



INTERIM REPORT 2016



D I G I T A L D O M A I N

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

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

* For identification purposes only

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 2016 (the “Review Period”) together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	For the six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Revenue	2	348,133	293,494
Cost of sales and services		(285,806)	(224,401)
Gross profit		62,327	69,093
Other revenue and gains		4,630	5,439
Selling and distribution expenses		(9,542)	(19,034)
Administrative expenses and other net operating expenses		(203,088)	(117,614)
Finance costs	3	(27,521)	(19,394)
Fair value gains on investment properties	7	197	–
Share of profit of an associate		–	956
Share of losses of joint ventures		(626)	(97)
Loss before taxation	4	(173,623)	(80,651)
Taxation	5	3,458	(3,359)
Loss for the period		(170,165)	(84,010)
Loss attributable to:			
– Owners of the Company		(158,882)	(76,391)
– Non-controlling interest		(11,283)	(7,619)
		(170,165)	(84,010)
Loss per share:	6		
– Basic and diluted		HK cent (1.468)	HK cent (0.777)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Loss for the period	(170,165)	(84,010)
Other comprehensive income		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Currency translation differences	10,435	(204)
Share of other comprehensive income of an associate	(5)	(10)
Other comprehensive income for the period, net of tax	10,430	(214)
Total comprehensive income for the period	(159,735)	(84,224)
Total comprehensive income attributable to:		
– Owners of the Company	(150,185)	(76,533)
– Non-controlling interest	(9,550)	(7,691)
	(159,735)	(84,224)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

		Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		46,769	33,330
Investment properties	7	210,000	208,600
Intangible assets	8	989,423	873,972
Interests in joint ventures		12,864	12,576
		1,259,056	1,128,478
Current assets			
Inventories		637	329
Trade receivables, other receivables and prepayments	10	212,846	66,820
Bank balances and cash		464,188	344,726
		677,671	411,875
Current liabilities			
Trade payables, other payables and accruals	11	99,758	58,979
Deferred revenue		24,673	33,735
Borrowings		137,785	78,657
Obligations under finance leases		534	3,096
Amount due to a related party	14(b)	75	–
Tax payable		6,514	5,279
		269,339	179,746
Net current assets		408,332	232,129
Total assets less current liabilities		1,667,388	1,360,607
Non-current liabilities			
Borrowings		276,537	281,559
Deferred tax liabilities		48,304	45,944
Convertible notes		350,014	330,863
		674,855	658,366
Net assets		992,533	702,241
Capital and reserves			
Share capital	12	118,777	107,006
Reserves		822,016	566,422
Equity attributable to owners of the Company		940,793	673,428
Non-controlling interest		51,740	28,813
Total equity		992,533	702,241

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Attributable to owners of the Company										Non-controlling interest HK\$'000	Total equity HK\$'000
	Share capital HK\$'000 (Note 12)	Share premium HK\$'000	Convertible notes – equity component HK\$'000	Land and buildings revaluation reserve HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Deferred shares reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
As at 1 January 2015	98,327	245,047	96,630	7,355	49,510	6,176	-	(313)	(234,961)	267,771	(1,011)	266,760
Changes in equity for the six months ended 30 June 2015												
Recognition of equity-settled share-based payment (Note 13)	-	-	-	-	-	21,060	-	-	-	21,060	-	21,060
Issue of shares on exercise of share options	-	13	-	-	-	(4)	-	-	4	13	-	13
Lapse of share options	-	-	-	-	-	(101)	-	-	101	-	-	-
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	19,473	19,473
Loss for the period	-	-	-	-	-	-	-	-	(76,391)	(76,391)	(7,619)	(84,010)
Currency translation differences	-	-	-	-	-	-	-	(132)	-	(132)	(72)	(204)
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income for the period	-	-	-	-	-	-	-	(142)	(76,391)	(76,533)	(7,691)	(84,224)
As at 30 June 2015 and 1 July 2015	98,327	245,060	96,630	7,355	49,510	27,131	-	(455)	(311,247)	212,311	10,771	223,082
Changes in equity for the six months ended 31 December 2015												
Recognition of equity-settled share-based payment (Note 13)	-	-	-	-	-	16,493	-	-	-	16,493	-	16,493
Issue of shares on placement, net of expenses	7,700	324,099	-	-	-	-	-	-	-	331,799	-	331,799
Issue of shares for acquisition of subsidiaries	978	53,237	-	-	-	-	-	-	-	54,215	-	54,215
Issue of shares on exercise of share options	1	-	-	-	-	-	-	-	-	1	-	1
Deferred shares to be issued for acquisition of subsidiaries	-	-	-	-	-	-	153,036	1,647	-	154,683	-	154,683
Lapse of share options	-	-	-	-	-	(269)	-	-	269	-	-	-
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	22,000	22,000
Additions from business combination	-	-	-	-	-	-	-	-	-	-	24,285	24,285
Acquisition of additional interests on a group of subsidiaries from non-controlling interest	-	-	-	-	-	-	-	-	(9,624)	(9,624)	(10,385)	(20,009)
Loss for the period	-	-	-	-	-	-	-	-	(79,907)	(79,907)	(15,590)	(95,497)
Currency translation differences	-	-	-	-	-	-	-	(6,122)	-	(6,122)	(2,268)	(8,390)
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	(421)	-	(421)	-	(421)
Total comprehensive income for the period	-	-	-	-	-	-	-	(6,543)	(79,907)	(86,450)	(17,858)	(104,308)
As at 31 December 2015	107,006	622,396	96,630	7,355	49,510	43,355	153,036	(5,351)	(400,509)	673,428	28,813	702,241

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

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Attributable to owners of the Company											
	Share capital HK\$'000 (Note 12)	Share premium HK\$'000	Convertible notes – equity component HK\$'000	Land and buildings revaluation reserve HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Deferred shares reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
As at 1 January 2016	107,006	622,396	96,630	7,355	49,510	43,355	153,036	(5,351)	(400,509)	673,428	28,813	702,241
Recognition of equity-settled share-based payment (Note 13)	-	-	-	-	-	41,542	3,198	-	-	44,740	-	44,740
Issue of shares on placement, net of expenses	7,000	337,625	-	-	-	-	-	-	-	344,625	-	344,625
Issue of shares for acquisition of subsidiaries (Note 9)	870	52,231	-	-	-	-	-	-	-	53,101	-	53,101
Additions from business combination (Note 9)	-	-	-	-	-	-	-	-	-	-	7,561	7,561
Acquisition of additional interests on a group of subsidiaries from non-controlling interest	3,901	189,199	-	-	-	-	-	-	(218,016)	(24,916)	24,916	-
Loss for the period	-	-	-	-	-	-	-	-	(158,882)	(158,882)	(11,283)	(170,165)
Currency translation differences	-	-	-	-	-	-	-	8,702	-	8,702	1,733	10,435
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	(5)	-	(5)	-	(5)
Total comprehensive income for the period	-	-	-	-	-	-	-	8,697	(158,882)	(150,185)	(9,550)	(159,735)
As at 30 June 2016	118,777	1,201,451	96,630	7,355	49,510	84,897	156,234	3,346	(777,407)	940,793	51,740	992,533

