DIGITAL DOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司 (Stock Code : 547)

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 2017

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Peter CHOU (Chairman)
Mr. WEI Ming (Vice Chairman)
Mr. SEAH Ang (Chief Executive Officer)
Mr. Amit CHOPRA (Chief Operating Officer)

Non-executive Directors
Mr. PU Jian
Dr. SONG Alan Anlan

Independent Non-executive Directors
Mr. DUAN Xiongfei
Ms. LAU Cheong
Mr. WONG Ka Kong Adam
Mr. John Alexander LAGERLING

AUDIT COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

REMUNERATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Mr. SEAH Ang
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

NOMINATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Mr. SEAH Ang
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

COMPANY SECRETARY

Ms. FOK Lai Yan

STOCK CODE

547

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9/F., Henley Building
No. 5 Queen's Road Central
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
East West Bank
EverTrust Bank
Industrial and Commercial Bank of China Limited
Royal Bank of Canada

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

SOLICITOR

Reed Smith Richards Butler

digitaldomain.com

Digital Domain Holdings

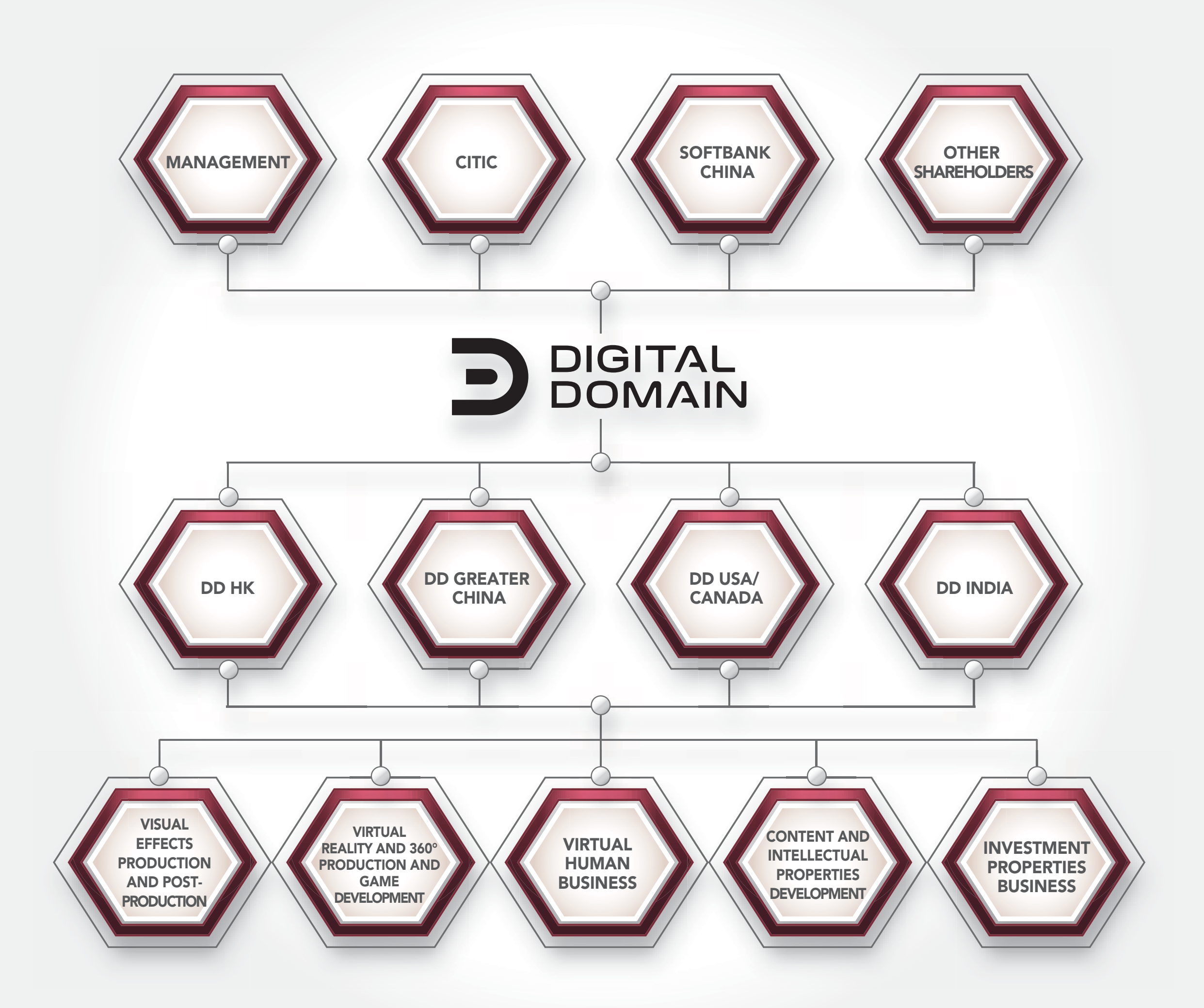
Digital_Domain

DigitalDomain數字王國

DIGITAL DOMAIN CREATES TRANSPORTIVE EXPERIENCES THAT ENTERTAIN, INFORM AND INSPIRE.

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

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



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

CHAIRMAN'S STATEMENT

FOR THE LAST 25 YEARS, DIGITAL DOMAIN HAS BUILT A STRONG LEGACY OF INNOVATION AND PIONEERING TRANSPORTIVE EXPERIENCES THAT ENTERTAIN, INFORM AND INSPIRE.

Digital Domain leads the media, entertainment and telecommunications industries by bringing together the most talented digital artists and the most advanced technology. Our unique combination of artistry, business acumen and cutting-edge technological expertise continues to ensure Digital Domain's place at the forefront of the rapidly evolving media and entertainment industry.

Digital Domain continues to lead visual effects, previsualisation, postvisualisation, virtual productions, post-production and motion capture for blockbuster feature films from the top studios, including "*SpiderMan: Homecoming*", "*Beauty and the Beast*", "*Wolf Warrior 2*" and "*Jungle Book*". The world's largest brands and advertising agencies continue to call Digital Domain to handle challenging visual effects projects, including Google, Budweiser, Dell, BMW, Apple, Mercedes-Benz, Hermes and Intel. Impressive episodic work for STARZ, SpikeTV and Netflix kept us busy this year, and also earned us a VES Award for "*Black Sails*".

Furthering our pioneering work with virtual humans, we launched a musical featuring Asian pop star Teresa Teng posthumously in 5D.

As one of the world's largest and most innovative studios for immersive content, advanced technology and storytelling, Digital Domain has continued to lead the VR industry. By creating strategic partnerships with telecommunications and media giants like MTG, SKY TV, Deutsche Telekom, NBCUniversal, and DreamWorks, we launched multiple platforms, immersive experiences and comprehensive end-to-end tech solutions.

We continued to lead the world of 360° immersive content by launching a Digital Domain-branded app. We live streamed tentpole events like the ESPN X Games, red carpet events from The Met Gala, Grammys and Academy Awards and created VOD content for multiple events including the Miss Universe competition, the 2017 CCTV Spring Festival Gala and the British Fashion Awards. Several pieces of original IP were launched to rave reviews including Digital Domain's "*Monkey King*", "DreamWorks *Voltron VR Chronicles*" and "*Micro Giants*", the latter of which was featured during the 2018 Sundance Film Festival's New Frontier Exhibition.

Global expansion progressed with new studio openings in Beijing, Shanghai and Hyderabad. We also welcomed several new board members in 2017.

As I reflect on the last 25 years, I am eager to get the next 25 years underway and continue to challenge and lead the industry. I would like to thank our partners for their support and collaboration, our investors for their belief in our mission and our world-class artists for their dedication.

PETER CHOU
Chairman

Hong Kong, 28 March 2018

CHIEF EXECUTIVE OFFICER'S REVIEW

FINANCIAL AND BUSINESS REVIEW

For the year ended 31 December 2017, the Group achieved a revenue of HK$703,004,000 (2016: HK$763,501,000), showing a decrease of approximately 8% compared to that of last year. The gross profit of the Group amounted to HK$81,778,000 (2016: HK$124,347,000) for the year ended 31 December 2017. The decrease in revenue and gross profit were mainly attributable to the visual effects business (traditional TV advertisements), feature film production and motion capture businesses. As at 31 December 2017, the total assets of the Group amounted to HK$1,893,029,000 (as at 31 December 2016: HK$1,919,803,000). The loss attributable to the owners of the Company was HK$524,893,000 (2016: HK$479,377,000). The loss for the year ended 31 December 2017 was approximately HK$544,141,000 (2016: HK$498,380,000). The loss for the year was mainly caused by:

(i) the recognition of non-cash outflow expenses, including:

a. equity-settled share-based payments for the share options granted between 2014 and 2017 to the value of HK$57,428,000 (2016: HK$81,147,000);

b. amortisation and depreciation expenses to the value of HK$60,219,000 (2016: HK$48,001,000); and

c. imputed interest expenses for convertible notes and a promissory note to the value of HK$8,899,000 (2016: HK$41,591,000).

(ii) increased administrative and other project expenses, comprising mainly legal and professional fees (including those incurred in relation to the acquisitions, collaborations and business development in the Greater China region, business development in India, and investor and public relations);

(iii) content development and research and development costs incurred during the year relating to virtual reality content and games, 360° cameras and interactive virtual human functionality, which were expensed instead of capitalised after due consideration and in an abundance of prudence; and

(iv) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the year under review, this segment recorded a revenue of approximately HK$694,718,000 (2016: HK$755,442,000). The revenue from this segment accounted for approximately 99% of the Group's revenue for the year. This segment incurred a loss of approximately HK$277,545,000 (2016: HK$163,650,000). The loss included the content development and research and development costs incurred during the year relating to virtual reality content and games, 360° and interactive virtual human functionality as mentioned above. The adjusted segment loss, taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK$223,317,000 (2016: HK$117,687,000).

MEDIA ENTERTAINMENT SEGMENT

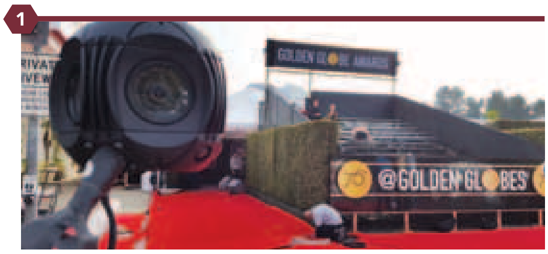
VIRTUAL REALITY("VR") AND 360° VIDEO PRODUCTION

This segment includes businesses offering VR technology services using 360° digital capture technology and computer graphics (CG).

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

DIGITAL DOMAIN'S VR AND 360° CAMERA TEAM EXECUTED MANY, OFTEN SIMULTANEOUS, LIVESTREAM BROADCASTS, INCLUDING THE FOLLOWING EVENTS IN 2017:

1



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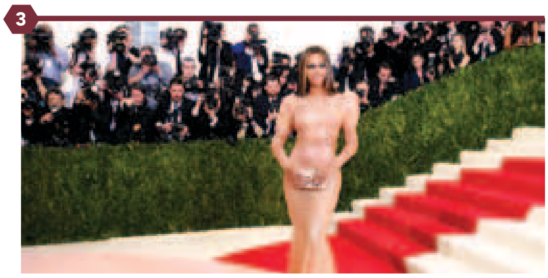


1

The Golden Globe Awards Red Carpet: Exclusive 360° footage of popular actors and entertainment personalities as they entered the awards ceremony.

2017 U.S. Presidential Inauguration: This curated livestream of the 58th presidential inauguration of the United States of America was the first-ever immersive 360° broadcast of this globally significant event.

2

Grammy Awards Red Carpet: An opportunity for audiences to see their favorite music stars at the red carpet entrance to the acclaimed music industry awards.

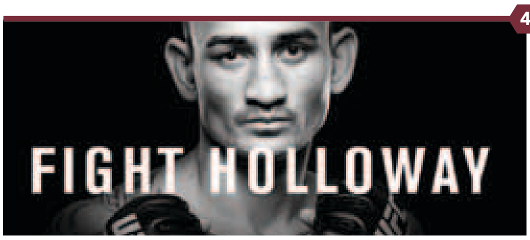
Academy Awards Red Carpet: Showcasing the most famous, talented and glamorous stars of the film industry as they displayed the latest fashions on their way into the prestigious Oscar Awards ceremony.

3

The Met Gala: A partnership between Digital Domain, The Met Gala, Facebook, Moët and Vogue created the Met Gala's first 360° broadcast, a livestream of the annual fundraiser put on by the Costume Institute at the Metropolitan Museum of Art in New York City.

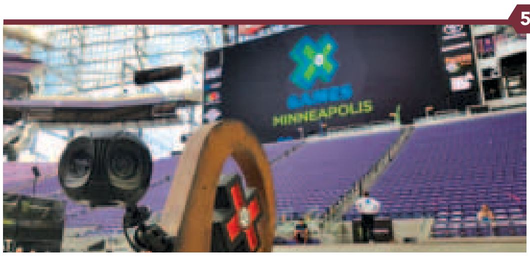
4

Ultimate Fighting Championship (UFC) 212 Aldo vs. Holloway:
Samsung Gear VR owners watched the pay-per-view headline event—UFC 212—as a 360° audio-visual livestream, along with a pre- and post-match show.



5

X Games Minneapolis 2017:
For the first time in the history of the event, ESPN, alongside Samsung and Digital Domain, offered live productions of select events in VR. Three X Games disciplines – Skateboard Vert, BMX Street and Skateboard Street Amateurs – were streamed live in 48 countries, exclusively on the Samsung Gear VR.



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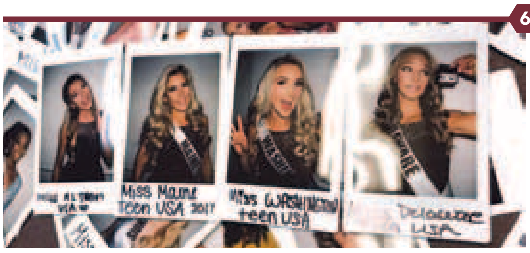
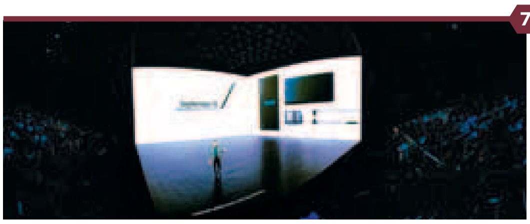
2017 Miss Teen USA:
A 360° livestream and VOD content captured behind-the-scenes highlights from the 2017 competition.



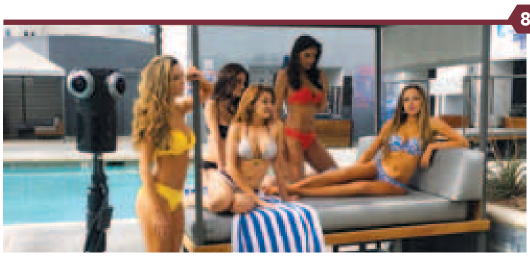
7

Samsung Unpacked:
A 360° livestream of Samsung's annual press announcement. 2017 captured the global Galaxy launch.



