengths and strive to provide quality services and products to our valued clients. At the same time, the Group will try to maximise benefits for our important stakeholders, strategic partners/investors, shareholders, staff and management, in the coming years.

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 2019 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|----------------------------------|--------------------------------|----------------------------------|------------------------------------|--|-----------------|---------------|-----------------------------|---------------------------------|
| | At 1 January 2019 | 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 |
| Wang Wei-Chung | 1,666,667 (Notes 5 and 11) | - | - | - | 1,666,667 | 29/01/2016 | 29/01/2016 to 28/01/2026 | 0.413 |
| | 1,666,667 (Notes 5 and 11) | - | - | - | 1,666,667 | 29/01/2016 | 29/01/2017 to 28/01/2026 | 0.413 |
| | 1,666,666 (Notes 5 and 11) | - | - | - | 1,666,666 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 0.413 |
| Amit Chopra (Note 10) | 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 |
| Wei Ming (Note 10) | 33,333,333 (Notes 5 and 6) | - | - | - | 33,333,333 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 0.413 |
| | 300,000,000 (Note 9) | - | - | - | 300,000,000 | 13/02/2017 | 13/02/2017 to 12/02/2027 | 0.469 |
| | 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 |

SHARE OPTION SCHEME (continued)

| Name and category of participant | Number of Options | | | | At 30 June 2019 | Date of grant | Exercise period | Exercise price per Share (HK\$) |
|----------------------------------|----------------------------|----------------------------------|------------------------------------|--|----------------------|---------------|-----------------------------|---------------------------------|
| | At 1 January 2019 | Granted during the Review Period | Exercised during the Review Period | Cancelled/ lapsed during the Review Period | | | | |
| Other employees, in aggregate | 350,730,000 (Note 2) | - | (1,000,000) | - | 349,730,000 | 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 |
| | 91,500,010 (Note 5) | - | - | - | 91,500,010 | 29/01/2016 | 29/01/2016 to 28/01/2026 | 0.413 |
| | 81,499,998 (Note 5) | - | - | - | 81,499,998 | 29/01/2016 | 29/01/2017 to 28/01/2026 | 0.413 |
| | 75,833,327 (Note 5) | - | - | - | 75,833,327 | 29/01/2016 | 29/01/2018 to 28/01/2026 | 0.413 |
| | 50,000,000 (Note 7) | - | - | - | 50,000,000 | 22/06/2016 | 22/06/2017 to 21/06/2026 | 0.495 |
| | 50,000,000 (Note 7) | - | - | - | 50,000,000 | 22/06/2016 | 22/06/2018 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 |
| | 11,699,998 (Note 8) | - | - | - | 11,699,998 | 29/07/2016 | 29/07/2017 to 28/07/2026 | 0.566 |
| | 8,433,324 (Note 8) | - | - | - | 8,433,324 | 29/07/2016 | 29/07/2018 to 28/07/2026 | 0.566 |
| | - 109,999,999 (Note 12) | - | - | - | 109,999,999 | 24/04/2019 | 24/04/2019 to 23/04/2029 | 0.130 |
| | - 6,666,667 (Note 12) | - | - | - | 6,666,667 | 24/04/2019 | 29/02/2020 to 23/04/2029 | 0.130 |
| | - 3,333,333 (Note 12) | - | - | - | 3,333,333 | 24/04/2019 | 24/04/2020 to 23/04/2029 | 0.130 |
| | - 6,666,667 (Note 12) | - | - | - | 6,666,667 | 24/04/2019 | 28/02/2021 to 23/04/2029 | 0.130 |
| | - 3,333,334 (Note 12) | - | - | - | 3,333,334 | 24/04/2019 | 24/04/2021 to 23/04/2029 | 0.130 |
| Total | 1,664,353,349 | 130,000,000 | (1,000,000) | - | 1,793,353,349 | | | |

SHARE OPTION SCHEME (continued)

Notes:

- Options are valid for 10 years from the date of grant.
- 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.
- 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.
- 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.
- 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.
- 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.
- 50,000,000 Options granted to a grantee 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.
- 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.
- 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. Amit Chopra and Mr. Wei Ming resigned as executive Directors with effect from 24 May 2019.
- Mr. Wang Wei-Chung was appointed as non-executive Director on 30 May 2019.
- 130,000,000 Options granted to the grantees on 24 April 2019, 109,999,999 Options, 3,333,333 Options and 3,333,334 Options of which are/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; 6,666,667 Options and 6,666,667 Options of which shall be exercisable from 29 February 2020 and 28 February 2021 respectively. The closing price of the shares immediately before the date on which such Options were granted was HK\$0.128 per share.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2019, 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 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) | 2,176,041,324 | – | 2,176,041,324 (Long position) | 6.79% |
| | Interest of controlled corporation (Note 1) | 602,561,746 | – | 602,561,746 (Short position) | 1.88% |
| Seah Ang | Interest of controlled corporation and beneficial owner (Notes 3 and 4) | 2,008,531,324 | 100,000,000 | 2,108,531,324 (Long position) | 6.58% |
| | Interest of controlled corporation (Note 3) | 502,134,789 | – | 502,134,789 (Short position) | 1.57% |
| Wang Wei-Chung | Beneficial Owner (Note 5) | – | 5,000,000 | 5,000,000 (Long position) | 0.02% |

Notes:

- Kabo Limited was deemed to be interested in 2,008,531,324 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,405,969,578 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.
- Honarn Inc. holds 167,510,000 Shares. Mr. Peter Chou was deemed to be interested in the above Shares by virtue of his 100% shareholding interests in Honarn Inc.
- Global Domain Investments Limited was deemed to be interested in 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 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".
- Mr. Wang Wei-Chung holds 5,000,000 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 2019, 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 2019, 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) | 2,008,531,324 | – | 2,008,531,324 (Long position) | 6.27% |
| | Beneficial owner (Note 1) | 602,561,746 | – | 602,561,746 (Short position) | 1.88% |
| Peter Chou | Interest of controlled corporation (Notes 1 and 2) | 2,176,041,324 | – | 2,176,041,324 (Long position) | 6.79% |
| | Interest of controlled corporation (Note 1) | 602,561,746 | – | 602,561,746 (Short position) | 1.88% |
| Global Domain Investments Limited | Beneficial owner and deemed interest under section 317 of the SFO (Note 3) | 2,008,531,324 | – | 2,008,531,324 (Long position) | 6.27% |
| | Beneficial owner (Note 3) | 502,134,789 | – | 502,134,789 (Short position) | 1.57% |
| Seah Ang | Interest of controlled corporation and beneficial owner (Notes 3 and 4) | 2,008,531,324 | 100,000,000 | 2,108,531,324 (Long position) | 6.58% |
| | Interest of controlled corporation (Note 3) | 502,134,789 | – | 502,134,789 (Short position) | 1.57% |
| Redmount Ventures Limited | Beneficial owner and deemed interest under section 317 of the SFO (Note 5) | 2,008,531,324 | – | 2,008,531,324 (Long position) | 6.27% |
| | Beneficial owner (Note 5) | 502,134,789 | – | 502,134,789 (Short position) | 1.57% |
| Amit Chopra | Interest of controlled corporation and beneficial owner (Notes 5 and 6) | 2,008,531,324 | 163,000,000 | 2,171,531,324 (Long position) | 6.77% |
| | Interest of controlled corporation (Note 5) | 502,134,789 | – | 502,134,789 (Short position) | 1.57% |