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Cash flows from operating activities		
Loss before taxation	(173,623)	(80,651)
Adjustments for:		
Depreciation of property, plant and equipment	10,353	12,774
Amortisation of intangible assets	10,164	11,589
Loss on disposal of property, plant and equipment	–	60
Equity-settled share-based payment expenses	44,740	21,060
Net exchange (gains)/losses	(549)	1,910
Fair value gains on investment properties	(197)	–
Share of profit of an associate	–	(956)
Share of losses of joint ventures	626	97
Interest income	(118)	(23)
Finance costs	27,521	19,394
Operating loss before working capital changes	(81,083)	(14,746)
Increase in trading merchandise goods	(308)	–
Increase in trade receivables, other receivables and prepayments	(112,869)	(30,897)
Increase in trade payables, other payables and accruals	16,292	117,734
Increase in amount due to a related company	–	1,950
Increase in amount due to an associate	–	33
Decrease in deferred revenue	(9,062)	(3,640)
Cash (used in)/generated from operations	(187,030)	70,434
Hong Kong profits tax refunded/(paid)	131	(171)
Overseas tax paid	(35)	(429)
Interest paid	(3,372)	(1,846)
Net cash (used in)/generated from operating activities	(190,306)	67,988

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

(continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Cash flows from investing activities		
Interest income	118	39
Purchases of property, plant and equipment	(4,044)	(4,767)
Additions to intangible assets	(10,865)	(13,891)
Additions to investment properties	(1,203)	–
Investment in an associate	–	(20,370)
Advance to a joint venture	(914)	(32)
Net cash flow from business combination	(4,997)	–
Net cash used in investing activities	(21,905)	(39,021)
Cash flows from financing activities		
Proceeds from exercise of share options	–	13
Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder	–	19,473
Proceeds from share placing	344,625	–
Repayment of obligations under finance leases	(2,568)	(4,098)
New borrowings	–	19,375
Repayment of borrowings	(12,227)	(9,928)
Decrease in amount due to a related party	(161)	–
Net cash generated from financing activities	329,669	24,835
Net increase in cash and cash equivalents	117,458	53,802
Effect of foreign exchange rate changes	2,004	(2,169)
Cash and cash equivalents at 1 January	344,726	140,998
Cash and cash equivalents at 30 June	464,188	192,631
Represented by:		
Bank balances and cash	464,188	192,631

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 2016 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 – “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015.

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

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

		Effective date
Amendments to HKAS 7	Disclosure Initiative	(i)
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	(i)
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers	(ii)
HKFRS 15	Revenue from Contracts with Customers	(ii)
HKFRS 9 (2014)	Financial Instruments	(ii)
HKFRS 16	Leases	(iii)

Effective date:

- (i) Annual periods beginning on or after 1 January 2017
- (ii) Annual periods beginning on or after 1 January 2018
- (iii) Annual periods beginning on or after 1 January 2019

2. REVENUE AND SEGMENT REPORTING

Reportable segments

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

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

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

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

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

	Media entertainment		Property investment		Trading		Consolidated	
	For the six months ended		For the six months ended		For the six months ended		For the six months ended	
	30 June		30 June		30 June		30 June	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue from external customers	344,198	289,578	3,935	3,916	-	-	348,133	293,494
Reportable segment (loss)/profit	(44,565)	(19,485)	3,554	3,539	-	(797)	(41,011)	(16,743)
	As at	As at						
	30 June	31 December						
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	1,235,974	959,322	213,238	211,404	7,663	15,247	1,456,875	1,185,973
Reportable segment liabilities	398,986	376,523	2,659	3,100	350	700	401,995	380,323

2. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

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

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Loss before taxation		
Reportable segment loss	(41,011)	(16,743)
Fair value gains on investment properties	197	–
Share of profit of an associate	–	956
Share of losses of joint ventures	(626)	(97)
Auditor's remuneration	(668)	(525)
Depreciation of unallocated property, plant and equipment	(2,771)	(122)
Finance costs	(27,521)	(19,394)
Equity-settled share-based payment expenses	(44,740)	(21,060)
Unallocated rental expenses	(4,614)	(4,747)
Unallocated other revenue and gains	326	59
Unallocated corporate expenses *	(52,195)	(18,978)
Consolidated loss before taxation	(173,623)	(80,651)

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

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Assets		
Reportable segment assets	1,456,875	1,185,973
Unallocated bank balances and cash	364,214	297,219
Unallocated corporate assets	115,638	57,161
Consolidated total assets	1,936,727	1,540,353

	As at	
	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Liabilities		
Reportable segment liabilities	401,995	380,323
Tax payable	6,514	5,279
Deferred tax liabilities	48,304	45,944
Convertible notes	350,014	330,863
Unallocated borrowings	124,772	63,085
Unallocated corporate liabilities	12,595	12,618
Consolidated total liabilities	944,194	838,112

2. REVENUE AND SEGMENT REPORTING *(continued)*

Reportable segments *(continued)*

(c) Geographic information

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

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Hong Kong (place of domicile)	3,935	28,730
Mainland China	13,517	–
The United States of America	127,614	172,285
Canada	133,162	76,693
Other countries	69,905	15,786
	348,133	293,494

3. FINANCE COSTS

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Imputed interest on convertible notes	19,151	17,113
Interests on:		
Bank and other loans	3,764	1,559
Secured note	3,538	–
Promissory note	918	–
Finance leases	150	722
	27,521	19,394

4. LOSS BEFORE TAXATION

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
This is arrived at after crediting/charging:		
<i>Crediting:</i>		
Interest income	118	23
<i>Charging:</i>		
Staff costs (including directors' remuneration)	355,377	235,078
Depreciation of property, plant and equipment	10,353	12,774
Amortisation of intangible assets	10,164	11,589

5. TAXATION

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

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Current taxation – Hong Kong profits tax		
– provision for the period	–	–
Current taxation – Overseas tax		
– provision for the period	28	3,802
– (over)/under-provision in respect of prior years	(2,589)	146
Deferred taxation	(897)	(589)
	(3,458)	3,359

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

6. LOSS PER SHARE

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

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Loss for the purpose of basic loss per share	(158,882)	(76,391)
	Number of shares	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic loss per share	10,820,777,680	9,832,687,370

Diluted loss per share

Since both convertible notes and share options outstanding during the current and prior periods had an anti-dilutive effect on the basic loss per share, the conversion of the outstanding convertible notes and the exercise of outstanding share options were not assumed in the computation of diluted loss per share. Except for the above, there is no other dilutive potential share during the current and prior periods. Therefore, the basic and diluted loss per share in the current and prior periods are equal.

7. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
As at 1 January 2016	208,600
Additions	1,203
Fair value gains	197
As at 30 June 2016	210,000

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK\$3,935,000 (2015: HK\$3,916,000). Direct operating expenses arising on the investment properties during the period amounted to HK\$326,000 (2015: HK\$303,000).

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

The fair value of the Group's investment properties as at 30 June 2016 have been arrived at on market value basis carried out by DTZ Cushman & Wakefield Limited, an independent firm of professionally qualified valuers, whose staff are qualified members of Hong Kong Institute of Surveyors with recent experience in the locations and category of properties being valued. This valuation gave rise to fair value gains of HK\$197,000 during the period (2015: Nil).

8. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	License for intellectual property right	Virtual human know-how	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
As at 1 January 2016	587,739	144,110	91,430	258,873	60,494	22,000	19,943	1,184,589
Additions from business combination (Note 9)	102,386	-	-	-	-	-	-	102,386
Additions	-	-	6,783	-	-	4,082	-	10,865
Exchange realignment	(420)	8,952	728	274	3,313	-	-	12,847
As at 30 June 2016	689,705	153,062	98,941	259,147	63,807	26,082	19,943	1,310,687
ACCUMULATED AMORTISATION								
As at 1 January 2016	-	-	57,244	251,183	116	1,121	953	310,617
Amortisation for the period	-	-	4,682	598	2,286	1,598	1,000	10,164
Exchange realignment	-	-	173	265	45	-	-	483
As at 30 June 2016	-	-	62,099	252,046	2,447	2,719	1,953	321,264
CARRYING AMOUNT								
As at 30 June 2016	689,705	153,062	36,842	7,101	61,360	23,363	17,990	989,423
As at 31 December 2015	587,739	144,110	34,186	7,690	60,378	20,879	18,990	873,972

9. BUSINESS COMBINATION

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

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

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

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

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

9. BUSINESS COMBINATION (continued)

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

Since the completion of Acquisition, the Target Group has contributed approximately HK\$13,380,000 to the Group's revenue and approximately HK\$6,254,000 to the Group's loss for the period. If the Acquisition had occurred on 1 January 2016, the Group's revenue and loss for the period would have been approximately HK\$384,010,000 and HK\$184,824,000 respectively. This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2016, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK\$346,000 have been expensed and are included in administrative expenses.

10. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 to 60 days (2015: 30 to 60 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debts, based on the due date, is as follows:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade receivables by ageing		
Current	30,124	1,122
1 to 30 days	16,488	8,792
31 to 60 days	15,127	3,666
61 to 90 days	8,070	2,201
Over 90 days	21,635	18,377
Total trade receivables	91,444	34,158
Accrued income	–	9,903
Other receivables and prepayments	121,402	22,759
	212,846	66,820

11. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade payables by ageing		
Current	7,248	5,362
1 to 30 days	2,631	3,726
31 to 60 days	1,230	854
61 to 90 days	772	19
Over 90 days	6,815	363
Total trade payables	18,696	10,324
Other payables and accruals	81,062	48,655
	99,758	58,979

12. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2015 and 30 June 2016	75,000,000,000	750,000
Issued and fully paid:		
As at 31 December 2015	10,700,557,406	107,006
Issue of shares on placement	700,000,000	7,000
Issue of shares for acquisition of subsidiaries	87,051,143	870
Issue of shares for acquisition of additional interests on a group of subsidiaries from non-controlling interest	390,100,671	3,901
As at 30 June 2016	11,877,709,220	118,777

13. SHARE-BASED PAYMENT TRANSACTIONS

During the six months ended 30 June 2016, 479,500,000 (2015: 78,000,000) share options were granted to a director of the Company and certain employees and advisors of the Group (the “Grantees”). Under the share option scheme of the Company, each of the Grantees paid the Company HK\$1 as consideration for the grant of the share options. Each option gives the holder the right to subscribe for ordinary shares of the Company at an exercise price ranged from HK\$0.413 to HK\$0.495 (2015: HK\$1.32) per share.

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

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

During the six months ended 30 June 2016, 20,720,000 (2015: 62,760,000) share options were forfeited while no (2015: 10,000) share options were exercised.

As at 30 June 2016, the weighted average exercise price of share options outstanding is HK\$0.28 (As at 31 December 2015: HK\$0.198) per share and the average remaining contractual life is 8.56 years (As at 31 December 2015: 8.49 years).

The fair value of services received in return for share options granted on the respective grant dates is measured by reference to the fair value of share options granted. The fair value is determined based on binomial option pricing model. The weighted average fair value of each option granted during the six months ended 30 June 2016 was HK\$0.15. The key valuation parameters are as follows:

Share price at grant date	HK\$0.405–0.56
Exercise price	HK\$0.413–0.495
Expected volatility	45%
Life of the share options	10 years
Expected dividend yield	0%
Risk-free rate	1.15–1.6%
Forfeiture rate	0–12%
Suboptimal exercise behaviour multiple	1.4–1.45

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

There were no market vesting conditions associated with the share options granted.

Under this share option scheme, the Group has recognised an equity-settled share-based payment expenses of HK\$41,542,000 (2015: HK\$21,060,000) during the six months ended 30 June 2016.

13. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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 installments 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 2016 an amount of approximately HK\$3,198,000 (2015: Nil) was recognised as remuneration costs in profit or loss.

In aggregate, the Group has recognised an equity-settled shared-based payment expenses of HK\$44,740,000 (2015: HK\$21,060,000) during the six months ended 30 June 2016.

14. RELATED PARTY TRANSACTIONS

(a) During the six months ended 30 June 2016, the Group had the following material related party transaction:

Related party relationship	Type of transaction	For the six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Related companies of the non-controlling interest	Production costs	22	4,756

(b) Amount due to a related party is unsecured, interest free and repayable on demand.

15. CAPITAL COMMITMENT

The Group did not have any significant capital commitment as at 30 June 2016 and 31 December 2015.

16. SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

On 29 July 2016, the Board of the Company resolved that a total of 50,000,000 share options were granted to certain grantees (the "Grantees"), pursuant to the Company's share option scheme and subject to the acceptance of the Grantees.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group achieved a revenue of HK\$348,133,000 (2015: HK\$293,494,000), showing a modest growth of approximately 19% compared to that of the previous corresponding period. The gross profit of the Group amounted to HK\$62,327,000 (2015: HK\$69,093,000) during the Review Period. As at 30 June 2016, the total assets of the Group amounted to HK\$1,936,727,000 (as at 31 December 2015: HK\$1,540,353,000). The loss attributable to owners of the Company was HK\$158,882,000 (2015: HK\$76,391,000). The loss for the Review Period was approximately HK\$170,165,000 (2015: HK\$84,010,000). The loss for the Review Period was mainly caused by (i) the recognition of non-cash outflow expenses, including (a) equity-settled share-based payments for the share options granted in 2014, 2015 and 2016 respectively to the value of HK\$41,542,000 (2015: HK\$21,060,000), (b) amortisation and depreciation expenses to the value of HK\$20,517,000 (2015: HK\$24,363,000), and (c) deemed interest expenses for the convertible notes and a promissory note to the value of HK\$20,069,000 (2015: HK\$17,113,000), (ii) increased administrative and other operating/project expenses, comprising mainly legal and professional fees (including those incurred in relation to the acquisitions, collaborations and business development in the Greater China region and investor and public relations) and (iii) operating losses from the media entertainment segment.

Media Entertainment Segment

During the Review Period, this segment recorded a revenue of approximately HK\$344,198,000 (2015: HK\$289,578,000). 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\$44,565,000 (2015: HK\$19,485,000). The loss was primarily due to operating losses (including the amortisation and depreciation expenses). The adjusted segment loss, taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK\$26,819,000 (2015: profit of HK\$4,756,000).