8

2017 Miss Universe:
VOD content captured behind-the-scenes highlights from the 2017 competition.



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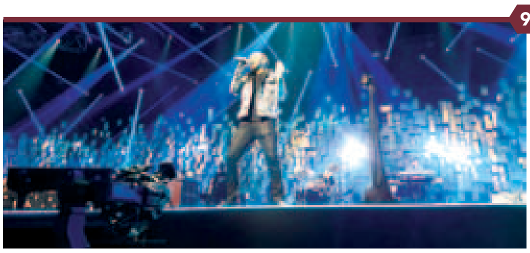
The Nobel Peace Prize Concert:
A multi-year partnership for Digital Domain and the Nobel Peace Prize Organisation to create a 360° livestream and behind-the-scenes VOD content of the concert honouring the Nobel Peace Prize laureates.



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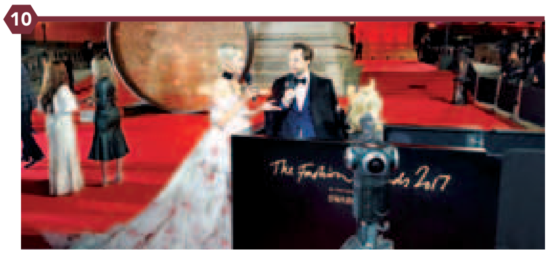
The British Fashion Awards:
A multi-year partnership for Digital Domain and the British Fashion Council to capture multiple events like the Fashion Awards in 360°.

10



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11

USA Network "Shooter:"
For NBCUniversal's USA Network hit show "Shooter," a production from Paramount Television and Universal Cable Productions, Digital Domain created a behind-the-scenes 360° look at the making of a pivotal battle scene. The content allowed the viewer to step inside the action of the show.

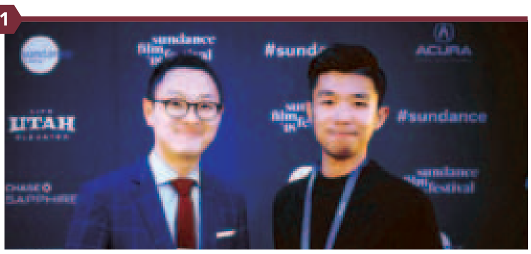
12

2017 CCTV Spring Festival Gala:
Digital Domain teamed up with China Central Television (CCTV) to produce a VR promotional video for the Xichang session. Digital Domain worked with the Xichang session of the Spring Festival Gala to connect with parallel sessions in Shanghai, Guilin and Harbin. The Xichang session adopted "fire" as their theme for the Gala to represent its city, the capital of Liangshan Prefecture, and to honour the importance of the fire element in the Yi ethnic group. The bright red fiery scenes in Liangshan were in sharp contrast to the scenes of ice and snow in distant Harbin.

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

THE DIGITAL DOMAIN CONTENT TEAM IS A GROUP OF WRITERS, ARTISTS AND CONCEPTUALISTS WHO DEVELOP AND PRODUCE CONTENT IN VR, 360°, FILM, TV AND FOR OTHER PLATFORMS. IN 2017, THE TEAM CREATED:

1



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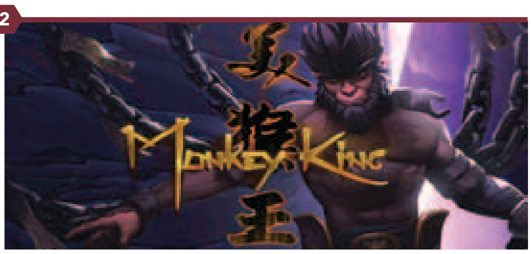

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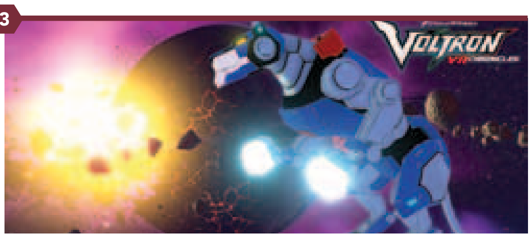

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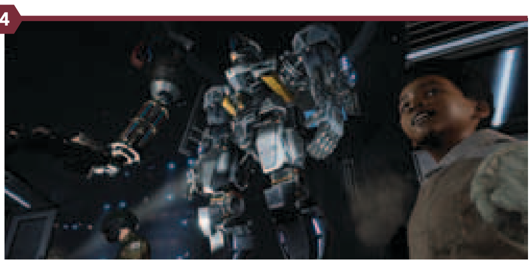


1

"Micro Giants" by Digital Domain:

An original VR creation by Mr. ZHOU Yifu, a creative director of Digital Domain and head of VFX for the Beijing studio, "*Micro Giants*" was featured at the New Frontier exhibition of the 2018 Sundance Film Festival, which recognises the exceptional creativity made possible by advanced VR technology. "*Micro Giants*" beat numerous independent AI, VR or MR entries to become the only original creation from China to be featured. This is also the first original creation from Digital Domain's Greater China team to receive an international honour. This is the second time that Digital Domain has been honoured by the Sundance Film Institute, as the studio was featured by New Frontier in 2015 for the production of "*Evolution of Verse*," directed by Mr. Chris MILK.

2

Digital Domain's ***"Monkey King"***:

An action-packed cinematic VR series born from 16th Century Chinese mythology and explored through 21st Century technology. The VR experience was launched for all platforms at the 2017 San Diego Comic-Con International, an annual multi-genre entertainment and comic convention.

3

DreamWorks ***"Voltron VR Chronicles"***:

In this original VR IP, viewers become a Paladin of Voltron and blast through time and space to save the Universe from dangerous alien threats in a fully-immersive environment with interactive elements. Digital Domain partnered up with NBCUniversal DreamWorks to create a VR experience for all platforms.

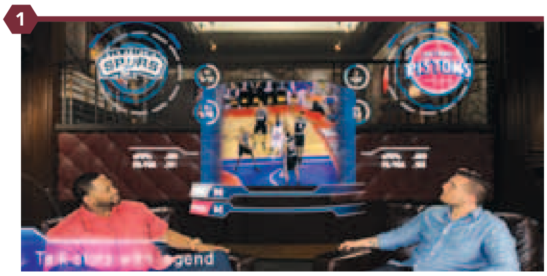
4

Skydance Interactive ***"Archangel"***:

The studio created a realtime 3D interactive VR game for Sony PlayStation®VR. The game won the award for best VR experience at E3 (formerly known as The Electronic Entertainment Expo) 2017.

IN ADDITION TO THE FLAGSHIP DIGITAL DOMAIN APP, DIGITAL DOMAIN ALSO CREATED SEVERAL APPS FOR PARTNERS, INCLUDING:

1



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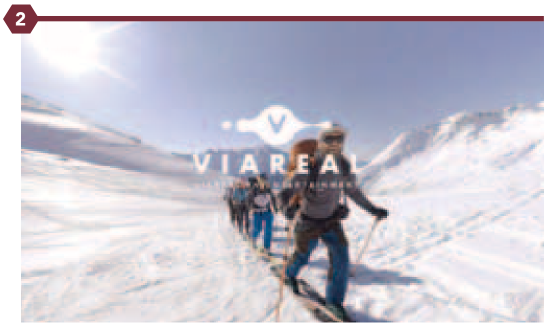

1

The National Basketball Association, USA (NBA) – "NBA VR":
In addition to creating the app, Digital Domain launched a new series called "*House of Legends*" featuring retired Basketball legends, exclusively for the Google Daydream VR platform.

Deutsche Telekom – "Magenta":
For Deutsche Telekom, Digital Domain created a VR app, "Magenta VR" which bundles the best VR content from the fields of sports, music and entertainment. In addition to the app, Digital Domain also created four original pieces of content in 360°, allowing consumers to experience first-hand the thrill of canyoning, foiling and base jumping, and bringing the Telekom Cup to soccer fans worldwide. Digital Domain's further content collaboration will join others from partners including Red Bull, National Geographic and Twentieth Century Fox.

2

Modern Times Group, Sweden (MTG) – "Viareal":
Digital Domain created and launched "Viareal VR", a VR app that offers viewers across the Nordic region exclusive VR content and extensions for sports, esports, and MTG's broadcast and streaming offerings.

Sky TV, United Kingdom – "Sky VR":
For Sky TV, Digital Domain created and launched a VR app that allows viewers to enjoy fully immersive VR content, putting them at the heart of the action like never before.

THE GLOBAL STUDIO PARTICIPATED IN SEVERAL EVENTS, INCLUDING:

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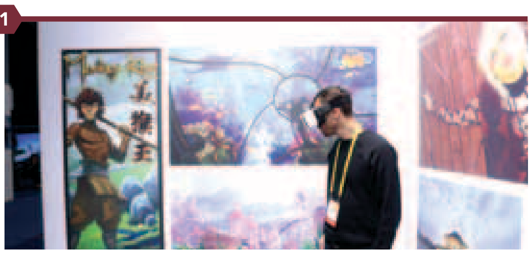

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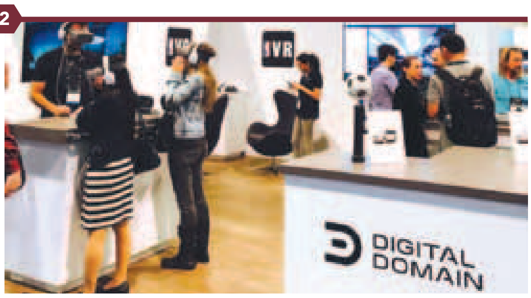

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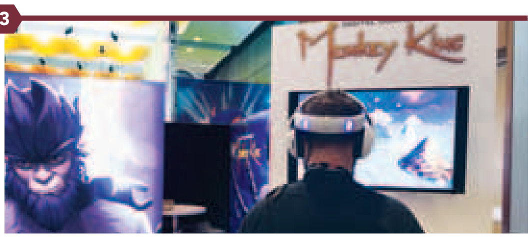


1

2017 International Consumer Electronics Show ("CES")

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

2

NAB 2017

At the National Association of Broadcasters' annual convention encompassing the convergence of media, entertainment and technology, Digital Domain announced its end-to-end solutions for creating and distributing VR experiences, including a new spherical camera, live streaming capabilities, new integrations with post-production suites and a cloud-based VR distribution platform.

3

2017 Comic-Con International San Diego ("Comic-Con")

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

4

Hong Kong International Film and Television Exhibition 2017 (FILMART 2017)

The studio released the trailer of its original VR creation "*Micro Giants*". This vivid and photorealistic animation depicts true-to-life insect behaviour in a jungle setting, "*Micro Giants*" offers a unique sensory experience, allowing the viewer to enter a 'micro-world' and experience life from an insect's perspective.

Entertainment industry luminary Mr. Wang Wei-Chung (right), Mr. Daniel Seah, Chief Executive Officer of Digital Domain (Center) and Mr. Yifu Zhou, Creative Director of Digital Domain (left) participated in FILMART 2017.

4

MEDIA ENTERTAINMENT SEGMENT

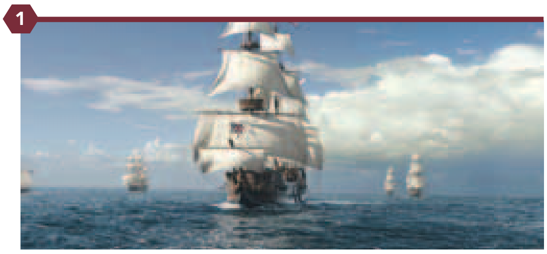
VISUAL EFFECTS("VFX") PRODUCTION AND POST-PRODUCTION BUSINESS

This segment also provides VFX production and post-production services for major motion picture studios, advertisers and games.

DIGITAL DOMAIN NORTH AMERICA (USA AND CANADA):

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

1



1

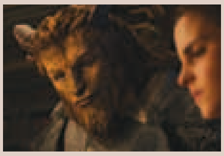
Mr. Aladino DEBERT received the Visual Effects Society's (VES) 2017 Award for "*Outstanding Supporting Visual Effects in a Photoreal Episode*" for work done on "*Black Sails*".

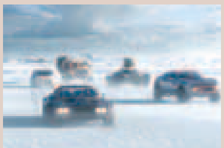
The Academy of Motion Picture Arts and Sciences (Oscars) - Science and Technical Achievement Award was given to Mr. Nicholas APOSTOLOFF and Mr. Geoff WEDIG for the design and development of animation rig-based facial performance-capture systems at ImageMovers Digital and Digital Domain. These systems evolved through independent, then combined, efforts at two different studios, resulting in an artist-controllable, editable, scalable solution for the high-fidelity transfer of facial performances to convincing digital characters.

2

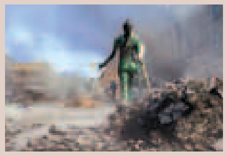
"*The Jungle Book*" received a VES 2017 Award for "*Outstanding Visual Effects in a Photoreal Feature*", for which Digital Domain handled the virtual production.

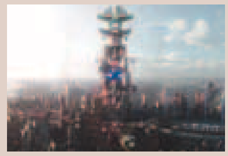
Since 1 January 2017, the artists of Digital Domain 3.0, Inc. ("DD3I", a subsidiary of the Company) have provided VFX production services for feature films. Work completed in 2017 includes:


"Beauty and the Beast"


"The Fate of the Furious" (alternatively known as *"Fast and Furious 8"*)


"Spider-man: Homecoming"

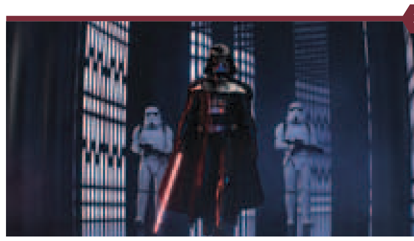

"Power Rangers"


"Thor: Ragnarok"

For Commercials, we provided VFX services for advertisements, games and shows, etc. Work completed in 2017 includes:

VFX for a Budweiser TV campaign

30 second cinematic trailer for the Star Wars mobile game "*Galaxy of Heroes*" in which multiple rivals battle both in natural environments and on a holo-table in the Cantina

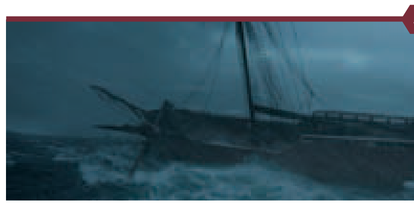


Commercial for Dell featuring "*Spider-man: Homecoming*"

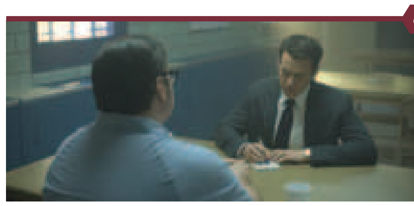
60 second online commercial for BMW, showing the i3 silently driving through a library before unleashing its power and astonishing the library patrons

Motion graphics and live installation for the NBA's All-Star Technology Summit

19 shots, including 12 all-CG Shots for two episodes, including the finale of STARZ's hit show "*Outlander*".



Promo for David Fincher's Netflix show "*Mindhunter*"



VFX work on two episodes of the remake of Stephen King's "*The Mist*" for Spike TV

Work for other clients, including Google, Dell, BMW and Electronic Arts

The Digital Domain Motion Capture studio was also utilised for the production of several video games, including “*Sucker Punch*”, “*The Mummy*” and “*Archangel*”.

Possible Indemnification

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

In 2014, a dispute over the ownership of the Disputed IP between the Original Owner and another company based in the United States (the “Claimant”) resulted in the filing of a lawsuit (the “Lawsuit”) in the United States District Court, Northern District of California. Neither the Original Owner nor the Claimant is a member company of the Group. Another subsidiary of the Company agreed in 2015 to purchase the Disputed IP. The completion of the transfer of such Disputed IP is subject to the favourable outcome of the Lawsuit. On 11 August 2017, the court issued a statement of decision which concluded that the Claimant owned the Disputed IP. The US Subsidiary had already used alternate technologies.