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) | 2,308,531,324 | – | 2,308,531,324 (Long position) | 7.20% |
| Bright Ace Holdings Limited | Interest of controlled corporation (Note 7) | 2,308,531,324 | – | 2,308,531,324 (Long position) | 7.20% |
| Zhou Jian | Interest of controlled corporation and beneficial owner (Notes 7, 8 and 9) | 2,381,878,527 | 150,000,000 | 2,531,878,527 (Long position) | 7.90% |
| Poly Culture Group Corporation Limited | Beneficial owner | 5,323,600,000 | – | 5,323,600,000 (Long position) | 16.61% |
| Jade Link Holdings Limited | Beneficial owner (Note 10) | 5,037,200,000 | – | 5,037,200,000 (Long position) | 15.71% |
| Tang Elaine Yilin | Interest of controlled corporation (Note 10) | 5,037,200,000 | – | 5,037,200,000 (Long position) | 15.71% |
| CITIC Limited | Interest of controlled corporation (Note 11) | 2,281,818,182 | – | 2,281,818,182 (Long position) | 7.12% |
| CITIC Group Corporation | Interest of controlled corporation (Note 11) | 2,281,818,182 | – | 2,281,818,182 (Long position) | 7.12% |
| Kingkey Enterprise Holdings Limited | Beneficial owner (Note 12) | 2,161,080,000 | – | 2,161,080,000 (Long position) | 6.74% |
| Chen Jiarong | Interest of controlled corporation and beneficial owner (Note 12) | 2,166,550,000 | – | 2,166,550,000 (Long position) | 6.76% |
| Chen Jiajun | Interest of controlled corporation (Note 12) | 2,161,080,000 | – | 2,161,080,000 (Long position) | 6.74% |
| Fortune Source International Limited | Beneficial owner (Note 13) | 1,672,035,000 | – | 1,672,035,000 (Long position) | 5.22% |
| Zhang Xiaoqun | Interest of controlled corporation (Note 13) | 1,672,035,000 | – | 1,672,035,000 (Long position) | 5.22% |

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 2,008,531,324 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,405,969,578 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 167,510,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.
3. Global Domain Investments Limited was deemed to be interested in 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 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 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 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 beneficially holds 300,000,000 Shares and was deemed to be interested in 2,008,531,324 Shares by holding 225,960,000 Shares, 75,320,000 Shares, 75,320,000 Shares and 75,320,000 Shares held by Cosmic Power Holdings Limited, Jameson Global Investments Limited and Unity Ridge Limited respectively, and by having a security interest in 1,782,571,324 Shares under section 317 of the SFO. Cosmic Power Holdings Limited, Jameson Global Investments Limited and Unity Ridge Limited are wholly-owned by Wise Sun Holdings Limited and Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the above Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.
8. Mr. Zhou Jian was deemed to be interested in 73,347,203 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. Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in the 5,037,200,000 Shares held by Jade Link Holdings Limited.
11. 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.
12. Kingkey Enterprise Holdings Limited is 50% controlled by each of Mr. Chen Jiarong and Mr. Chen Jiajun. Mr. Chen Jiarong and Mr. Chen Jiajun were deemed to be interested in 2,161,080,000 Shares held by Kingkey Enterprise Holdings Limited. Mr. Chen Jiarong beneficially holds 5,470,000 Shares
13. 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.

Save as disclosed above, as at 30 June 2019, 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 (the “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 2019, 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 non-executive Directors and 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 non-executive Directors and 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, Mr. Pu Jian and Dr. Song Alan Anlan, the non-executive Directors, and Ms. Lau Cheong, the independent non-executive Director, they were not present at the annual general meeting of the Company held on 29 May 2019.

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:

- (1) Mr. Wei Ming has resigned as executive Director and the vice chairman of the Board, and ceased to be the member of the executive committee of the Company with effect from 24 May 2019.
- (2) Mr. Amit Chopra has resigned as executive Director, chief operating officer and authorised representative of the Company (the "Authorised Representative") as required under Rule 3.05 of the Listing Rules, and ceased to be the member of the executive committee of the Company with effect from 24 May 2019.
- (3) Dr. Song Alan Anlan has resigned as non-executive Director with effect from 24 May 2019.
- (4) Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung have been appointed as non-executive Directors with effect from 30 May 2019.
- (5) Mr. Pu Jian, the non-executive Director, was appointed as vice chairman of the Board and the Authorised Representative on 24 May 2019. He has resigned all positions in the Company with effect from 2 August 2019.
- (6) Mr. John Alexander Lagerling, the independent non-executive Director, has resigned as non-executive director and a member of the remuneration committee of Modern Times Group MTG AB in May 2019.

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

Hong Kong, 30 August 2019