A. Visual Effects (“VFX”) Productions

This business unit mainly provides VFX production services for major motion picture studios, advertisers and games. Since 1 January 2016, the artists of Digital Domain 3.0, Inc. (“DD3I”, a subsidiary of the Company) have provided VFX production services for feature films “*Deadpool*”, “*X-Men: Apocalypse*” and “*Independence Day: Resurgence*”; HBO’s “*Game of Thrones*”; and marketing campaigns for major brands including Nike: “*Hyperadapt 1.0*”, X-Men film Kia “*Sportage*” and Red Robin “*Berserker X Burger*”, Ultimate Fighting Championship: UFC 200 “*It’s Time*” and UFC 196 “*Intimidation*” and the Pokemon “*Train On*” Super Bowl commercial.

FINANCIAL AND BUSINESS REVIEW *(continued)*

A. Visual Effects Productions *(continued)*

Acquisition of the remaining 30% of VFX Productions Group

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

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

As Prime Focus indirectly owned the Sales Interest, it was a substantial shareholder of DD-R, being a non-wholly owned subsidiary of the Company. Therefore, Prime Focus was a connected person of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules” and the “Stock Exchange” respectively) at the subsidiary level. Accordingly, the issue and allotment of the shares of the Company to Prime Focus or its designated subsidiary constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and was subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14A of the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the acquisition exceed 25% but are less than 100%, the acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and shareholders’ approval requirements.

An independent board committee has been established to make recommendations to the independent shareholders regarding the SPA and the transactions contemplated thereunder. Hercules Capital Limited has been appointed as the independent financial adviser to advise the independent board committee and the independent shareholders in relation to the SPA and the transactions contemplated thereunder. A circular containing, among other matters, further details of the acquisition, an accountant’s report on DD-R and its subsidiaries, a valuation report, a letter of advice from the independent financial adviser and a notice to convene the special general meeting (the “SGM”) was despatched to the shareholders on 13 June 2016.

FINANCIAL AND BUSINESS REVIEW *(continued)*

A. Visual Effects Productions *(continued)*

Acquisition of the remaining 30% of VFX Productions Group *(continued)*

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

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

B. Virtual Reality (“VR”) and 360° Camera

In addition to VFX productions, this segment includes businesses offering VR technology services using 360° digital capture technology.

Immersive Ventures Inc. (“Immersive”) and IM360 Entertainment Inc. (“IM360”) are indirectly-owned subsidiaries of the Company. They are principally engaged in the business of interactive media technology – including 360° capture, multi-camera stitching, dynamic streaming, digital live optimisation, multi-camera and multi-input synchronisation, digital transmission and observation, multi-channel, capturing multi-panoramic views, camera to image identification, and internal GPS data capture. Recognised as top players in the 360° and VR industry, the technology firms specialise in producing high-end VR and 360° content. Immersive and its affiliates are the owners of certain patents, copyrights, trade secrets, and intellectual property rights for a variety of inventions and technologies, which are core to the businesses in relation to the development, exploitation, production, publishing and distribution of 360° live-streaming and pre-recorded 360° videos, VR, augmented reality, other similar immersive media content.

In January 2016, IM360 produced the first-ever, multi-camera, live 360° broadcast of a professional boxing match, entitled “*Hayemaker 360*”. The show featuring the fight between David “The Hayemaker” Haye and Mark “The Dominator” de Mori, was distributed on a custom 360 app by IM360 and on YouTube. IM360 subsequently produced a sequel in May 2016 with part two of “*Hayemaker 360*” profiling David Haye against Arnold “The Cobra” Gjergjaj. Exclusive behind-the-scene footage and stories in 360°, were all made viewable on any tablet, laptop or desktop computer through the custom 360 app by IM360.

FINANCIAL AND BUSINESS REVIEW (continued)

B. Virtual Reality and 360° Camera (continued)

In January 2016, the 360° VR version of “康熙來了” (“Kangxi Lai Le” for identification purposes), an iconic TV show in Taiwan was officially launched on the Company’s website and 360 app. In December 2015, the Group joined forces with CTi TV and Gin Star Entertainment Co., Ltd. (“Gin Star Entertainment”) – which is owned by Mr. Wang Wei-chung, a prominent producer in Taiwan – to bring in 360° digital capture technology for the last day of shooting of “Kangxi Lai Le”. To celebrate the breakthrough of the adoption of VR in the Taiwan’s TV entertainment industry, the Company, CTi TV and Gin Star Entertainment held a press conference at the Taipei New Horizon Building in January 2016. During the press conference, Mr. Hank Chen, assistant host of the show, serving as a “virtual reality guru”, showed the participants how to watch the VR version of “Kangxi Lai Le”. The use of the Group’s VR technologies for the shooting of the “Kangxi Lai Le” episodes has transformed the traditional way of a mere recording of the show. The out-of-the-box approach to produce a synchronised and faithful VR rendition of the show led the Group to transcend the boundaries associated with traditional cinematic techniques. Original colour text effects were also brought into the production of “Kangxi Lai Le”. VR screens were carefully placed to ensure that every meticulous detail in the show was fully reproduced in VR, offering viewers of both the VR and TV versions the same sensual experience.

In early February 2016, IM360 worked with Samsung to produce a closed circuit, multi-camera 360° experience of the NBA All-Star Weekend in Toronto, Canada, which included broadcasting the Dunk Contest, Three-Point Contest, Rookie Game and All-Star Game. The NBA All-Star experience featured live 360° switching between various cameras and positions.

Later in February, IM360 partnered with ABC News programme “Good Morning America” to produce “GMA on Safari”, the first-ever network television event that was simultaneously broadcast live in 360°. The segment took place in Tanzania, Africa and brought VR programming to a live global audience available on the IM360 app platform and on the ABC News website.

In March 2016, IM360 worked with CBS Sports Network to produce the NCAA College Basketball Tournament in 360° VOD, entitled “Road to March Madness”. The programme featured various college basketball games in 360° view with exclusive distribution on Facebook.

Also in March, IM360 worked with ABC Television to produce a 360° series for a popular local TV show “Nashville”, which simulates having audience in the middle of various music performances from characters in the show and local music talent. The series entitled “Nashville VR” was broadcast on the ABC website.

FINANCIAL AND BUSINESS REVIEW (continued)

B. Virtual Reality and 360° Camera (continued)

In April 2016, IM360 partnered with Disney to produce the “Radio Disney Music Awards” in 360°, which was the first-ever live red carpet show where the entire programme was built around the VR experience. IM360 was the sole broadcaster of the red carpet event. In addition, various music performances from the “Radio Disney Music Awards”, including Flo Rida and DNCE, were also produced in 360° by IM360 using multi-cameras for VOD. The entire experience was available on the Disney app using the IM360 player and on YouTube.

In May 2016, IM360 produced a dynamic 360° VOD experience for street fashion brand Undefeated and Nike, entitled “CourtVision”. It highlighted street basketball legend Pat the Roc. The project was filmed using high-end Alexa cameras, shot in quadrants and stitched together with the use of Immersive Media technology. Included in the project were custom VR cardboard that were co-branded by Undefeated, the Company (Digital Domain) and IM360, distributed to influencers through Undefeated’s network. A pop-up store was created in Los Angeles where people can experience the VR project.