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

The US Subsidiary’s clients filed a motion to dismiss the lawsuits brought against them. The court dismissed a significant portion of the claims, but allowed Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages.

The US Subsidiary has submitted the indemnity requests that it has received from these clients to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company has acknowledged its obligation to provide a defence to the US Subsidiary’s clients, but has reserved its right to deny coverage as it continues to investigate its coverage obligations under the insurance policy. The US Subsidiary is currently in the process of negotiating with the insurance company and with US Subsidiary’s clients the extent to which the insurance company will pay the defence costs of US Subsidiary’s clients in the Other Lawsuits.

Legend of the Naga Pearls

DIGITAL DOMAIN CHINA:

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

Huawei

Coca-Cola

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

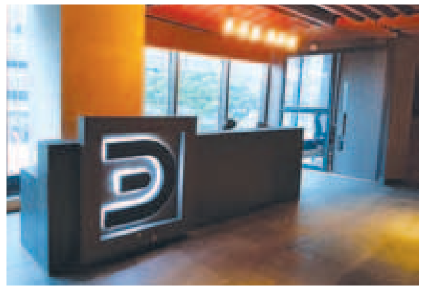
In 2017, DD China continued to provide post-production and production (e.g. shooting, editing, etc.) services for various high-profile commercials profiling leading brands like McDonald's, Apple, L'Oréal, Huawei, Mercedes-Benz, Coca-Cola, Bvlgari, Amazon, Disney, Air China, and Hermes. In addition, DD China created a VR commercial for Porsche Panamera.

Featured films and TV drama series projects include the star-studded ***"Journey to the West: The Demons Strike Back", "Legend of the Naga Pearls", "Wolf Warrior 2", "The Legend of Demon Cat", "Monster Hunt 2" "The Legends of Monkey King", "Cook Up a Storm", "One Hundred Thousand Bad Jokes II"*** and ***"Our Shining Days"***. The Beijing team also created Dolby Vision versions of ***"Legend of the Naga Pearls", "Wolf Warrior 2"*** and "***The Legend of Demon Cat***".

Commercials projects include: Estee Lauder Cushion BB Cream, Haier Branding, Coke Elevator, Honda Avancier, Huawei Nova mobile phone, Nike_CR77, VIVO Sky mobile, TaoChe, ARCFOX Lite, Kispa Monster Hunt, McDonald x Michelin Star Chef, McDonald's Justice League, Ariel Neptune, Clash Royale, Adidas MV, Tencent King of Fighters, Tangeche, and the New Balance 520 V-day Campaign Video.

Digital Domain teamed up with CCTV to produce the VR video for the National Games of China 2017.

DIGITAL DOMAIN INDIA:



The Group has already set up its own studio in Hyderabad, India for VFX and VR productions. Digital Domain India has already worked on several shows catering to both internal requirements and independent clientele.

The Hyderabad facility has a total capacity of approximately 500 personnel with 200 currently onboard as the phase one plan for India is rolled out. The current setup provides production support in various departments such as rotoscopy (roto), paint, integration and asset build as well as full shot production.

In 2017, Digital Domain India provides VFX production across projects for features, television series, web series and commercials. The studio caters to Digital Domain North America and Digital Domain China clients, along with certain independent clients from China and North America. Currently, the facility is gearing up to setup its tech and software development departments to support the ever-growing augmented reality ("AR")/VR and global pipeline requirements.

MEDIA ENTERTAINMENT SEGMENT

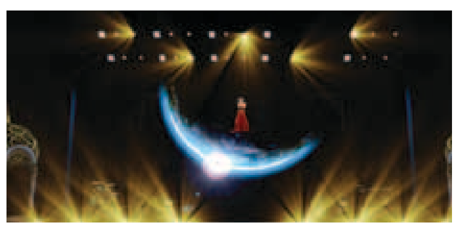
VIRTUAL HUMAN BUSINESS

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 on the production of a series of 3D holograms of Miss Teng, targeting audiences in Chinese communities around the world. The latest 3D hologram technology can be widely applied in the entertainment business, including – but not limited to – concerts, albums, movies and advertisements.

In May 2017, the Digital Domain Group unveiled the "Virtual Teresa Teng Music Magical Show" in 5D, in collaboration with Syntrend Creative Park. The show ran from 6 to 10 May 2017 at the Syntrend Clapper Studio in Taipei. This show exemplifies the results of the long-term collaboration between Digital Domain and Syntrend Creative Park in expanding the use of new 'virtual human' technologies in the cultural and entertainment industries. Several Virtual Human Miss Teresa Teng concerts have been planned in 2018. DD3I used virtual image reconstruction techniques to reproduce the glamour of the Taiwanese pop diva on stage.

In September 2017, Digital Domain announced their cooperation with Prism to create the world's pilot holographic virtual human concert featuring the late legendary Chinese superstar Teresa Teng where she would once again return to the big stage thanks to Digital Domain's cutting-edge virtual human technology. It is expected that the premiere of the holographic concert will be presented to the mainland audience in the first half of 2018 at Hangzhou Redstar Theatre, the first panoramic holographic theatre in China.

The fusion of classical culture, IP and technology is gradually becoming the focus of the cultural industry. "Holographic theatres" are also a new trend in real scene entertainment development. The holographic virtual human concert featuring Teresa Teng produced by Digital Domain will centre around the unique charisma and cultural connotations of the classic Chinese icon. Leveraging Digital Domain's state-of-the-art technologies including virtual human, special effects and multi-media stage design, the virtual reality concert will allow audiences to indulge themselves in a fully immersive and refreshing cultural experience.



MEDIA ENTERTAINMENT SEGMENT

CO-PRODUCTION

FEATURE FILM

The film "Ender's Game" was released in November 2013 in USA. The film continues to generate income from non-box office channels both within and outside the USA. "Ender's Game" is based on a best-selling, award winning novel. It is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, Abigail Breslin and Ben Kingsley. It is distributed by Summit Entertainment in association with OddLot Entertainment and is a Chartoff Productions/Taleswapper/OddLot Entertainment/K/O Paper Products/DD3I production. The profit sharing from DD3I's participation rights in "Ender's Game" was recognised in "Other income and gains" in the Group's consolidated income statement.

TV DRAMA SERIES

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

At the same time, Digital Domain also invested in and provided the VFX works for "*The Legends of Monkey King*" from Cenic Media.

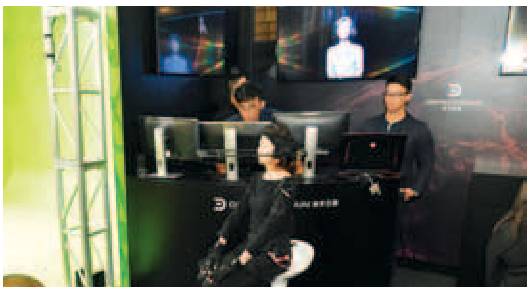
PROPERTY INVESTMENT SEGMENT

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

For the year ended 31 December 2017, the revenue of this segment increased by approximately 3% to HK$8,286,000 (2016: HK$8,059,000). The revenue accounted for approximately 1% of the Group's overall revenue during the year under review. The profit of this segment increased during the year under review, amounting to HK$7,204,000 (2016: HK$6,974,000).

CORPORATE EVENT

The Company held its "2017 Strategy Conference" in Hong Kong. During the event, the Company announced that new industry leaders would be joining its ranks, and shared Digital Domain's global business updates, particularly in regard to its Greater China development strategies. Digital Domain also showcased its latest capabilities in visual effects, VR and virtual human technology and applications. At the conference, Digital Avatar, a technology researched and developed by Digital Domain, was unveiled to the world.



The Digital Avatar technology unveiled at the event is an adaptation of motion-capture technology, first used in professional movies and game productions, and now made available to the consumer. It is a technological breakthrough in that it allows the capture and transfer of expressions in real time, for the first time. Thanks to Digital Domain's proprietary technology, consumers can create their own avatars in the virtual world by using just a consumer-grade lens. Bringing together the lowest cost, the highest efficiency and the best effects has enabled technology originally existing only in B2B to be upgraded for use in B2C. Digital Avatar has the potential to usher in change to a wide range of areas, such as e-commerce applications and virtual social interactions.

INTERESTS IN JOINT VENTURES

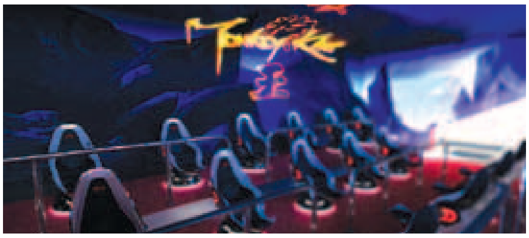
JOINT VENTURE WITH TENCENT

During the year under review, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 700)) was HK$8,000. The co-operation started in September 2013. The joint venture has not conducted any material business activity since its incorporation. Both parties agreed to use a new business model to enhance the co-operation between two parties, e.g. the 360° livestream of the Faye's Moments Live 2016 concert. Therefore, both parties agreed to dissolve the joint venture and the dissolution was completed in 2017.

INTERESTS IN ASSOCIATES

DD SPACE (VR THEATRE)

In September 2017, Digital Domain announced its collaboration with Poly Capital and Hony Capital, to establish 數字王國空間(北京)傳媒科技有限公司 (Digital Domain Space). The aim is to develop and execute an innovative VR experience with VR theatres opened in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space's VR theatres have already been installed inside and outside cinemas in Beijing, Shanghai, Changzhou, and elsewhere. While waiting for movies to start, consumers can take a virtual tour of the latest VR technology. Compared to extant domestic VR technologies, Digital Domain Space presents consumers with elevated VR content and total immersion in VR experiences. Leveraging the influence and scale of its brand, store locations and consumer volume, Digital Domain Space offers enhanced product and advertising placement to provide additional and diversified business opportunities.



EVENTS AFTER THE REPORTING PERIOD

Placing of Shares

On 1 March 2018, the Group entered into a placing agreement with the Great Roc Capital Securities Limited ("Placing Agent") in relation to the placing, on a best effort basis, of up to 2,175,780,000 placing shares at the placing price of HK$0.19 per placing share. The conditions of the placing were fulfilled and completion of the placing took place on 16 March 2018. The Placing Agent has placed an aggregate of 2,175,780,000 placing shares to two placees, namely Kingkey Enterprise Holdings Limited ("Kingkey Enterprise") (in respect of 2,052,630,000 placing shares) and Keywise Capital (HK) Ltd ("Keywise Capital") (in respect of 123,150,000 placing shares). Kingkey Enterprise is an investment holding company, while Keywise Capital is principally engaged in the business of asset management. The placing shares were allotted and issued pursuant to the General Mandate. The 2,175,780,000 placing shares in aggregate represent approximately 8.17% of the issued share capital of the Company of 26,618,034,094 shares as enlarged by the placing.

The gross proceeds and net proceeds from the placing are approximately HK$413.40 million and HK$409.12 million respectively and are intended to be applied towards media entertainment segment (including possible acquisition of virtual reality hardware business and possible investment in hospitality distribution channel for virtual reality hardware and contents) and as general working capital purposes of the Group.

For details, please refer to the Company's announcements dated 1 March and 16 March 2018.

Acquisition of 3Glasses Group (the "Acquisition")

On 22 March 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), the vendor, Lead Turbo Limited (the "Target") and the guarantor entered into the agreement (the "Agreement"), pursuant to which the Purchaser conditionally agreed to acquire (or procure the acquisition of), and the vendor conditionally agreed to sell, 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration of up to RMB240 million (equivalent to approximately HK$298 million), subject to adjustments.

The consideration for the Acquisition was arrived at after arm's length negotiations between the parties to the Agreement, having taken into account, among other things, (i) the development potential and future prospects of the Target and its subsidiaries (the "Target Group") and the VR hardware industry, especially the head-mounted display sector; (ii) the Target Group's existing sales contracts for VR headsets for the year ending 31 December 2018; (iii) the Target Group's target profit of RMB30 million and RMB50 million for the two years ending 31 December 2018 and 31 December 2019 respectively and the consideration adjustment mechanisms; (iv) the intellectual property rights in relation to VR and AR technologies owned by the Target Group; (v) the Target Group's market position in the VR hardware industry in the PRC; and (vi) the business synergies anticipated to be derived from embedding the Group's VR content and applications into the Target Group's VR headset for distribution. The Group intends to finance the consideration by internal resources and/or equity financing of the Group (including the proceeds from the placing which was the subject of the Company's announcements dated 1 March 2018 and 16 March 2018).

Pursuant to the Agreement, the vendor and the guarantor have jointly and severally undertaken to provide a non-interest bearing loan in an amount of RMB20 million (equivalent to approximately HK$25 million), and the Purchaser has undertaken to provide a non-interest bearing loan in an amount of RMB30 million (equivalent to approximately HK$37 million), to the Target Group.

The Target Group is principally engaged in the research, development and sale of VR and AR hardware, smart wearable devices, VR software development kit and other related products. The major product of the Target Group is the self-developed VR headset, which is a head-mounted display device that provides VR for wearers and is widely used with computer games, simulators and trainers, under the brand name of "3Glasses" 3Glasses. The Target Group, being one of the Windows Mixed Reality headset partners of Microsoft, has been cooperating with Microsoft in developing its Windows Mixed Reality headsets, and collaborating with Qualcomm in developing its mobile VR boxes with Qualcomm's processors.

As certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

As at the date of the report, the Acquisition is not completed yet. For details, please refer to the Company's announcement dated 22 March 2018.

CAPITAL

SHARES

On 19 October 2017, the Company entered into placing agreements with Head & Shoulders Securities Limited and Zhongtai International Securities Limited respectively in relation to the placing, on a best effort basis, of up to 1,450,650,000 and 416,010,000 placing shares respectively at the placing price of HK$0.225 per placing share. Completion of the placing was conditional upon the listing committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the placing shares.

Completion of the above-mentioned placing took place on 30 October 2017, whereby a total of 1,450,650,000 and 416,010,000 placing shares were placed by Head & Shoulders Securities Limited and Zhongtai International Securities Limited respectively to not less than six placees at the placing price of HK$0.225 per share. The placing shares were allotted and issued pursuant to the general mandate.

The gross proceeds of the share placing were approximately HK$420 million. The net proceeds of the share placing were approximately HK$414.67 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 19 October 2017 and 30 October 2017.

On 28 October 2016, the Company announced that the Company had entered into an agreement with Nevada-based Micoy Corporation ("Micoy") in the US to acquire from the latter all its intellectual property covering a portfolio of patents in relation to its interactive entertainment technology business and related trademarks at an aggregate consideration of US$5,500,000. US$4,500,000 of the aggregate consideration would be satisfied by the issue and allotment of 57,172,131 Company shares at an issue price of HK$0.61 per share in four tranches within a three-year period. For the second tranche, 12,704,918 shares were issued on 8 December 2017, being the business day before the first anniversary of the date of the completion of the acquisition of Micoy's assets. For details, please refer to the Company's announcements dated 28 October 2016, 9 December 2016 and 8 December 2017.

On 29 December 2017, being the business day before the second anniversary of the closing date of the acquisition of further shareholding interests in Immersive Ventures Inc. ("Immersive"), the Company issued an aggregate of 103,623,460 shares (comprising 76,979,973 deferred consideration shares and 26,643,487 option consideration shares). Pursuant to the terms of the secured notes, the Company issued 76,979,973 deferred consideration shares on 29 December 2017 and will issue the remaining 74,128,860 deferred consideration shares in 2018. In respect of the payment to 30 holders for the forfeiture of their Immersive options, the Company issued 26,643,494 option consideration shares on 31 December 2015, 26,643,487 option consideration shares on 30 December 2016 and 26,643,487 option consideration shares on 29 December 2017 and will issue an aggregate of 26,643,468 option consideration shares in 2018. The initial consideration shares, the deferred consideration shares and the option consideration shares were and will be issued at the issue price of HK$0.554 (approximately US$0.071) per share. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015, 30 December 2016 and 29 December 2017.

As at 31 December 2017, the total number of Company shares of HK$0.01 each in issue (the "Shares") was 24,441,754,094 shares.

SHARE OPTIONS

On 28 May 2014, a total of 980,060,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new shares at an exercise price of HK$0.098 per share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the year under review, 40,070,000 share options were exercised. Since the grant-date (28 May 2014) up to 31 December 2017, 40,070,000 share options were exercised. No share options were cancelled or lapsed during the year under review. 140,760,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

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

On 29 January 2016, a total of 379,500,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new shares at an exercise price of HK$0.413 per share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the year under review, no share options were exercised and 5,333,332 share options were cancelled or lapsed. No share options were exercised and 25,333,332 share options were cancelled or have lapsed since the grant-date (29 January 2016) up to 31 Dememeber 2017.

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

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new shares at an exercise price of HK$0.566 per share. For details, please refer to the Company's announcement dated 29 July 2016. During the year under review, no share options were exercised and 11,299,989 share options were cancelled or lapsed. No share options were exercised and 11,433,321 share options were cancelled or have lapsed since the grant-date (29 July 2016).

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

CONVERTIBLE NOTES

On 27 January 2017, the Company received conversion notices from three holders of convertible notes, CITIC Limited ("CITIC") , SBCVC Digital Fund, L.P. ("Softbank China") and Zheng Hao Investments Limited to exercise the conversion rights attached to outstanding convertible notes for the aggregate principal amount of HK$190,512,000 into the Company's shares. An aggregate of 4,762,800,000 shares, representing approximately 37.74% of the issued share capital of the Company as at 27 January 2017 and approximately 27.40% of the enlarged issued share capital of the Company immediately after the conversion, was issued to the holders of the convertible notes on 7 February 2017.

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

For details, please refer to the Company's announcements dated 28 March 2013, 4 July 2013, 27 November 2014, 30 September 2016, 27 January 2017 and 17 March 2017, and circulars dated 14 June 2013 and 9 December 2014.

There were no outstanding convertible notes immediately after the above conversions.

USE OF PROCEEDS FOR EQUITY FUNDRAISING ACTIVITIES

DATE OF ANNOUNCEMENT	FUNDRAISING ACTIVITY	NET PROCEEDS RAISED	PROPOSED USE OF PROCEEDS	ACTUAL USE OF THE NET PROCEEDS UP TO 31 DECEMBER 2017
30 - 9 - 2016, 3 - 10 - 2016, 18 - 10 - 2016, 28 - 10 - 2016	Subscription of an aggregate of 615,454,546 Shares	Approximately HK$338.15 million	(1) Media entertainment segment and (2) as general working capital purposes of the Group	(1) Media entertainment segment: approximately HK$272.37 million; and (2) general working capital (including but not limited to salary and rental): approximately HK$65.78 million
3 - 10 - 2016, 18 - 10 - 2016	Placing of 380,000,000 Shares	Approximately HK$206.73 million	(1) Media entertainment segment and (2) as general working capital purposes of the Group	The placing agreement was terminated on 18 October 2016
19 - 10 - 2017, 30 - 10 - 2017	Placing of 1,866,660,000 Shares	Approximately HK$414.67 million	(1) Media entertainment segment and (2) as general working capital purposes of the Group	(1) Media entertainment segment: approximately HK$270.48 million; (2) general working capital (including but not limited to salary and rental): approximately HK$30.71 million; and (3) Un-utilised portion: approximately HK$113.48 million

DIGITAL DOMAIN

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

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

In 2017, the Company refinanced its banking facilities and the new amount of the banking facilities are HK$132,522,000. The bank facilities included instalment loans, credit limits for standby letters of credit and standby overdraft facilities. These banking facilities were secured by the Group's investment properties with the aggregate net book value of HK$212,500,000 as at 31 December 2017. The Group also had two working capital loan facilities in amount of RMB4,462,000 (approximately HK$5,359,000), and US$ 3,000,000 (approximately HK$ 23,446,000) which were drawn down during the year under review. Each working capital loan was secured by a time deposit and the total time deposit amounts to HK$31,105,000. During the year under review, the Group had a working capital loan for a principal amount of approximately US$844,000 (approximately HK$6,544,000) and this working capital loan was fully repaid in the year under review. This working capital loan was secured by (a) future receipts from participation rights in the film Ender's Game and (b) equity interests in two indirect wholly-owned subsidiaries in the media entertainment segment (VFX production).

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

As at 31 December 2017, the Group also had obligations under finance leases of US$4,855,000 (approximately HK$37,940,000). These obligations relate to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. The average term was 2.5 years. Interest rates underlying all obligations were fixed at respective contract dates. All obligations were on a fixed repayment basis and no arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK$105,218,000 as at 31 December 2017. Other loans include a loan in amount of US$3,500,000 (approximately HK$27,065,000), which is unsecured, interest-free and is not repayable within 13 months from 31 December 2017. An indirect wholly-owned subsidiary also had a term loan facility of US$10,000,000 (approximately HK$78,153,000), with a guarantee provided by the Company. The subsidiary drew down the facility in December 2015 and the outstanding balance of this shareholder's loan as at 31 December 2017 was US$10,000,000 (approximately HK$78,153,000). This loan is unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 13 months from 31 December 2017.

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. As at 31 December 2017, the outstanding value on the book is approximately HK$59,326,000. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015, 30 December 2016 and 29 December 2017 respectively.

On 22 January 2016, the Company announced the acquisition of 85% of Lucrative Skill. As part-settlement of the consideration for the acquisition, a promissory note in amount of HK$65 million was issued. As at 31 December 2016, the outstanding amount of the promissory note was HK$34 million and it was fully settled in April 2017. For details, please refer to the Company's announcements dated 22 January 2016 and 14 April 2016 respectively.

The total cash and bank balance as at 31 December 2017 was approximately HK$225,334,000. As at 31 December 2017, the Group had banking facilities of approximately HK$176,971,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK$64,515,000 are denominated in Hong Kong dollars, loans amounting to HK$23,446,000 are denominated in United States dollars and loans amounting to approximately HK$5,359,000 are denominated in Renminbi. During the year under review, certain bank loans of the Group (including the instalment loans of HK$59,606,000) were classified as current liabilities, as these bank loans contain a "repayment on demand clause" in their banking facilities, even with the agreed scheduled repayments dates that longer than 12 months from the year-end date. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (except the Five Year Loan which is fully classified as a current liability) as at 31 December 2017 was spread over a period of 20 years, with approximately 35% repayable within one year, 6% repayable between one to two years, 9% repayable between two to five years and 50% repayable after five years.

The Group's current assets were approximately HK$344,160,000 while the current liabilities were approximately HK$309,649,000 as at 31 December 2017. As at 31 December 2017, the Group's current ratio was 1.1 (as at 31 December 2016: 1.0).

As at 31 December 2017, the Group's gearing ratio, representing the Group's bank loans, other loans, convertible notes (if any), obligations under finance leases, secured notes and promissory notes (if any) divided by the equity attributable to owners of the Company was 21% (as at 31 December 2016: 68%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

Save as disclosed under "Possible Indemnification" of VFX Production and Post-Production Business above, as at 31 December 2017, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2017, the total headcount of the Group was 824. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

PROSPECT

The Group will continue to leverage its extensive experience in the VFX industry and proactively seek new projects and business opportunities despite the highly competitive market environment. Through the establishment of Digital Domain China, the Group is proactively exploring opportunities to develop its Greater China market in the VFX, VR, CG, virtual human and immersive entertainment businesses. The Group has already set up Digital Domain India with its own studio in Hyderabad, India for VFX and VR productions. The ongoing expansion in China and India will increase the working capacity of the Group and reduce production costs in the long run. The effectiveness and efficiency of this expansion will be reflected in the coming years.

Building on the patents acquired from Immersive and Micoy, Digital Domain is uniquely positioned to play a key role in the VR content market. Following years of experience creating visual effects for Hollywood feature films, advertisements, and video games, in 2017 the company made advances in 360° live streaming, producing virtual reality experiences for events in the North American Region. With the Company's new and innovative super high-definition 360° VR cameras, Zeus, Kronos and future new models, the Group is well positioned for further expansion in the 360° capture and live streaming VR business. We are also expecting the positive contributions from 3Glasses Group in coming years.

In addition to 360° capture and live streaming, the Group will continue to develop VR cinematic series and games. Digital Domain's "*Monkey King*" episodic VR experience introduces a new chapter for supernatural simian Sun Wukong, aka the Monkey King, one of the most famous literary figures in Chinese mythology. Other VR products (such as "*Micro Giants*") were also launched.

Following the successful performance of the Virtual Human Miss Teresa Teng Musical in Taipei, the Group is also in discussion with other business partners regarding potential collaborations on movies and TV series as well as variety shows and concerts for virtual human Miss Teresa Teng. The first hologram show of Teresa Teng will be performed in Hangzhou in the first half of 2018. The Group will continue to explore new virtual human business opportunities by developing new technologies which will enhance the interactivity between virtual humans and the audience.

The Group will continue to seek opportunities for financing and collaboration with strategic partners (as it did in 2016 with the introduction of CITIC and SoftBank China as investors) and recruitment of appropriate global talent to support the Group's efforts towards enhancing its VFX ecosystem and expanding its VR ecosystem, virtual human and other capabilities.

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

Digital Domain teamed up with Talent Television and Film and Cenic Media to create new TV and film production ecosystem in China. Mr. Hanson He, Founder and President of Cenic Media (left), Mr. Daniel Seah, Chief Executive Officer of Digital Domain (center) and Mr. Minpeng Zheng, Chief Financial Officer (CFO) of Talent Television and Film (right) participated in the event.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors of the Company (the "Directors" and the "Board" respectively) believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

During the financial year of 2017, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

1. During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were five Board meetings held for addressing ad hoc issues. The Company also sought for the Board's approval on the issues by circulating the written resolutions. The Board considered that sufficient meetings had been held during the year and business operation and development of the Group had been communicated on the Board;

2. The Chairman of the Board is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company's bye-laws (the "Bye-laws"). Mr. Peter Chou has entered into a service agreement for a fixed term of 3 years and his appointment is terminable by either party by giving six months' prior notice;

3. The non-executive Directors and independent non-executive Directors were not appointed for a specific term. However, they are subject to retirement and eligible for re-election at the general meeting pursuant to the Bye-laws and the CG Code. The service contracts of all the non-executive Directors and independent non-executive Directors have a termination notice requirement of one month; and

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

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

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

THE BOARD

Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive Directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders ("Shareholders").

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the independent auditor of the Company about its reporting responsibilities for the consolidated financial statements of the Company is set out on pages 71 to 76 in the independent auditor's report.

THE BOARD (continued)

Responsibilities (continued)

All Directors have full and timely access to all relevant information as well as the advice and service of the company secretary of the Company ("Company Secretary") to ensure Board procedures and all applicable rules and regulations are followed.

Composition

The Board has in its composition a balance of skills, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs.

The Board currently comprised ten members, including four executive Directors, two non-executive Directors and four independent non-executive Directors, as follows:

Executive Directors

Mr. Peter Chou	*(Chairman)*
Mr. Seah Ang	*(Chief Executive Officer) (the "CEO")*
Mr. Amit Chopra	*(Chief Operating Officer)*
Mr. Wei Ming	*(Vice-Chairman)* *(appointed as executive Director and the Vice-Chairman of the Board on 5 July 2017)*

Non-executive Directors

Mr. Pu Jian	*(appointed as non-executive Director on 5 July 2017)*
Dr. Song Alan Anlan	*(appointed as non-executive Director on 5 July 2017)*

Independent Non-executive Directors

Mr. Duan Xiongfei	
Ms. Lau Cheong	
Mr. Wong Ka Kong Adam	
Mr. John Alexander Lagerling	*(appointed as independent non-executive Director on 5 July 2017)*

Biographical details of the current Directors are set out in the directors' report on pages 49 and 52. Save as disclosed in the aforesaid biographical details of the Directors, none of the Directors has any financial, business, family or other material/relevant relationships between the Board members.

THE BOARD (continued)

Composition (continued)

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented at least one-third of the board.

In accordance with the code provision A.4.3 of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Ms. Lau Cheong has served as an independent non-executive Director for nearly 9 years and her further appointment will be subject to a separate resolution to be approved by Shareholders at the annual general meeting of the Company. As an independent non-executive Director, Ms. Lau did not participate in the day-to-day management of the Company. She has developed an in-depth understanding of the business of the Company and remains in a position to provide an independent view and guidance to the Company over the years.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors (including Ms. Lau Cheong who has served as an independent non-executive Director for nearly 9 years) to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Bye-laws require that one-third (if the number is not a multiple of three, the number nearest to but not less than one-third) of the Directors (including executive and non-executive Directors) shall retire by rotation at each annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their last re-election or appointment. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

THE BOARD (continued)

Board Meetings and General Meetings

During the year ended 31 December 2017, seven Board meetings and the annual general meeting of the Company for the year 2017 ("AGM") were held with details of the Directors' attendance set out below:

	Attendance/Number of Meetings	
Directors	**Board Meetings**	**AGM**
Executive Directors		
Mr. Peter Chou *(Chairman)*	7/7	0/1
Mr. Seah Ang *(CEO)*	6/7	1/1
Mr. Amit Chopra *(Chief Operating Officer)*	5/7	1/1
Mr. Wei Ming *(Vice-Chairman)* *(appointed as executive Director and the Vice-Chairman of the Board on 5 July 2017)*	1/2	N/A
Non-executive Directors		
Mr. Pu Jian *(appointed as non-executive Director on 5 July 2017)*	1/2	N/A
Dr. Song Alan Anlan *(appointed as non-executive Director on 5 July 2017)*	1/2	N/A
Independent Non-executive Directors		
Mr. Duan Xiongfei	7/7	1/1
Ms. Lau Cheong	4/7	0/1
Mr. Wong Ka Kong Adam	6/7	1/1
Mr. John Alexander Lagerling *(appointed as independent non-executive Director on 5 July 2017)*	2/2	N/A

THE BOARD (continued)

Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guide on Directors' Duties issued by the Companies Registry in Hong Kong to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials.

During the year of 2017, all Directors were provided with reading materials on the relevant rules and regulating updates.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the Shareholders for the well-being and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established four committees, namely, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Executive Committee

The Executive Committee comprises all executive Directors and it assists the Board in discharging its duties and dealing with routine business of the Company and enhances the effectiveness and efficiency of day-to-day operation of the Company. There is no minimum meeting requirement and this Committee shall meet as and when necessary for proper discharge of its duties.