In May 2016, the Group entered an alliance with Warner Music Taiwan Limited (“Warner Music”), with their first collaboration being the production of a music video of highlights of the VR concert of Mr. Li Ronghao’s “An Ideal” World Tour Concert Beijing (the “Concert” and the “VR Music Video”). The Group sent its production crew to the concert for live shooting and production of the VR music video. The VR music video was the very first of its kind in China, combining the Group’s 360° technology and computer graphics techniques in the production. It introduced an innovative music and visual experience to Chinese music fans around the world.

On 1 June 2016, the Group entered an alliance with CTi TV to launch a 360° live news streaming application, “Be PO TV” for the first time in Asia. With the Group’s “360° live news streaming” technology, the application brings audience to scenes of breaking news, delivering an immersive experience of news reporting. During the press conference for the launch of “Be PO TV” held at CTi TV’s headquarter, the Group’s “360° panoramic view live news” technology was used to connect with Kaohsiung Chengcing Lake Baseball Stadium, giving audience a live broadcast of the wonderful performances and classic dances of players of EDA Rhino, a famous baseball team in Taiwan. The 360° live streaming technology makes audience feel like being in the stadium in person. “Be PO TV” integrated the 360° live streaming technology in news broadcast. With support from 27 patented technologies, “Be PO TV” will broadcast live events without any post-production. Users will be able to view any significant event or exciting historical moment in real time with no interruption. The Company also showcased an experimental short film “*Evolution of Verse*” which was generated completely by computer graphics in the VR experience zone during the press conference.

FINANCIAL AND BUSINESS REVIEW (continued)

B. Virtual Reality and 360° Camera (continued)

In June 2016, IM360 worked with children's cable television network Nickelodeon to bring a 360° VOD experience to their action adventure game show entitled "*Legends of the Hidden Temple*". The VR experience produced by IM360 took viewers through the world of the "hidden temple" in 360°, giving fans exclusive guided tours of the various elements and components of the temple and surrounding environments in the show.

The 19th Shanghai International Film Festival (SIFF) "Genesis" – VR PARK was held in Global Harbor, Shanghai from 11 to 19 June 2016. The Company was invited to attend the exhibition and showcase a number of its VR technology achievements and VR projects. In the "Genesis" – VR PARK, the Company displayed its proprietary 360° cameras, its latest achievement in VR technology. The camera has the ability to capture images in six directions simultaneously, as well as stitching, compressing and saving images in real time concurrently. The forthcoming second generation 360° camera will be used for international sporting events, bringing a brand-new visual experience to audience. The Company also presented several VR and virtual human productions to visitors during the exhibition, including "*Kangxi Lai Le*" and the music video of the Hong Kong cartoon character McDull.

In June, the Group jointly produced the first VR music video for China's famous singer Chris Lee's new song, "*Open Up*" in conjunction with Whaley VR and VS MEDIA. Ms. Chris Lee launched her one-of-a-kind 360° VR music video – "*Open Up*" at the "2016 Chris Lee Growing Wild Tour Concert" press conference in Beijing, sharing with guests and the media her exciting experience of shooting the video. The music video combines the latest 360° video streaming technology and the expertise of the top-tier VR production team of IM360. Music fans can revel in the thrill of the mind-blowing experience thanks to forefront technology, and relish the excitement of sensory stimulation on the 360 app, Whaley VR and VS MEDIA platform.

In July 2016, IM360 partnered with the United States Democratic Party to produce a live 360° broadcast of the US Democratic National Convention (the "DNC") in VR for the first time in history. The 360° experience featured multiple cameras and camera positions live from the Wells Fargo Center in Philadelphia, and 360° highlight videos were produced for on-demand viewing throughout the 4-day convention. The entire 360° experience of the DNC, from live to VOD was available on the DNC's mobile app as well as the official DNC website and YouTube channel.

In August 2016, the Group produced a multi-camera, multi-platform, live 360° VR experience for a major, two-week, international sporting event in Rio de Janeiro, Brazil as the official 360/VR partner. The giant production involved more than 30 cameras (including the Group's new 360° camera system Zeus), multiple event coverage, and worldwide distribution with custom built apps and webpages for dozens of countries. In addition, a series of 360° VOD stories were created for the international sport event entitled "*Road of Rio*" in VR.

FINANCIAL AND BUSINESS REVIEW *(continued)*

B. Virtual Reality and 360° Camera *(continued)*

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

C. Acquisition of A Group of Companies Engaged in Post Production Work Business

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

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

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

The 87,051,143 Consideration Shares represent approximately 0.81% of the total number of shares of the Company in issue at that time, and approximately 0.81% of the total number of shares of the Company in issue as enlarged by the issue of the Consideration Shares at that time. The Consideration Shares, when allotted and issued, will rank pari passu in all respects with the shares of the Company then in issue. The issue price for the Consideration Shares of HK\$0.4595 represents 12.07% premium to the closing price of HK\$0.41 per share of the Company as quoted on the Stock Exchange on 22 January 2016, the date of the announcement; and 8.37% premium to the average closing price of HK\$0.424 per share as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to the date of the announcement. The Consideration Shares are to be issued under the general mandate of the Company.

FINANCIAL AND BUSINESS REVIEW (continued)

C. Acquisition of A Group of Companies Engaged in Post Production Work Business (continued)

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

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

This business unit mainly provides post-production services for commercials and featured films in the PRC, including editing, compositing, colour grading, animation and VFX production. It also provides production services for the creation of commercials and featured films.

Through the investment in Lucrative Skill – the holding company of the Post Production Office group of companies (collectively rebranded as “DDPO” – upon completion of acquisition in April 2016, the Group made significant progress in establishing a strong operating platform in the PRC with offices located in Beijing and Shanghai. Since the investment, DDPO has broadened its service offerings to provide more sophisticated VFX production for commercials and featured films, and VR/360° videos mainly for online media broadcast.

Since April 2016, DDPO has provided post-production services for various high profile commercial projects profiling leading brands, such as LETV, Tencent, Dell, BMW, Mercedes-Benz, Canon, AIA, China Mobile, Gap and Coca-Cola. Featured films projects recently completed include “*I Love That Crazy Little Thing*”, “*For A Few Bullets*” and “*The Whisper*”. DDPO also provided production services for the “*Lao Heng He*” commercial and the “*Cook Up A Storm*” featured film. “*Cook Up A Storm*” is a featured film version of the popular “*Chef Nic*” TV show. DDPO was also commissioned to provide post-production and VFX production to “*Cook Up A Storm*” which is scheduled to be released during the Chinese New Year in 2017.

In May 2016, DDPO started to provide new service offerings in the VR music video of teenage boys’ band, TFBoys. DDPO also secured the “*Crossfire*” commercial project (a popular mobile game of Tencent) which requires the utilization of motion captured technology.