Audit Committee

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

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) the Company's financial control, risk management and internal control systems and the internal audit programme (where appropriate). It also needs to discuss problems and reservations arising from the interim and final audits and to consider the major findings of internal investigations and management's response.

The Audit Committee shall meet at least twice a year according to its terms of reference. There were three meetings held during the year under review, details of attendance are set out below:

Audit Committee Members	**Attendance/Number of Meetings**
Mr. Duan Xiongfei *(Chairman)*	3/3
Ms. Lau Cheong	2/3
Mr. Wong Ka Kong Adam	3/3

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

BOARD COMMITTEES (continued)

Nomination Committee

The Nomination Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

The Nomination Committee shall meet at least once per year according to its terms of reference. Two Nomination Committee meetings were held during the year under review, details of attendance are set out below:

Nomination Committee Members	**Attendance/Number of Meetings**
Mr. Duan Xiongfei *(Chairman)*	2/2
Ms. Lau Cheong	2/2
Mr. Wong Ka Kong Adam	2/2
Mr. Seah Ang	2/2

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, the assessment of the independence of the independent non-executive Directors, the retirement and re-appointment arrangement of the Directors and the appointment of executive Director, non-executive Directors and independent non-executive Director.

BOARD COMMITTEES (continued)

Remuneration Committee

The Remuneration Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior executives of the Company. The Committee shall determine, with delegated responsibility, the individual remuneration package of each executive Director (including the Chairman) and senior management including benefits in kind and pension rights (including allocation of share options, annual bonus plans) and compensation payments (including any compensation payable for loss or termination of their office or appointment) subject to the contractual terms, if any. When determining remuneration packages of the executive Directors and senior management of the Company, the Remuneration Committee takes into consideration factors such as market forces and remuneration packages of executive directors of similar companies in comparable industries both in Hong Kong and overseas.

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

Remuneration Committee Members	Attendance/Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	3/3
Ms. Lau Cheong	2/3
Mr. Wong Ka Kong Adam	3/3
Mr. Seah Ang	3/3

During the year under review, the Remuneration Committee reviewed the existing remuneration policy of the Company, the remuneration structure for the Directors, the reallocation of the remuneration package of an executive Director, the payment of bonus and the remuneration proposal for the appointment of an executive Director and an independent non-executive Director.

BOARD DIVERSITY POLICY

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

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) to develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

(v) to review the Group's compliance with the code of corporate governance and disclosure requirements in the corporate governance report.

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2016.

CORPORATE GOVERNANCE REPORT

INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2017 are set out as follows:

Type of services	*HK$'000*
Audit services:	
Audit of annual financial statements	1,520
Non-audit services:	
Agreed upon procedures	170

COMPANY SECRETARY

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to professional training during the year under review.

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58 of the Bye-laws, a special general meeting may be convened by the Board upon requisition by any Shareholder holding not less than one-tenth of the paid up capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal regarding any specified transaction/ business and its supporting documents.

The Board shall arrange to hold such general meeting within 2 months after the receipt of such written requisition. Pursuant to Bye-law 59 of the Bye-laws, the Company shall serve requisite notice of the general meeting, including the time and place of the general meeting and particulars of resolutions to be considered at the general meeting and the general nature of the business.

If within 21 days of the receipt of such written requisition, the Board fails to proceed to convene such general meeting, the Shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

SHAREHOLDERS' RIGHTS (continued)

Putting Forward Proposals at General Meetings

A Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal the Shareholder intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with their contact details, such as postal address, email address or facsimile number, addressing to the head office of the Company in Hong Kong at the following address or facsimile number or via email:

9/F., Henley Building,
No. 5 Queen's Road Central,
Central, Hong Kong

Fax: (852) 2907 9898
Email: ir@ddhl.com

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

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and of the Group as at 31 December 2017 are set out in the consolidated financial statements and their accompanying notes on pages 77 to 182. No interim dividend was paid or declared in respect of the year ended 31 December 2017 (2016: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2017 amounted to HK$594,690,000 solely comprised of contributed surplus.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2017 are set out in note 29 to the consolidated financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Five Years Financial Summary" on page 183 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

Investment properties were valued at their open market value as at 31 December 2017 by Cushman & Wakefield Limited, an independent firm of professionally qualified valuers. The valuation gave rise to fair value gain amounted to HK$1,900,000 (2016: HK$797,000).

SHARE CAPITAL

Details of the movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2017 are set out in notes 25 and 27 to the consolidated financial statements respectively.

CONVERTIBLE NOTES

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

DIRECTORS

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

Executive Directors

Peter Chou
Seah Ang
Amit Chopra
Wei Ming *(appointed on 5 July 2017)*

Non-executive Directors

Pu Jian *(appointed on 5 July 2017)*
Song Alan Anlan *(appointed on 5 July 2017)*

Independent Non-executive Directors

Duan Xiongfei
Lau Cheong
Wong Ka Kong Adam
John Alexander Lagerling *(appointed on 5 July 2017)*

DIRECTORS' REPORT

DIRECTORS (continued)

Mr. Wei Ming ("Mr. Wei") was appointed as executive Director, Mr. Pu Jian ("Mr. Pu") and Dr. Song Alan Anlan ("Dr. Song") were appointed as non-executive Directors, and Mr. John Alexander Lagerling ("Mr. Lagerling") was appointed as independent non-executive Director all with effect from 5 July 2017. In accordance with the Bye-law 86(2) of the Bye-laws, any Director appointed by the Board to fill a casual vacancy should hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board should hold office only until the next following annual general meeting of the Company and should be subject to re-election at such meeting. In this connection, Mr. Wei, Mr. Pu, Dr. Song and Mr. Lagerling will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Amit Chopra and Ms. Lau Cheong will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company. Under code provision A.4.3 of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Ms. Lau Cheong has served as an independent non-executive Director for nearly 9 years and her re-election at the annual general meeting of the Company will be subject to a separate resolution to be approved by Shareholders.

None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting of the Company, has an unexpired service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The independent non-executive Directors have no specific term of office but their service contracts have a termination notice requirement of one month. They are subject to retirement by rotation and will be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

Peter CHOU, aged 61, was appointed as an executive Director on 31 August 2015 and was appointed as the Chairman of the Board on 11 September 2015. He is the chairman of the executive committee of the Company as well. Mr. Chou holds a Bachelor Degree in Electronic Engineering from National Taiwan Ocean University and a Master Degree of Business Administration from National Chengchi University in Taiwan. He also completed the Advanced Management Program at Harvard Business School. In addition, Mr. Chou holds an Honorary Engineering Ph. D from National Taiwan Ocean University. Mr. Chou has over 30 years of experience in the information technology industry. He is one of the founders of HTC Corporation. Prior to joining this, he was a director of server platform design division of Digital Equipment Corporation, a major American company in the computer industry from the 1960s to the 1990s.

SEAH Ang, aged 33, joined the Group in 2013 as an executive vice president and was appointed as executive Director and the chief executive officer of the Company on 29 September 2014. He was the chairman of the Board during the period from 12 January 2015 to 10 September 2015 as well. Mr. Seah is presently a member of the executive committee, the nomination committee and the remuneration committee of the Company, and the authorised representative of the Company for the acceptance of service of any process or notice required to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited (now known as Huarong International Securities Limited), a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Executive Directors (continued)

Amit CHOPRA, aged 43, joined the Group in 2012 and was appointed as an executive Director and the chief operating officer of the Company as well as a member of the executive committee of the Company on 18 May 2015. Mr. Chopra was the executive vice president of the Company. He is also a director and an officer of certain subsidiaries of the Company respectively. Mr. Chopra holds a Master of Business Administration from Pepperdine University and a Bachelor of Science degree in finance and accounting from California State University, Northridge. He brings over 19 years of experience in accounting, finance and operations, with focused expertise in corporate restructuring. Prior to joining the Group, he spent about four years at Reliance MediaWorks Limited ("RMW"), last serving as vice president of finance of its US operation. RMW is one of India's leading media and entertainment companies, with a presence across several businesses including theatrical exhibition of films, film and media services and television content production and distribution. Before that Mr. Chopra held financial controller and other senior level financial and accounting positions at companies in the entertainment, semiconductor, logistics, IT consulting and software industries.

WEI Ming, aged 43, joined the Group in January 2017. He was appointed as executive Director and Vice Chairman of the Board as well as a member of the executive committee of the Company on 5 July 2017. Mr. Wei is also a supervisor of Sichuan Xunyou Network Technology Co. Ltd.* (四川迅遊網絡科技股份有限公司), the shares of which are listed on the ChiNext of Shenzhen Stock Exchange. He was formerly a VR fund partner of 1 Verge Group. Mr. Wei was also the digital entertainment business unit general manager of Alibaba Group and the business group co-president of Youku Tudou Inc. In addition, he spent over eight years at Youku.com, last serving as president. Prior to joining that, Mr. Wei worked for Sohu.com. Mr. Wei holds a Bachelor's Degree in Computer Science and Technology in Southwest China Normal University (now known as Southwest University) and an Executive Master of Business Administration in Cheung Kong Graduate School of Business.

Non-executive Directors

PU Jian, aged 59, was appointed as non-executive Director on 5 July 2017. Mr. Pu is currently an executive director, vice president and a member of the executive committee of CITIC Limited (stock code: 267), the shares of which are listed on the Main Board of the Stock Exchange. He is an executive director of CITIC Group Corporation and an executive director and a vice president of CITIC Corporation Limited as well. Mr. Pu was formerly vice president of CITIC Securities Co., Ltd, vice chairman of China Offshore Helicopter Co., Ltd, president of CITIC Offshore Helicopter Co., Ltd, director of CITIC Group, and president and chairman of CITIC Trust Co., Ltd. He has held management positions in the financial industry and the general aviation industry for years, and has over 20 years' experience in financial institutions, particularly in the securities and trust fields. Mr. Pu holds a Master's Degree in Business Administration in Fordham University in the United States of America.

(* for identification purpose only)

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Non-executive Directors (continued)

SONG Alan Anlan, aged 61, was appointed as non-executive Director on 5 July 2017. Dr. Song is currently one of the managing partners of SB China Venture Capital ("SBCVC"). He is also a director of Shanghai Precise Packaging Co., Ltd.* (上海普麗盛包裝股份有限公司), the shares of which are listed on the ChiNext of Shenzhen Stock Exchange, and a director of both Shenzhen Easou Technology Co., Ltd.* (深圳宜搜天下科技股份有限公司) and Shanghai YiFang Rural Technology Holdings Co., Ltd.* (上海奕方農業科技股份有限公司), the shares of which are quoted on the National Equities Exchange and Quotations (the "NEEQ"). In addition, Dr. Song serves as the special advisor for China Association of Small and Medium Enterprises. He was formerly the chairman of the supervisory board of Dehong International Cashmere Co., Ltd* (德泓國際絨業股份有限公司), the shares of which are quoted on the NEEQ. Prior to joining SBCVC, Dr. Song was a member of UTStarcom's founding team and worked as the director of information technology. He was also the chief technical officer of MDC Telecom, and a founder and director of Global Data Solutions Limited. Prior to that, Dr. Song was an assistant professor of School of Engineering at the University of Connecticut in the United States of America. He has rich experiences in both investment and entrepreneurship and in-depth knowledge in a broad range of technologies. Dr. Song holds a Bachelor Degree and a Master Degree in Department of Automation from Tsinghua University and a Ph.D. Degree from School of Economics and Management of Tsinghua University.

Independent Non-executive Directors

DUAN Xiongfei, aged 49, was appointed as an independent non-executive Director on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from The University of Chicago. He is an associated member of National Futures Association in the United States of America and has over 20 years of experience in securities trading and investment industry. Mr. Duan is currently the investment manager of MIE Holdings Corporation.

LAU Cheong, aged 34, was appointed as an independent non-executive Director on 21 July 2009 and is presently a member of the audit committee, the nomination committee and the remuneration committee of the Company. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the chief executive officer of Sino Jet Management Limited and the president of Ponticello International Group Incorporated.

(* for identification purpose only)

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Independent Non-executive Directors (continued)

WONG Ka Kong Adam, aged 51, was appointed as an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company on 9 August 2013. Mr. Wong holds a Master's Degree in Business Administration from The Hong Kong Polytechnic University. He is a member and a practising certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 25 years' experience in auditing, commercial finance and accounting operation. He previously held various senior positions in listed companies with business in Hong Kong, Greater China and overseas. He currently holds a senior executive position in the corporate investment function of a Shenzhen main board listing conglomerate.

John Alexander LAGERLING, aged 41, was appointed as an independent non-executive Director on 5 July 2017. Mr. Lagerling was the vice president of business development for mobile and product partnerships of Facebook, Inc. and joined in June 2017 as an executive director and chief business officer of Mercari, Inc. He is also a non-executive director and a member of the audit committee of Modern Times Group MTG AB, the class A and class B shares of which are listed on Nasdaq Stockholm's Large Cap list. Mr. Lagerling was the co-founder and board member of Cronologics Corporation, acquired by Google in 2016. In addition, he spent over seven years at Google, last serving as director of Android Global Partnerships. Prior to joining that, he worked for NTT DOCOMO, INC. Mr. Lagerling holds a Master of Science Degree in Economics, Marketing and International Business in Stockholm School of Economics.

SHARE OPTION SCHEME

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

(1) Purpose

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

(2) Participants

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

SHARE OPTION SCHEME (continued)

(3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 2,241,869,571 Shares, representing approximately 8.42% of the Shares in issue as at the date of this annual report.

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

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

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

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

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

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

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

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

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

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

SHARE OPTION SCHEME (continued)

(8) The basis of determining the exercise price

The exercise price of the option shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer but shall be no less than the highest of:

(a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

(9) The remaining life of the Option Scheme

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

SHARE OPTION SCHEME (continued)

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

Name and category of participant	Number of Options: At 1 January 2017	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2017	Date of grant	Exercise period	Exercise price per Share (HK$)
Directors								
Seah Ang	100,000,000 *(Notes 2 and 3)*	–	–	–	100,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Amit Chopra	48,000,000 *(Note 2)*	–	–	–	48,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	33,333,334 *(Notes 5 and 6)*	–	–	–	33,333,334	29/01/2016	29/01/2016 to 28/01/2026	0.413
	33,333,333 *(Notes 5 and 6)*	–	–	–	33,333,333	29/01/2016	29/01/2017 to 28/01/2026	0.413
	33,333,333 *(Notes 5 and 6)*	–	–	–	33,333,333	29/01/2016	29/01/2018 to 28/01/2026	0.413
Wei Ming	–	300,000,000 *(Note 9)*	–	–	300,000,000	13/02/2017	13/02/2017 to 12/02/2027	0.469
Employees of the Group								
Zhou Jian	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098

SHARE OPTION SCHEME (continued)

Name and category of participant	Number of Options: At 1 January 2017	Number of Options: Granted during the year	Number of Options: Exercised during the year	Number of Options: Cancelled/ lapsed during the year	Number of Options: At 31 December 2017	Date of grant	Exercise period	Exercise price per Share (HK$)
Other employees, in aggregate	391,300,000 *(Note 2)*	–	(40,070,000)	–	351,230,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	20,990,000 *(Note 4)*	–	–	–	20,990,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	20,000,000 *(Note 4)*	–	–	–	20,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	19,000,000 *(Note 4)*	–	–	–	19,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	93,166,677 *(Note 5)*	–	–	–	93,166,677	29/01/2016	29/01/2016 to 28/01/2026	0.413
	83,166,665 *(Note 5)*	–	–	–	83,166,665	29/01/2016	29/01/2017 to 28/01/2026	0.413
	83,166,658 *(Note 5)*	–	–	(5,333,332)	77,833,326	29/01/2016	29/01/2018 to 28/01/2026	0.413
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/6/2017 to 21/06/2026	0.495
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/6/2018 to 21/06/2026	0.495
	16,666,692 *(Note 8)*	–	–	–	16,666,692	29/7/2016	29/7/2016 to 28/07/2026	0.566
	16,599,996 *(Note 8)*	–	–	(4,899,998)	11,699,998	29/7/2016	29/7/2017 to 28/07/2026	0.566
	16,599,980 *(Note 8)*	–	–	(6,399,991)	10,199,989	29/7/2016	29/7/2018 to 28/07/2026	0.566
Total	1,423,656,668	300,000,000	(40,070,000)	(16,633,321)	1,666,953,347			

SHARE OPTION SCHEME (continued)

Notes:

1. Options are valid for 10 years from the date of grant.

2. Options granted on 28 May 2014 shall be exercisable with effect from the 3rd anniversary of the date of grant. The closing price of the shares immediately before the date on which such Options were granted was HK$0.099 per share.