FINANCIAL AND BUSINESS REVIEW *(continued)*

D. Virtual Human Business

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

A series of Virtual Human Miss Teresa Teng concerts has been planned and staged in 2016. The first one was held in Shanghai in July 2016 with the others slated to be rolled out in other major cities in China. Making use of a virtual image reconstruction technique, DD3I reproduced the glamour of the Taiwanese pop diva on stage.

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

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

On 22 January 2016, the Company announced the proposed acquisition of 85% equity interest in Lucrative Skill, the parent company of Post Production Office Limited and its subsidiaries (“PO Group”), a group of companies established by an international entertainment celebrity, Mr. Tse in 2003. By introducing the latest dynamic streaming technologies from Hollywood, the two companies will jointly tap into the media, entertainment and technology fields, covering VFX, computer graphics (“CG”), VR, 360° panorama video recording, and virtual human in Greater China, so as to gain a foothold in the region for the Group. The PO Group’s avant-garde post-production technology has earned great acclamation in the advertising sector and helped build a core client portfolio, boasting Apple Inc., HSBC, Standard Chartered Bank, Cheung Kong Holdings, Canon, Sony, Coca Cola, McDonald’s, Mercedes Benz, BMW, Panasonic and other international brands and enterprises.

FINANCIAL AND BUSINESS REVIEW *(continued)*

An Event on 25 January 2016 – “It’s VeRy Big. It’s VeRy Near” *(continued)*

The Company announced the encouraging development at a toasting ceremony at JW Marriott Hotel Hong Kong. Alongside the ceremony, an exhibition themed “It’s VeRy Big. It’s VeRy Near” displaying top-notch products, ranging from VR, cinema-to-graphic VFX to CG technology was set up for journalists to have a first-hand taste of the devices. The event saw a huge turnout of journalists raising enquiries earnestly while playing with the latest VR, VFX and CG gadgets with keen interest.

Property Investment Segment

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

During the Review Period, the revenue of this segment increased by approximately 0.5% to HK\$3,935,000 (2015: HK\$3,916,000). The increase was caused by the change of a tenant in late 2015. The revenue accounted for approximately 1% of the Group’s overall revenue during the Review Period. The profit of this segment increased during the Review Period, amounting to HK\$3,554,000 (2015: HK\$3,539,000).

INTERESTS IN JOINT VENTURES

A. Joint Venture with Tencent

During the Review Period, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on the Stock Exchange (stock code: 700)) was HK\$43,000. The cooperation started in September 2013. The joint venture has not conducted any material business activity since its incorporation. Both parties will further discuss and see any other potential cooperation opportunities.

B. Joint Venture with POW!

In 2015, an indirect wholly-owned subsidiary of the Company and POW! Entertainment, LLC (“POW!”, a wholly-owned subsidiary of POW! Entertainment, Inc. (“POW! Entertainment”) whose common stock is quoted on the OTCQB Market in the US) entered into a term sheet (“Term Sheet”) for the formation of a U.S. joint venture company with respect to the development, production and distribution of projects based on certain characters and other content developed by POW! or by the two parties jointly for distribution throughout the world. The US joint venture company, DD-POW US, LLC (“DDPOW”), was formed in 2015. DDPOW is 75% owned by the Group and 25% owned by POW!. The joint venture has not conducted material business activities except those in the development of characters.

EVENTS AFTER THE REPORTING PERIOD

Collaboration with Youku

On 19 July 2016, Digital Domain YK Company Limited (“DDYK”), a wholly-owned subsidiary of the Company, and 1Verge Information Technology (Beijing) Co., Ltd. (“Youku”), a wholly-owned subsidiary of Youku Tudou Inc., entered into a collaboration agreement (“Collaboration Agreement”) whereby DDYK granted to Youku a non-transferrable license, to make available to the public in the Greater China region through the internet and mobile networks on Youku’s platforms managed and operated by Youku and its affiliates the CG, VFX and 360° live streaming and pre-recorded video and VR, augmented reality and immersive media contents produced and/or owned by the Group (“DD VR Content”), on an exclusive basis for selected content and otherwise on a non-exclusive basis. In return for the first right to select DD VR Content for publication on this basis, Youku has agreed to make certain payments for DD VR Content provided over an initial term of three years that it elects to publish.

Pursuant to the Collaboration Agreement, DDYK and Youku had also agreed to jointly develop 360° live streaming and pre-recorded video and VR, augmented reality and immersive media contents based on Youku’s events and contents to be chosen and agreed between DDYK and Youku together, and to exploit intellectual property rights derived therefrom on a pre-agreed net profit sharing basis.

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

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

The Company’s new and innovative Zeus super high-definition 360° VR camera was presented in the event. A constant driving force in the fast-growing VR market, the Group’s new flagship technology is just the prelude of a number of new products in VFX, immersive experiences and interactive content to be unveiled in near future. Zeus is a premium camera boasting the ability to record footage at a resolution of more than 8k at 10-bit RAW output, capturing a high frame rate of 75 fps. The camera is also capable of seamless 360° live streaming at up to 4k resolution. Zeus was deployed to live-stream a number of high-profile sporting events this summer, such as an international sport event being held in Rio de Janeiro, Brazil in August 2016.

The evening at Water Cube concluded with a nostalgic twist as a starry sky was projected on the stadium ceiling, while the virtual image of the late celebrated Miss Teng appearing on stage, and performing her classic “*Ye Lai Xiang*”.

EVENTS AFTER THE REPORTING PERIOD *(continued)*

Grant of Share Options

On 29 July 2016, a total of 50,000,000 share options was granted by the Company to grantees. The 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.

CAPITAL

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

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

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

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

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

As at 30 June 2016, the total number of shares of HK\$0.01 each of the Company in issue was 11,877,709,220 shares.

CAPITAL *(continued)*

On 28 May 2014, a total of 980,060,000 share options was 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 respectively. During the Review Period, no share option was exercised. 17,720,000 share options were cancelled or lapsed during the Review Period and 121,560,000 share options were cancelled or lapsed since the date of grant (28 May 2014).

On 6 May 2015, a total of 78,000,000 share options was 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 option was exercised. 10,000 share options were exercised since the date of grant (6 May 2015). 3,000,000 share options were cancelled or lapsed during the Review Period and 3,000,000 share options were cancelled or lapsed since the date of grant (6 May 2015).

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

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

As at 30 June 2016, the aggregate outstanding principal amount of the convertible notes was HK\$392 million. Based on the initial conversion price of HK\$0.04 per conversion share, a number of 9,800,000,000 conversion shares would be allotted and issued if the conversion rights attached to the convertible notes were exercised in full. During the Review Period, no convertible rights attached to the convertible notes were exercised.

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

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

During the Review Period, the Group had banking facilities in the form of instalment loans for a principal amount of approximately HK\$56,812,000, and a working capital loan for a principal amount of approximately HK\$8,199,000. These banking facilities were secured by (a) the Group's investment properties with the aggregate net book value of HK\$210,000,000 as at 30 June 2016, (b) future receipts from participation rights in the film *Ender's Game* and (c) equity interests in two indirect wholly-owned subsidiaries in the media entertainment segment (VFX production).