3. The Options conditionally granted to Mr. Zhou Jian, Mr. Fan Lei and Mr. Seah Ang on 28 May 2014 (i.e. the date of grant) were approved by the Shareholders at the special general meeting of the Company held on 23 July 2014.

4. Each of one third of the Options granted to the grantees on 6 May 2015 shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$1.390 per share.

5. Each of one third of the Options granted to the grantees on 29 January 2016 shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.400 per share.

6. The Options conditionally granted to Mr. Amit Chopra on 29 January 2016 (i.e. the date of grant) were approved by the Shareholders at the annual general meeting of the Company held on 7 June 2016.

7. 50,000,000 Options granted on 22 June 2016 shall be exercisable from each of the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.495 per share.

8. Each of one third of the Options granted to the grantees on 29 July 2016 shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.550 per share.

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests and short positions in the Shares and underlying Shares

Name of Director	**Capacity**	**Number of Shares held**	**Number of underlying Shares held**	**Total interests (Long/short positions)**	**Approximate percentage of the issued share capital**
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,570,011,442	–	2,570,011,442 (Long position)	10.51%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.47%
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)	10.47%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	2.05%
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)	10.72%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	2.05%
Wei Ming	Beneficial Owner *(Note 7)*	–	300,000,000	300,000,000 (Long position)	1.23%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (continued)

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

Notes:

1. Kabo Limited was deemed to be interested in 2,458,171,442 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,855,609,696 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.

2. Honarn Inc. holds 111,840,000 Shares. Mr. Peter Chou was deemed to be interested in the above Shares by virtue of his 100% shareholding interests in Honarn Inc.

3. Global Domain Investments Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.

4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

5. Redmount Ventures Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Amit Chopra was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Redmount Ventures Limited.

6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

7. Mr. Wei Ming holds 300,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

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

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2017, which may also constitute connected transactions under the Listing Rules, are disclosed in note 37 to the consolidated financial statements.

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2017, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Interests and short positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Kabo Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 1)*	2,458,171,442	–	2,458,171,442 (Long position)	10.06%
	Beneficial owner *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.47%
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,570,011,442	–	2,570,011,442 (Long position)	10.51%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.47%
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 3)*	2,458,171,442	–	2,458,171,442 (Long position)	10.06%
	Beneficial owner (Note 3)	502,134,789	–	502,134,789 (Short position)	2.05%
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)	10.47%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	2.05%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 5)*	2,458,171,442	–	2,458,171,442 (Long position)	10.06%
	Beneficial owner *(Note 5)*	502,134,789	–	502,134,789 (Short position)	2.05%
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)	10.72%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	2.05%
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner *(Note 7)*	2,458,171,442	–	2,458,171,442 (Long position)	10.06%
Bright Ace Holdings Limited	Interest of controlled corporation *(Note 7)*	2,458,171,442	–	2,458,171,442 (Long position)	10.06%
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)	11.29%
Fortune Source International Limited	Beneficial owner *(Note 10)*	1,672,035,000	–	1,672,035,000 (Long position)	6.84%
Zhang Xiaoqun	Interest of controlled corporation *(Note 10)*	1,672,035,000	–	1,672,035,000 (Long position)	6.84%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total Interests (Long/short positions)	Approximate percentage of the issued share capital
Jade Link Holdings Limited	Beneficial owner *(Note 11)*	5,037,200,000	–	5,037,200,000 (Long position)	20.61%
Tang Elaine Yilin	Interest of controlled corporation *(Note 11)*	5,037,200,000	–	5,037,200,000 (Long position)	20.61%
CITIC Limited	Interest of controlled corporation *(Note 12)*	2,281,818,182	–	2,281,818,182 (Long position)	9.34%
CITIC Group Corporation	Interest of controlled corporation *(Note 12)*	2,281,818,182	–	2,281,818,182 (Long position)	9.34%
SBCVC Digital Fund, L.P.	Beneficial owner *(Note 13)*	2,281,818,182	–	2,281,818,182 (Long position)	9.34%
SBCVC Management V, L.P.	Interest of controlled corporation *(Note 13)*	2,281,818,182	–	2,281,818,182 (Long position)	9.34%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Notes:

1. Kabo Limited was deemed to be interested in 2,458,171,442 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,855,609,696 Shares under section 317 of the SFO. Mr. Peter Chou was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Kabo Limited.

2. Mr. Peter Chou was deemed to be interested in 111,840,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.

3. Global Domain Investments Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Seah Ang was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Global Domain Investments Limited.

4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

5. Redmount Ventures Limited was deemed to be interested in 2,458,171,442 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,956,036,653 Shares under section 317 of the SFO. Mr. Amit Chopra was deemed to be interested in the above Shares (long and short positions) by virtue of his 100% shareholding interest in Redmount Ventures Limited.

6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

7. Wise Sun Holdings Limited was deemed to be interested in 2,458,171,442 Shares by holding 449,640,118 Shares and by having a security interest in 2,008,531,324 Shares under section 317 of the SFO. Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the 2,458,171,442 Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited under section 317 of the SFO.

8. Mr. Zhou Jian was deemed to be interested in 152,223,738 Shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.

9. Mr. Zhou Jian holds 150,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

10. Fortune Source International Limited is wholly-owned by Zhang Xiaoqun. Zhang Xiaoqun was deemed to be interested in 1,672,035,000 Shares held by Fortune Source International Limited.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Notes: (continued)

11. Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in the 5,037,200,000 Shares held by Jade Link Holdings Limited.

12. CITIC Group Corporation was deemed to be interested in 2,281,818,182 Shares held by Master Time Global Limited. Such Shares were owned by Master Time Global Limited which in turn is wholly owned by Dynasty One Investments Limited while Dynasty One Investments Limited is wholly owned by CITIC Limited. CITIC Limited is 32.53% and 25.60% controlled by CITIC Polaris Limited and CITIC Glory Limited respectively which are 100% controlled by CITIC Group Corporation.

13. SBCVC Digital Fund, L.P. is controlled by SBCVC Management V, L.P. SBCVC Management V, L.P. was deemed to be interested in 2,281,818,182 Shares held by SBCVC Digital Fund, L.P.

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	1%
– five largest suppliers combined	5%
Sales	
– the largest customer	11%
– five largest customers combined	47%

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's number of issued share) had an interest in the major suppliers or customers noted above.

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

There was a banking facility (the "Facility") with the principal amount of HK$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 31 December 2017, the outstanding loan principal of this Facility amounted to approximately HK$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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

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

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 34 to 45 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

The Group has registered or is registering its intellectual property, including but not limited to trademarks, patents and copyright in Hong Kong, Macau, the PRC, Taiwan, USA, Canada and India and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

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

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

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement" on pages 4 to 5 and "Chief Executive Officer's Review" on pages 6 to 33 of this annual report. An analysis of each of the Group's capital risk management and financial risk management is provided in notes 40 and 41 to the consolidated financial statements.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors in writing an annual confirmation of his/her independence for the year pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent (including Ms. Lau Cheong who has served as an independent non-executive Director for nearly 9 years).

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

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

EMOLUMENT POLICY

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

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

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

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the emolument of Mr. Wei Ming currently is HK$50,000 per month.

EQUITY-LINKED AGREEMENTS

On 27 January 2017, the Company received conversion notices from three holders of convertible notes, CITIC Limited, SBCVC Digital Fund, L.P. and Zheng Hao Investments Limited to exercise the conversion rights attached to outstanding convertible notes for the aggregate principal amount of HK$190,512,000 into the Company's shares. An aggregate of 4,762,800,000 shares, representing approximately 37.74% of the issued share capital of the Company as at 27 January 2017 and approximately 27.40% of the enlarged issued share capital of the Company immediately after the conversion, was issued to the holders of the convertible notes on 7 February 2017.

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

For details, please refer to the Company's announcements dated 28 March 2013, 4 July 2013, 27 November 2014, 30 September 2016, 27 January 2017 and 17 March 2017, and circulars dated 14 June 2013 and 9 December 2014.

There were no outstanding convertible notes immediately after the above conversions.

EQUITY-LINKED AGREEMENTS (continued)

On 19 October 2017, the Company entered into the placing agreements with Head & Shoulders Securities Limited and Zhongtai International Securities Limited respectively in relation to the placing, on a best effort basis, of up to 1,450,650,000 and 416,010,000 placing shares respectively at the placing price of HK$0.225 per placing share. Completion of the placing is conditional upon the listing committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the placing shares.

Completion of the above-mentioned placing took place on 30 October 2017, whereby a total of 1,450,650,000 and 416,010,000 Placing Shares were placed by Head & Shoulders Securities Limited and Zhongtai International Securities Limited respectively to not less than six placees at the placing price of HK$0.225 per share. The placing shares were allotted and issued pursuant to the general mandate.

The gross proceeds of the share placing were approximately HK$420 million. The net proceeds of the share placing were approximately HK$414.67 million and are intended for the media entertainment segment and as general working capital for the Group. Further details of the placing are set out in the sub-section headed "Shares" under "Capital" on page 25.

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

MANAGEMENT CONTRACTS

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

REVIEW BY AUDIT COMMITTEE

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

DIRECTORS' REPORT

INDEPENDENT AUDITOR

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

On behalf of the Board

Seah Ang
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2018

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Digital Domain Holdings Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 77 to 182, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Impairment assessment of goodwill and intangible assets

As at 31 December 2017, the Group had intangible assets of HK$1,165,046,000 (including goodwill of HK$689,557,000) which in total represented approximately 62% of the total assets of the Group.

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

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

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

Our response:

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

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

Revenue recognition

Included in the revenue of the Group for the year ended 31 December 2017, the Group recognised revenue from the provision of services of visual effects production of approximately HK$606,550,000.

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

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

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

Our response:

Our procedures in relation to revenue recognition included:

- Inspecting, on a sample basis, the service agreements signed with customers of the Group and assessing the recognition criteria and checking the calculation of the revenue of those relevant customers;

- Testing, on a sample basis, the amount and timing of the services revenue recognised having regard to the contract costs incurred to date and the total estimated contract costs to be incurred; and

- Checking, on a sample basis, whether the final total contract costs incurred of completed contracts are consistent with the total contract costs originally estimated.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Limited
Certified Public Accountants

Pak Tak Lun
Practising Certificate number: P06170

Hong Kong, 28 March 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	*6*	703,004	763,501
Cost of sales and services rendered		(621,226)	(639,154)
Gross profit		81,778	124,347
Other income and gains	*7*	9,828	11,184
Selling and distribution expenses		(32,705)	(79,715)
Administrative expenses and other net operating expenses		(579,513)	(503,129)
Finance costs	*9*	(21,598)	(56,210)
Fair value gains on investment properties	*14*	1,900	797
Share of losses of associates	*16*	(3,763)	–
Share of profits/(losses) of joint ventures	*17*	14	(716)
Loss before taxation		(544,059)	(503,442)
Taxation	*11(a)*	(82)	5,062
Loss for the year	*8*	(544,141)	(498,380)
Loss attributable to:			
– Owners of the Company		(524,893)	(479,377)
– Non-controlling interest	*30*	(19,248)	(19,003)
		(544,141)	(498,380)
Loss per share:	*12*		
Basic and diluted		HK cents (2.458)	HK cents (4.099)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Loss for the year		(544,141)	(498,380)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		10,364	1,844
Share of other comprehensive income of associates	*16*	16,802	–
Share of other comprehensive income of joint ventures	*17*	40	(3)
Other comprehensive income for the year, net of tax		27,206	1,841
Total comprehensive income for the year		(516,935)	(496,539)
Total comprehensive income attributable to:			
– Owners of the Company		(499,719)	(478,023)
– Non-controlling interest		(17,216)	(18,516)
		(516,935)	(496,539)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	13	124,251	59,843
Investment properties	14	212,500	210,600
Intangible assets	15	1,165,046	1,029,722
Interests in associates	16	15,102	–
Interests in joint ventures	17	62	6,388
Deposits and prepayments	18	31,908	–
		1,548,869	1,306,553
Current assets			
Inventories		142	637
Trade receivables, other receivables and prepayments	18	118,684	146,775
Bank balances and cash	19	225,334	465,838
		344,160	613,250
Current liabilities			
Trade payables, other payables and accruals	20	126,668	101,853
Deferred revenue		16,218	10,856
Borrowings	21	152,646	73,162
Promissory note	22	–	34,314
Convertible notes	23	–	370,273
Obligations under finance leases	24	12,139	–
Tax payable		1,978	1,565
		309,649	592,023
Net current assets		34,511	21,227
Total assets less current liabilities		1,583,380	1,327,780

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Borrowings	*21*	105,218	216,085
Obligations under finance leases	*24*	25,801	–
Deferred tax liabilities	*11(b)*	49,330	46,267
		180,349	262,352
NET ASSETS		1,403,031	1,065,428
Capital and reserves			
Share capital	*25*	244,418	126,187
Reserves		1,133,055	896,467
Equity attributable to owners of the Company		1,377,473	1,022,654
Non-controlling interest	*30*	25,558	42,774
TOTAL EQUITY		1,403,031	1,065,428

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2018 and are signed on its behalf by:

Seah Ang
DIRECTOR

Peter Chou
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

		Attributable to owners of the Company												
	Notes	Share capital HK\$'000 *(Note 25)*	Share premium HK\$'000 *(Note 26(i))*	Convertible notes – equity component HK\$'000 *(Note 26(ii))*	Land and buildings revaluation reserve HK\$'000 *(Note 26(iii))*	Contributed surplus HK\$'000 *(Note 26(iv))*	Share options reserve HK\$'000 *(Note 26(v))*	Deferred shares reserve HK\$'000 *(Note 26(vi))*	Exchange fluctuation reserve HK\$'000 *(Note 26(vii))*	Other Reserve HK\$'000 *(Note 26(viii))*	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
As at 1 January 2017		126,187	1,603,052	96,630	7,355	49,510	118,107	123,712	(3,997)	–	(1,097,902)	1,022,654	42,774	1,065,428
Recognition of equity-settled share-based payment	*27*	–	–	–	–	–	51,033	6,395	–	–	–	57,428	–	57,428
Issue of shares on placement, net of expenses	*25(b)*	18,667	396,072	–	–	–	–	–	–	–	–	414,739	–	414,739
Issue of shares for acquisition of subsidiaries completed in previous year	*25(c)*	1,036	56,371	–	–	–	–	(57,407)	–	–	–	–	–	–
Issue of shares for acquisition of intangible assets	*25(d)*	127	7,593	–	–	–	–	(7,750)	–	–	–	(30)	–	(30)
Issue of shares on exercise of share options	*27*	401	3,526	–	–	–	(1,378)	–	–	–	1,378	3,927	–	3,927
Issue of shares upon conversion of convertible notes	*25(e)*	98,000	377,116	(96,630)	–	–	–	–	–	–	–	378,486	–	378,486
Share premium balance transferred to contributed surplus pursuant to the capital reorganisation		–	(1,603,052)	–	–	1,603,052	–	–	–	–	–	–	–	–
Contributed surplus set off against accumulated losses pursuant to the capital reorganisation		–	–	–	–	(1,057,872)	–	–	–	–	1,057,872	–	–	–
Release on dissolution of joint ventures	*17*	–	–	–	–	–	–	–	(12)	–	–	(12)	–	(12)
Loss for the year		–	–	–	–	–	–	–	–	–	(524,893)	(524,893)	(19,248)	(544,141)
Currency translation differences		–	–	–	–	–	–	–	8,332	–	–	8,332	2,032	10,364
Share of other comprehensive income of associates	*16*	–	–	–	–	–	–	–	194	16,608	–	16,802	–	16,802
Share of other comprehensive income of joint ventures	*17*	–	–	–	–	–	–	–	40	–	–	40	–	40
Total comprehensive income for the year		–	–	–	–	–	–	–	8,566	16,608	(524,893)	(499,719)	(17,216)	(516,935)
As at 31 December 2017		244,418	840,678	–	7,355	594,690	167,762	64,950	4,557	16,608	(563,545)	1,377,473	25,558	1,403,031

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities		
Loss before taxation	(544,059)	(503,442)
Adjustments for:		
Depreciation of property, plant and equipment	31,387	21,633
Amortisation of intangible assets	28,832	26,368
Loss on disposal of property, plant and equipment	2,487	–
Equity-settled share-based payment expenses	57,428	81,147
Net exchange gains	(5,384)	(1,556)
Fair value gains on investment properties	(1,900)	(797)
Share of losses of associates	3,763	–
Share of (profits)/losses of joint ventures	(14)	716
(Reversal of)/provision for impairment loss on amounts due from joint ventures	(3,343)	6,221
Impairment loss on trade receivables	2,009	1,214
Impairment loss on inventories	164	–
Interest income	(489)	(329)
Finance costs	21,598	56,210
Operating loss before working capital changes	(407,521)	(312,615)
Decrease/(increase) in trading merchandise goods	331	(308)
Increase in trade receivables, other receivables and prepayments	(5,848)	(47,945)
Increase in trade payables, other payables and accruals	23,367	21,071
Increase/(decrease) in deferred revenue	5,362	(22,879)
Cash used in operations	(384,309)	(362,676)
Income tax paid	(267)	(3,530)
Interest paid	(11,250)	(13,463)
Net cash used in operating activities	(395,826)	(379,669)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Cash flows from investing activities			
Interest received		511	237
Purchases of property, plant and equipment		(56,829)	(29,275)
Proceeds from disposal of property, plant and equipment		852	–
Additions to investment properties		–	(1,203)
Additions to intangible assets		(148,143)	(39,652)
Advance to joint ventures		(736)	(752)
Advance to associates		(2,063)	–
Proceeds from dissolution of joint ventures		10,416	–
Increase in bank deposits with more than three months to maturity when placed or pledged		(7,659)	–
Net cash flow from business combination	31	–	(4,997)
Net cash used in investing activities		(203,651)	(75,642)
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of issuing expenses		414,709	683,015
Proceeds from exercise of share options		3,927	–
Repayment of obligations under finance leases		(2,017)	(3,100)
New borrowings		88,831	–
Repayment of borrowings		(121,701)	(74,129)
Repayment of promissory note		(35,000)	(30,000)
Net cash generated from financing activities		348,749	575,786
Net (decrease)/increase in cash and cash equivalents		(250,728)	120,475
Effect of foreign exchange rate changes		2,565	637
Cash and cash equivalents at beginning of the year		465,838	344,726
Cash and cash equivalents at end of the year		217,675	465,838
Represented by:			
Bank balances and cash		225,334	465,838
Bank deposits with more than three months to maturity when placed or pledged		(7,659)	–
		217,675	465,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has its principal place of business at 9/F., Henley Building, No. 5 Queen's Road Central, Central, Hong Kong.

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

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

(a) Adoption of amendments to HKFRSs – first effective on 1 January 2017

During the year, the Group has adopted the following amendments to HKFRSs which are first effective for the current year and relevant to the Group.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these consolidated financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

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

(a) Adoption of amendments to HKFRSs – first effective on 1 January 2017 (continued)

Amendments to HKAS 7 – Disclosure Initiative

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

The adoption of the amendments has led to the additional disclosure presented in the notes to the cash flow statement, note 32. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

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

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

The adoption of the amendments has no impact on these consolidated financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

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

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

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

		Effective date
HKFRSs (Amendments)	Annual improvements to HKFRSs 2015-2017 Cycle	(ii)
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards	(i)
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures	(i)
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions	(i)
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	(ii)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(iv)
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)	(i)
Amendments to HKAS 40	Transfers of Investment Property	(i)
HKFRS 9	Financial Instruments	(i)
HKFRS 15	Revenue from Contracts with Customers	(i)
HKFRS 16	Leases	(ii)
HKFRS 17	Insurance Contracts	(iii)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	(i)
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	(ii)

Effective date:

(i) Annual periods beginning on or after 1 January 2018

(ii) Annual periods beginning on or after 1 January 2019

(iii) Annual periods beginning on or after 1 January 2021

(iv) The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continues to be permitted.

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle

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

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

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

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

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

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

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

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

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

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

Amendments to HKAS 40 – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

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

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

HKFRS 9 – Financial Instruments

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 may result in earlier recognition of credit losses on the Group's financial assets measured at amortised cost taking into account the estimated credit risk of customers and other debtors the Group has business with and the actual impairment of receivables experienced. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review. On the other hand, the management will assess the business model in relation to the Group's investment portfolio at initial application of HKFRS 9.

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

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

HKFRS 15 – Revenue from Contracts with customers

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

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

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

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

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

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

HKFRS 16 – Leases

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

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

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately HK$270,152,000 as disclosed in note 34(i). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

The Group is in the process of making an assessment of the potential impact of these new pronouncements. The Directors so far concluded that the application of these new pronouncements is unlikely to have a significant impact on the Group's financial performance and financial position upon application.

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

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

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

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

For other new or revised HKFRSs that have been issued but are not yet effective, the directors of the Company do not expect a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

3. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, as modified for investment properties, which are carried at fair value, as explained in the accounting policies set out below.

Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Associates

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

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

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

Any premium paid for an associate above the fair value of the Group’s share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements

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

The Group classifies its interests in joint arrangements as either:

– Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

– Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

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

– The structure of the joint arrangement;

– The legal form of joint arrangements structured through a separate vehicle;

– The contractual terms of the joint arrangement agreement; and

– Any other facts and circumstances (including any other contractual arrangements).

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

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Property, plant and equipment

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

Investment properties

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

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Intangible assets

(i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

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

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which allocated goodwill is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

(ii) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with indefinite useful lives are carried at cost less any impairment losses and intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives or using unit of production method. Amortisation commences when the intangible assets with finite useful lives are ready for use. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any change in estimate being accounted for on a prospective basis. The principal annual rates of intangible assets with finite useful lives are as follows:

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

(i) Loans and receivables

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

(ii) Impairment

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(ii) Impairment (continued)

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

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

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

(iii) Effective interest method

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(iv) Derecognition of financial assets

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

Financial liabilities and equity issued by the Group

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

(i) Equity instruments

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

(ii) Convertible notes that contain liability and equity components

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity issued by the Group (continued)

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

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

(iii) Other financial liabilities

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

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

(iv) Effective interest method

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

(v) Derecognition of financial liabilities

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years respectively and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

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

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

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in joint ventures except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in HK$ which is the functional currency of the Company.

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in HK$ using exchange rates prevailing at the end of reporting period. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange fluctuation reserve. Such translation differences, to the extent attributable to the owners of the Company, are recognised in profit or loss in the period when the foreign operations are disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange fluctuation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' benefits

Short term benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees rendered the related service.

Retirement benefit scheme

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

Termination benefits

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

Share-based payments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) An entity is related to the Group if any of the following conditions apply: (continued)

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

Revenue recognition

Revenue comprises the fair value for the sales of goods and rendering of services. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Rental income is recognised in accordance with the Group's accounting policy for leases.

(ii) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(iii) Income from provision of services of visual effects production is recognised when the services are rendered based on the percentage of completion method, which is measured as cost to date as proportion to the estimated total contract cost.

(iv) Income from other services is recognised when the services are rendered.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(v) Interest income is recognised on a time-proportion basis using the effective interest method.

(vi) Royalty income and profit-sharing from participation rights in movies is recognised in accordance with the terms and substances of the relevant agreement.

Borrowing costs

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

Revenue Recognition

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and judgements (continued)

Impairment of non-financial assets (including goodwill)

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset or a CGU can be supported by the recoverable amount of the CGU, which is the higher of fair value less costs of disposal and value-in-use of the CGU. The value-in-use calculation is based on the net present value of future cash flows which are estimated based upon the continued use of the asset or CGU, or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 11(b).

Estimated impairment of trade and other receivables

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and judgements (continued)

Useful lives of property, plant and equipment and intangible assets

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

Fair value measurements

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

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

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs;
Level 3: Unobservable inputs (i.e. not derived from market data).

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

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

6. REVENUE AND SEGMENT REPORTING

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

	2017 HK$'000	2016 HK$'000
Provision of services of		
– visual effects production	606,550	613,239
– 360 degree digital capture technology application and post production service	88,168	142,203
	694,718	755,442
Rental income	8,286	8,059
	703,004	763,501

(a) Reportable segments

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

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

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

– Property investment

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

6. REVENUE AND SEGMENT REPORTING (continued)

(a) Reportable segments (continued)

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss)/profit, which is a measure of adjusted (loss)/profit before taxation. The adjusted (loss)/profit before taxation is measured consistently with the Group's (loss)/profit before taxation except that fair value gains on investment properties, share of losses of associates, share of profits/(losses) of joint ventures, loss on disposal of property, plant and equipment, impairment loss on trade receivables, reversal of/(provision for) impairment loss on amounts due from joint ventures, equity-settled share-based payment expenses, unallocated rental expenses, auditor's remuneration, depreciation of unallocated property, plant and equipment and amortisation of unallocated intangible assets, professional fees, finance costs, unallocated other income and gains (including royalty income, interest income and sundry income), as well as head office and corporate expenses, are excluded from such measurement.

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

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

6. REVENUE AND SEGMENT REPORTING (continued)

(a) Reportable segments (continued)

	Media entertainment		Property investment		Consolidated	
	2017 HK$'000	**2016** HK$'000	**2017** HK$'000	**2016** HK$'000	**2017** HK$'000	**2016** HK$'000
Revenue from external customers	694,718	755,442	8,286	8,059	703,004	763,501
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	694,718	755,442	8,286	8,059	703,004	763,501
Reportable segment (loss)/profit	(277,545)	(163,650)	7,204	6,974	(270,341)	(156,676)
Additions to non-current assets	261,562	211,891	–	–	261,562	211,891
Depreciation and amortisation	(54,228)	(45,963)	–	–	(54,228)	(45,963)
Loss on disposal of property, plant and equipment	(837)	–	–	–	(837)	–
Impairment loss on inventories	(164)	–	–	–	(164)	–
Taxation (charged)/credited	(82)	5,062	–	–	(82)	5,062
Reportable segment assets	1,329,294	1,304,834	215,768	214,932	1,545,062	1,519,766
Reportable segment liabilities	347,917	320,336	2,902	2,749	350,819	323,085

6. REVENUE AND SEGMENT REPORTING (continued)

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

	2017 HK$'000	2016 HK$'000
Loss before taxation		
Reportable segment loss	(270,341)	(156,676)
Reversal of/(provision for) impairment loss on amounts due from joint ventures	3,343	(6,221)
Impairment loss on trade receivables	(2,009)	(1,214)
Loss on disposal of unallocated property, plant and equipment	(1,650)	–
Fair value gains on investment properties	1,900	797
Share of losses of associates	(3,763)	–
Share of profits/(losses) of joint ventures	14	(716)
Auditor's remuneration	(1,690)	(2,192)
Depreciation of unallocated property, plant and equipment and amortisation of unallocated intangible assets	(5,991)	(2,038)
Professional fees	(42,000)	(67,689)
Finance costs	(21,598)	(56,210)
Equity-settled share-based payment expenses	(57,428)	(81,147)
Unallocated rental expenses	(13,088)	(10,925)
Unallocated other income and gains	5,943	845
Other unallocated corporate expenses*	(135,701)	(120,056)
Consolidated loss before taxation	(544,059)	(503,442)
Assets		
Reportable segment assets	1,545,062	1,519,766
Unallocated bank balances and cash	174,067	357,950
Unallocated corporate assets	173,900	42,087
Consolidated total assets	1,893,029	1,919,803
Liabilities		
Reportable segment liabilities	350,819	323,085
Tax payable	1,978	1,565
Deferred tax liabilities	49,330	46,267
Convertible notes	–	370,273
Unallocated borrowings	64,515	94,659
Unallocated corporate liabilities	23,356	18,526
Consolidated total liabilities	489,998	854,375

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

6. REVENUE AND SEGMENT REPORTING (continued)

(c) Geographic information

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

(i) Revenue from external customers

	2017 HK$'000	2016 HK$'000
Hong Kong (place of domicile)	8,286	8,104
Mainland China ("the PRC")	100,573	102,581
The United States of America ("USA")	236,865	240,228
Canada	328,088	296,863
United Kingdom	21,738	96,148
Other countries	7,454	19,577
	703,004	763,501

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

(ii) Specified non-current assets

	2017 HK$'000	2016 HK$'000
Hong Kong (place of domicile)	232,835	375,806
The PRC	290,275	22,183
Other regions of Asia	54,518	–
USA and Canada	971,241	908,564
	1,548,869	1,306,553

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

6. REVENUE AND SEGMENT REPORTING (continued)

(d) Major customers

The Group's customer base is diversified and there were three customers (2016: two customers) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenues as follows:

	2017 HK$'000	2016 HK$'000
Customer A	N/A	125,684
Customer B	N/A	86,758
Customer C	79,238	N/A
Customer D	72,547	N/A
Customer E	70,596	N/A

7. OTHER INCOME AND GAINS

	2017 HK$'000	2016 HK$'000
Profit sharing in pre-determined percentage from participation rights in movies *(Note 15 (d))*	3,745	10,108
Royalty income	140	221
Interest income	489	329
Rental fee income arising from leasing out certain equipment	5,025	–
Others	429	526
	9,828	11,184

8. LOSS FOR THE YEAR

	2017 HK$'000	2016 HK$'000
This is arrived at after charging/(crediting):		
Cost of sales and services rendered *(Note)*	621,226	639,154
Loss on disposal of property, plant and equipment	2,487	–
(Reversal of)/provision for impairment loss on amounts due from joint ventures	(3,343)	6,221
Impairment loss on trade receivables	2,009	1,214
Impairment loss on inventories	164	–
Exchange differences, net	(8,655)	6,146
Auditor's remuneration:		
– audit services	1,520	1,447
– non-audit services	170	745
Depreciation of property, plant and equipment *(Note)*	31,387	21,633
Amortisation of intangible assets *(Note)*	28,832	26,368
Research and development	4,061	6,516
Operating lease rentals in respect of:		
– rented premises	54,081	39,618
– rented equipment	18,971	13,623
Staff costs *(Note)*:		
– Directors' remuneration *(Note 10)*	27,414	37,696
– Other staff costs:		
Salaries, wages and other benefits	710,235	692,217
Retirement benefit scheme contributions	3,624	1,039
Equity-settled share-based payment expenses	50,919	57,393
Total staff costs	792,192	788,345

Note:

Cost of sales and services rendered include HK$478,800,000 (2016: HK$560,755,000) relating to staff costs, depreciation of property, plant and equipment and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

9. FINANCE COSTS

	Notes	2017 HK$'000	2016 HK$'000
Imputed interest on:			
Convertible notes	*23*	8,213	39,410
Promissory note	*22*	686	2,181
Interest on:			
Bank and other loans		7,297	7,398
Secured note		4,732	7,071
Finance leases		670	150
		21,598	56,210

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The director's remuneration is analysed as follows:

	2017 HK$'000	2016 HK$'000
Fees:		
Independent non-executive directors	1,232	468
Other emoluments paid to executive directors:		
Salaries and other benefits	17,169	13,456
Discretionary bonus	2,486	–
Equity-settled share-based payment expenses	6,509	23,754
Retirement benefit scheme contributions	18	18
	26,182	37,228
	27,414	37,696

No directors waived any remuneration in respect of the years ended 31 December 2017 and 2016.