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group in the entertainment media segment, which was discontinued at the end of December 2010, obtained a banking facility amounting to HK\$6,000,000 from a bank in Hong Kong in 2009 which consisted of a 5-year instalment loan ("Five Year Loan"). This facility was granted under the Special Loan Guarantee Scheme of the Government of the Hong Kong Special Administrative Region (the "Government"), pursuant to which the Government provided an 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary. On 20 December 2010, the Company announced that it would not provide further financial assistance to the entertainment media segment. As a result, the operation of the aforesaid subsidiary has been discontinued since the end of December 2010. The Five Year Loan has been fully classified as a current liability.

The Group had other loans of approximately HK\$104,655,000 as at 30 June 2016. Other loans include a loan in amount of approximately HK\$27,066,000 which is denominated in United States dollars, is unsecured, interest-free and is not repayable within 13 months from June 2016. An indirect wholly-owned subsidiary also had a term loan facility of US\$10 million, with a guarantee provided by the Company. The subsidiary drew down the facility in December 2015 and the outstanding balance of this shareholder's loan as at 30 June 2016 was US\$10 million. This loan was denominated in United States dollars, is unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 36 months of the draw down date (i.e. 36 months from December 2015).

As at 30 June 2016, the Group also had obligations under finance leases of approximately HK\$534,000 which were denominated in United States dollars. These obligations were for certain items of computer equipment and software (leased assets) and are secured by the lessor's charge over the leased assets. The average term for these obligations is 3 years. The interest rates underlying all obligations were fixed at the respective contract dates. All obligations were made on a fixed repayment basis and no arrangements were entered into for contingent rental payments.

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

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive. As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US\$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. (“DDVR”). The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by DDVR. For details, please refer to the Company’s announcements dated 11 December 2015, 30 December 2015 and 31 December 2015 respectively.

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

The total cash and bank balance as at 30 June 2016 was approximately HK\$464,188,000. As at 30 June 2016, the Group had banking facilities of approximately HK\$69,920,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK\$61,721,000 are denominated in Hong Kong dollars and loans amounting to approximately HK\$8,199,000 are denominated in United States dollars. During the Review Period, all of the Group’s bank loans (except the Five Year Loan mentioned above) were classified as either current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group’s bank borrowings (except the Five Year Loan which is fully classified as a current liability) as at 30 June 2016 was spread over a period of 16 years, with approximately 18% repayable within one year, 4% repayable between one to two years, 14% repayable between two to five years and 64% repayable after five years.

The Group’s current assets were approximately HK\$677,671,000 while the current liabilities were approximately HK\$269,339,000 as at 30 June 2016. As at 30 June 2016, the Group’s current ratio was 2.5 (as at 31 December 2015: 2.3).

As at 30 June 2016, the Group’s gearing ratio, representing the Group’s bank loans, other loans, convertible notes, obligations under finance leases, secured notes and promissory note divided by the equity attributable to owners of the Company was 81% (as at 31 December 2015: 103%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2016, the total headcount of the Group was 941. 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 ride on the Group's track record and substantial experience in the VFX industry and be proactive in seeking new projects and business opportunities despite the highly competitive market environment. The Group has already adopted cost control measures – including outsourcing, where appropriate, discreet parts of its VFX work to external vendors and minimising the number of un-utilised production employees, etc., and improved the profit margins of the VFX business. The effectiveness of the improvements made will be reflected in the coming years.

Building on the acquisition of Immersive and formation of IM360, the Group is looking to the future by tirelessly pursuing new opportunities in the area of VR, virtual human and immersive entertainment. With the Company's new and innovative Zeus super high-definition 360° VR camera, the Group is well positioned to significantly expand in the VR businesses.

PROSPECT *(continued)*

Through the acquisition of Lucrative Skill (including Post Production Office Limited and its subsidiaries), the Group is proactively exploring opportunities to develop its Greater China market in the VFX, VR, CG, virtual human and immersive entertainment business.

On 19 July 2016, the Group and Youku had entered into a collaboration agreement (“Collaboration Agreement”) for a content licensing scheme and the joint development, production and exploitation of Youku’s contents and/or events. It has ushered in an era of the Group’s VR businesses in the Greater China region, building a solid foundation for the future development of the business.

In addition, the Group signed a cooperation agreement relating to the development of 3D virtual human images of the deceased Hong Kong pop diva Miss Anita Mui. The Group is also in discussion with other independent third parties on collaborations with respect to movies and TV series as well as variety shows, concerts and virtual human productions. The Group will continue to explore opportunities in collaboration with business partners so as to expand its market share and influence in the Greater China region.

Following a rapid expansion of business operations and investment diversification, the Group will continue to seek opportunities for financing and collaboration with strategic partners as well as recruitment of global talent in order to upgrade its shareholding and management structures from a corporate perspective.

Looking ahead, the Group will continue to leverage on its strengths and strive to maximize the benefits for the valued shareholders and investors.

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 2016	Date of grant	Exercise period	Exercise price per share (HK\$)
	At 1 January 2016	Granted during the Review Period	Exercised during the Review Period	Cancelled/ lapsed during the Review Period				
Directors								
Seah Ang	100,000,000 <i>(Notes 2 and 3)</i>	-	-	-	100,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Amit Chopra	48,000,000 <i>(Note 2)</i>	-	-	-	48,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	5,000,000 <i>(Note 4)</i>	-	-	-	5,000,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	5,000,000 <i>(Note 4)</i>	-	-	-	5,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	5,000,000 <i>(Note 4)</i>	-	-	-	5,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	- <i>(Notes 5 and 6)</i>	33,333,334	-	-	33,333,334	29/01/2016	29/01/2016 to 28/01/2026	0.413
	- <i>(Notes 5 and 6)</i>	33,333,333	-	-	33,333,333	29/01/2016	29/01/2017 to 28/01/2026	0.413
	- <i>(Notes 5 and 6)</i>	33,333,333	-	-	33,333,333	29/01/2016	29/01/2018 to 28/01/2026	0.413

SHARE OPTION SCHEME (continued)

Name and category of participant	Number of Options				At 30 June 2016	Date of grant	Exercise period	Exercise price per share (HK\$)
	At 1 January 2016	Granted during the Review Period	Exercised during the Review Period	Cancelled/ lapsed during the Review Period				
Employees of the Group								
Zhou Jian	150,000,000 (Notes 2 and 3)	-	-	-	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	150,000,000 (Notes 2 and 3)	-	-	-	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Other employees, in aggregate	428,220,000 (Note 2)	-	-	(17,720,000)	410,500,000	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
	21,000,000 (Note 4)	-	-	(1,000,000)	20,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	21,000,000 (Note 4)	-	-	(2,000,000)	19,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	-	68,166,675 (Note 5)	-	-	68,166,675	29/01/2016	29/01/2016 to 28/01/2026	0.413
	-	68,166,664 (Note 5)	-	-	68,166,664	29/01/2016	29/01/2017 to 28/01/2026	0.413
	-	68,166,661 (Note 5)	-	-	68,166,661	29/01/2016	29/01/2018 to 28/01/2026	0.413
	-	50,000,000 (Note 7)	-	-	50,000,000	22/06/2016	22/6/2017 to 21/06/2026	0.495
	-	50,000,000 (Note 7)	-	-	50,000,000	22/06/2016	22/6/2018 to 21/06/2026	0.495
	Advisors of the Group	25,000,002 (Note 5)	-	-	-	25,000,002	29/01/2016	29/01/2016 to 28/01/2026
25,000,001 (Note 5)		-	-	-	25,000,001	29/01/2016	29/01/2017 to 28/01/2026	0.413
24,999,997 (Note 5)		-	-	-	24,999,997	29/01/2016	29/01/2018 to 28/01/2026	0.413
Total	954,210,000	479,500,000	-	(20,720,000)	1,412,990,000			

SHARE OPTION SCHEME *(continued)*

Notes:

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2016, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company (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 of the Company

Name of Director	Capacity	Number of shares held	Number of underlying shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Peter Chou	Interest of controlled corporation (Notes 1 and 2)	2,570,011,442	–	2,570,011,442 (Long position)	21.64%
	Interest of controlled corporation (Note 1)	602,561,746	–	602,561,746 (Short position)	5.07%
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 3 and 4)	2,458,171,442	100,000,000	2,558,171,442 (Long position)	21.54%
	Interest of controlled corporation (Note 3)	502,134,789	–	502,134,789 (Short position)	4.23%
Amit Chopra	Interest of controlled corporation and beneficial owner (Notes 5 and 6)	2,458,171,442	163,000,000	2,621,171,442 (Long position)	22.07%
	Interest of controlled corporation (Note 5)	502,134,789	–	502,134,789 (Short position)	4.23%

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

Interests and short positions in the shares and underlying shares of the Company *(continued)*

Notes:

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

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30 June 2016, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the shares and underlying shares of the Company 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 of the Company

Name	Capacity	Number of shares held	Number of underlying shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Kabo Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 1)	2,458,171,442	–	2,458,171,442 (Long position)	20.70%
	Beneficial owner (Notes 1)	602,561,746	–	602,561,746 (Short position)	5.07%
Peter Chou	Interest of controlled corporation (Notes 1 and 2)	2,570,011,442	–	2,570,011,442 (Long position)	21.64%
	Interest of controlled corporation (Note 1)	602,561,746	–	602,561,746 (Short position)	5.07%
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 3)	2,458,171,442	–	2,458,171,442 (Long position)	20.70%
	Beneficial owner (Note 3)	502,134,789	–	502,134,789 (Short position)	4.23%
Seah Ang	Interest of controlled corporation and beneficial owner (Notes 3 and 4)	2,458,171,442	100,000,000	2,558,171,442 (Long position)	21.54%
	Interest of controlled corporation (Note 3)	502,134,789	–	502,134,789 (Short position)	4.23%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

(continued)

Interests and short positions in the shares and underlying shares of the Company (continued)

Name	Capacity	Number of shares held	Number of underlying shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO (Note 5)	2,458,171,442	–	2,458,171,442 (Long position)	20.70%
	Beneficial owner (Note 5)	502,134,789	–	502,134,789 (Short position)	4.23%
Amit Chopra	Interest of controlled corporation and beneficial owner (Notes 5 and 6)	2,458,171,442	163,000,000	2,621,171,442 (Long position)	22.07%
	Interest of controlled corporation (Note 5)	502,134,789	–	502,134,789 (Short position)	4.23%
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner (Note 7)	2,458,171,442	–	2,458,171,442 (Long position)	20.70%
Bright Ace Holdings Limited	Interest of controlled corporation (Note 7)	2,458,171,442	–	2,458,171,442 (Long position)	20.70%
Zhou Jian	Interest of controlled corporation and beneficial owner (Notes 7, 8 and 9)	2,610,395,180	150,000,000	2,760,395,180 (Long position)	23.24%
Fortune Source International Limited	Beneficial owner (Note 10)	1,672,035,000	–	1,672,035,000 (Long position)	14.08%
Zhang Xiaoqun	Interest of controlled corporation (Note 10)	1,672,035,000	–	1,672,035,000 (Long position)	14.08%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

(continued)

Interests and short positions in the shares and underlying shares of the Company (continued)

Name	Capacity	Number of shares held	Number of underlying shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Fortune Base Development Limited	Beneficial owner (Note 11)	-	5,037,200,000	5,037,200,000 (Long position)	42.41%
Wei Huo Li	Interest of controlled corporation (Note 11)	-	5,037,200,000	5,037,200,000 (Long position)	42.41%
Harmony Energy Limited	Beneficial owner (Note 12)	-	4,762,800,000	4,762,800,000 (Long position)	40.10%
Ever Union Capital Limited	Interest of controlled corporation (Note 12)	-	4,762,800,000	4,762,800,000 (Long position)	40.10%
Che Fung	Interest of controlled corporation (Note 12)	-	4,762,800,000	4,762,800,000 (Long position)	40.10%

Notes:

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

(continued)

Interests and short positions in the shares and underlying shares of the Company *(continued)*

Notes: *(continued)*

7. Wise Sun Holdings Limited was deemed to be interested in 2,458,171,442 shares by holding 449,640,118 shares and by having a security interest in 2,008,531,324 shares under section 317 of the SFO. Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the 2,458,171,442 shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited under section 317 of the SFO.
8. Mr. Zhou Jian was deemed to be interested in 152,223,738 shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.
9. Mr. Zhou Jian holds 150,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".
10. Fortune Source International Limited is wholly-owned by Zhang Xiaoqun. Zhang Xiaoqun was deemed to be interested in the 1,672,035,000 shares held by Fortune Source International Limited.
11. The 5,037,200,000 underlying shares are in respect of the convertible notes issued by the Company in the principal amount of HK\$201.488 million at a conversion price of HK\$0.04 per share (subject to adjustments). Upon full conversion of such convertible notes, 5,037,200,000 shares will be issued to Fortune Base Development Limited. Mr. Wei Huo Li was deemed to be interested in the 5,037,200,000 underlying shares by virtue of his 100% shareholding interest in Fortune Base Development Limited.
12. The 4,762,800,000 underlying shares are in respect of the convertible notes issued by the Company in the principal amount of HK\$190.512 million at a conversion price of HK\$0.04 per share (subject to adjustments). Upon full conversion of such convertible notes, 4,762,800,000 shares will be issued to Harmony Energy Limited which is wholly-owned by Ever Union Capital Limited. Mr. Che Fung was deemed to be interested in the 4,762,800,000 underlying shares by virtue of his 100% shareholding interest in Ever Union Capital Limited.

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any other interests or short positions in the shares or underlying shares as recorded in the register required to be kept under Section 336 of the SFO.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

There was a banking facility (the “Facility”) with the principal amount of HK\$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the “Subsidiary”), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary’s equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary (“Intermediate Holding Company”). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 30 June 2016, the outstanding loan principal of this Facility amounted to approximately HK\$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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

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

CORPORATE GOVERNANCE

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

- (a) The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company’s bye-laws (the “Bye-laws”). Mr. Peter Chou has entered into a service agreement for a fixed term of 3 years and his appointment is terminable by either party by giving six months’ prior notice;
- (b) The independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the independent non-executive Directors have a termination notice requirement of one month; and
- (c) Due to other pre-arranged business commitments which must be attended to by Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors, they were not present at the special general meeting of the Company held on 29 June 2016.

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 2016