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

Directors' remuneration (continued)

	2017 HK$'000	2016 HK$'000
Peter Chou		
– Salaries and other benefits	8,285	6,974
– Discretionary bonus	486	–
	8,771	6,974
Seah Ang		
– Salaries and other benefits	3,510	3,491
– Discretionary bonus	1,000	–
– Equity-settled share-based payment expenses	908	3,236
– Retirement benefit scheme contributions	18	18
	5,436	6,745
Amit Chopra		
– Salaries and other benefits	3,153	2,991
– Discretionary bonus	1,000	–
– Equity-settled share-based payment expenses	5,601	20,518
	9,754	23,509
Wei Ming		
– Salaries and other benefits	2,221	–
John Alexander Lagerling		
– Fee	764	–

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

Directors' remuneration (continued)

	2017 HK$'000	2016 HK$'000
Lau Cheong		
– Fee	156	156
Duan Xiongfei		
– Fee	156	156
Wong Ka Kong, Adam		
– Fee	156	156

Five highest paid employees

The five highest paid individuals of the Group included four (2016: three) executive directors of the Company, details of whose remuneration are set out above. The remuneration of the remaining one (2016: two) highest paid employee, other than directors of the Company ("Directors"), is as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	4,775	7,427
Equity-settled share-based payment expenses	2,325	10,113
Retirement benefit scheme contributions	18	18
	7,118	17,558

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

	2017	2016
HK$5,500,001 to HK$6,000,000	–	1
HK$7,000,001 to HK$7,500,000	1	–
HK$11,500,001 to HK$12,000,000	–	1

11. TAXATION

	Note	2017 HK$'000	2016 HK$'000
(a) Taxation charged/(credited) to the consolidated income statement represent:			
Current taxation – Hong Kong profits tax		–	–
Current taxation – Overseas tax			
– provision for the year		616	1,289
– under/(over)-provision in respect of prior years		44	(5,172)
Deferred taxation	*11(b)*	(578)	(1,179)
		82	(5,062)

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

Taxation for the years can be reconciled to accounting loss as follows:

	2017 HK$'000	2016 HK$'000
Loss before taxation	(544,059)	(503,442)
Taxation calculated at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	(89,769)	(83,068)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(47,666)	(32,862)
Tax effect of expenses not deductible for tax purposes	36,737	46,917
Tax effect of non-taxable income	(1,859)	(166)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(430)	(553)
Tax effect of unrecognised tax losses and temporary differences	103,024	69,842
Under/(over)-provision in respect of prior years	45	(5,172)
Taxation for the year	82	(5,062)

11. TAXATION (continued)

(b) Deferred taxation

The movements in the components of deferred tax (liabilities)/assets recognised by the Group during the current and prior years are as follows:

	Notes	**Accelerated tax depreciation** HK$'000	**Tax losses** HK$'000	**Fair Value arising from business combination** HK$'000	**Total** HK$'000
As at 1 January 2016		(5,251)	5,251	(45,944)	(45,944)
(Charged)/credited to profit or loss for the year	*11(a)*	(964)	964	1,179	1,179
Exchange realignment		–	–	(1,502)	(1,502)
As at 31 December 2016		(6,215)	6,215	(46,267)	(46,267)
(Charged)/credited to profit or loss for the year	*11(a)*	(359)	359	578	578
Exchange realignment		–	–	(3,641)	(3,641)
As at 31 December 2017		(6,574)	6,574	(49,330)	(49,330)

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

	2017 HK$'000	**2016** HK$'000
Deferred tax liabilities	(49,330)	(46,267)
Deferred tax assets	–	–
	(49,330)	(46,267)

11. TAXATION (continued)

(b) Deferred taxation (continued)

At the end of reporting period, the Group had unused tax losses of HK$1,275,576,000 (2016: HK$850,452,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$39,848,000 (2016: HK$37,667,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,235,728,000 (2016: HK$812,785,000) due to the unpredictability of future profit streams. As at 31 December 2017, included in unrecognised tax losses are losses of HK$26,486,000 (2016: HK$50,978,000) that will expire in 5 years from the respective dates of incurrence and tax losses of HK$1,063,391,000 (2016: HK$647,204,000) that will expire in 20 years from the respective dates of incurrence. Other tax losses may be carried forward indefinitely.

12. LOSS PER SHARE

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

	Year ended 31 December	
	2017 HK$'000	**2016** HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(524,893)	(479,377)

	Number of shares	
	2017	**2016**
Weighted average number of ordinary shares for the purposes of basic loss per share	21,356,172,784	11,696,038,777

Note:

For the years ended 31 December 2017 and 2016, since the convertible notes and share options outstanding, and the shares to be issued to the former option holders of share options in relation to the acquisition of subsidiaries completed in previous year had an anti-dilutive effect on the basic loss per share, the conversion of the outstanding convertible notes, the exercise of outstanding share options and the issue of deferred shares to the former option holders of the acquisition of subsidiaries completed in previous year were not assumed in the computation of diluted loss per share. Except for the above, there is no other dilutive potential share during the current and prior years. Therefore, the basic and diluted loss per share in the current and prior years are equal.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Machineries HK$'000	Construction in progress HK$'000	Total HK$'000
COST				
As at 1 January 2016	98,037	2,703	–	100,740
Additions from business combination *(Note 31)*	18,954	327	–	19,281
Additions	27,040	716	1,519	29,275
Disposals	(4)	–	–	(4)
Exchange realignment	(1,619)	(56)	(1)	(1,676)
As at 31 December 2016 and 1 January 2017	142,408	3,690	1,518	147,616
Transfers	1,525	–	(1,525)	–
Additions	93,830	1,626	1,325	96,781
Disposals	(6,244)	–	–	(6,244)
Exchange realignment	6,271	219	11	6,501
As at 31 December 2017	237,790	5,535	1,329	244,654
ACCUMULATED DEPRECIATION				
As at 1 January 2016	65,087	2,323	–	67,410
Depreciation charge for the year	20,935	698	–	21,633
Disposals	(4)	–	–	(4)
Exchange realignment	(1,221)	(45)	–	(1,266)
As at 31 December 2016 and 1 January 2017	84,797	2,976	–	87,773
Depreciation charge for the year	30,684	703	–	31,387
Disposals	(2,905)	–	–	(2,905)
Exchange realignment	3,971	177	–	4,148
As at 31 December 2017	116,547	3,856	–	120,403
NET CARRYING AMOUNT				
As at 31 December 2017	121,243	1,679	1,329	124,251
As at 31 December 2016	57,611	714	1,518	59,843

As at 31 December 2017, property, plant and equipment with carrying amount of approximately HK$37,494,000 (2016: Nil) were held under finance leases. None of the lease includes contingent rentals.

14. INVESTMENT PROPERTIES

	HK$'000
Fair value	
As at 1 January 2016	208,600
Additions	1,203
Fair value gains	797
As at 31 December 2016 and 1 January 2017	210,600
Fair value gains	1,900
As at 31 December 2017	212,500

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK$8,286,000 (2016: HK$8,059,000). Direct operating expenses arising on the investment properties in the year amounted to HK$1,102,000 (2016: HK$896,000).

The Group's investment properties were located in Hong Kong, held under medium term leases, and pledged to secure banking facilities granted to the Group (Notes 21 and 35).

The fair value of the Group's investment properties as at 31 December 2017 and 2016 have been arrived at on market value basis based on valuations carried out by Cushman & Wakefield Limited, an independent firm of professionally qualified valuers, who holds a recognised and relevant professional qualification and has recent experience in the locations and category of properties being valued.

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

	2017 HK$'000	**2016** HK$'000
Carrying amount at beginning of year	210,600	208,600
Additions	–	1,203
Fair value gains of investment properties included in the face of the consolidated income statement	1,900	797
Carrying amount at end of year	212,500	210,600
Change in unrealised gains for the year included in profit or loss for assets held at end of year	1,900	797

14. INVESTMENT PROPERTIES (continued)

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

Investment properties	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Shops	Level 3	Investment method by capitalising net rental income The key input is: Market unit rent of comparables	(1) Market unit rent, taking into account the location and size, between the comparables and the properties, of HK$34 to HK$37 (2016: HK$34 to HK$37) per square feet. (2) Capitalisation rate of 3.5% (2016: 3.5%).	The higher the market unit rent, the higher the fair value.	If the market unit rent in the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK$2 million (2016: HK$2 million).
Car park spaces	Level 3	Comparison approach The key input is: Recent market sales of comparables	Recent market sales of comparables, taking into account the location and size between the comparables and the properties, ranging from HK$850,000 to HK$1,700,000 (2016: HK$750,000 to HK$1,400,000) per each car park space.	The higher the market selling price of comparables, the higher the fair value.	If the market selling price to the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK$125,000 (2016: HK$106,000).

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

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

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

15. INTANGIBLE ASSETS

	Goodwill HK$'000 *(Note (a))*	Trademarks HK$'000 *(Note (b))*	Proprietary software HK$'000 *(Note (c))*	Participation rights HK$'000 *(Note (d))*	Patents HK$'000 *(Note (e))*	Licenses for intellectual property rights HK$'000 *(Note (f))*	Virtual human know-how HK$'000 *(Note (g))*	Total HK$'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 31(a))*	102,386	–	–	–	–	–	–	102,386
Additions	–	–	16,311	–	42,658	4,082	11,503	74,554
Exchange realignment	(188)	4,067	236	154	601	–	–	4,870
As at 31 December 2016 and 1 January 2017	689,937	148,177	107,977	259,027	103,753	26,082	31,446	1,366,399
Additions	–	–	26,606	121,537	–	–	–	148,143
Exchange realignment	(380)	10,345	2,099	2,004	4,781	–	–	18,849
As at 31 December 2017	689,557	158,522	136,682	382,568	108,534	26,082	31,446	1,533,391
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS								
As at 1 January 2016	–	–	57,244	251,183	116	1,121	953	310,617
Amortisation for the year	–	–	12,500	2,363	5,570	3,295	2,640	26,368
Exchange realignment	–	–	18	147	(473)	–	–	(308)
As at 31 December 2016 and 1 January 2017	–	–	69,762	253,693	5,213	4,416	3,593	336,677
Amortisation for the year	–	–	14,523	2,393	5,242	3,395	3,279	28,832
Exchange realignment	–	–	961	1,970	(95)	–	–	2,836
As at 31 December 2017	–	–	85,246	258,056	10,360	7,811	6,872	368,345
CARRYING AMOUNT								
As at 31 December 2017	689,557	158,522	51,436	124,512	98,174	18,271	24,574	1,165,046
As at 31 December 2016	689,937	148,177	38,215	5,334	98,540	21,666	27,853	1,029,722

15. INTANGIBLE ASSETS (continued)

Notes:

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

	2017 HK$'000	2016 HK$'000
Visual effects production	208,664	209,044
360 degree digital capture technology	378,506	378,506
Post production service	102,387	102,387
	689,557	689,937

The recoverable amounts of the CGUs have been determined by the Directors on the basis of value-in-use calculations with reference to a professional valuation report issued by Knight Frank Asset Appraisal Limited ("KF"), an independent firm of professionally qualified valuers.

The value-in-use calculations for the 360 degree digital capture technology CGU used a cash flow projection based on latest financial budgets approved by the Group's management covering a period of 9 years. The long period of 9 years was adopted because the technology for this CGU is relatively new to the media industry, the development of the technology and related products require longer time (i) to crystalise its value (compared to the use of other relatively more mature technologies of the Group) and to be integrated with the Group's technologies (e.g. virtual reality technology) to create synergistic value to the Group; and (ii) for the operations of this CGU to stabilise.

The other two CGUs in the above used cash flow projections of 5 years. The cash flow projections beyond the budget period are extrapolated using a growth rate of 2% to 3%.

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

	Visual effects production CGU	360 degree digital capture technology CGU	Post production service CGU
Average growth rate within budget period	11.2%	38.6%	23.0%
Pre-tax discount rate	19.0%	17.3%	20.4%

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

The recoverable amounts of the goodwill in relation to the above CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill as at 31 December 2017.

15. INTANGIBLE ASSETS (continued)

Notes: (continued)

(b) Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. Trademarks will expire between 2019 and 2023. The Directors are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. In the opinion of the Directors, the trademarks can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the trademarks by the Group with reference to the history of operations and considering that such trademarks could be managed efficiently by another management team; and (ii) the long product life cycles for the trademarks.

The trademarks are allocated to the Group's visual effects production business and 360 degree digital capture technology CGUs for the purpose of impairment testing, which are outlined as follows:

	2017 HK$000	**2016** HK$000
Visual effects production	19,538	19,388
360 degree digital capture technology	138,984	128,789
	158,522	148,177

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

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

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

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

15. INTANGIBLE ASSETS (continued)

Notes: (continued)

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

On 9 December 2016, the Group acquired a portfolio of patents in relation to interactive entertainment technology from an independent third party in consideration of HK$42,658,000 including (i) cash of HK$7,756,000; and (ii) 57,172,131 shares of the Company (out of which 19,057,377 shares and 12,704,918 shares of the Company were issued on 9 December 2016 and 8 December 2017 respectively, and 25,409,836 shares of the Company are to be issued in 2 annual instalments by 9 December 2019). The patents are measured at their fair values as at the date of acquisition with reference to a professional valuation report issued by KF.

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

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

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

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

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

16. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Share of net assets	15,102	–

Details of the Group's material associate are as follows.

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Percentage of ownership interest held	Principal activity
數字王國空間(北京)傳媒科技有限公司	Incorporated	The PRC	RMB5,000,000	35% (2016: N/A)	VR Theater

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

	數字王國空間(北京)傳媒科技有限公司 2017 HK$'000
At 31 December:	
Current assets	43,132
Non-current assets	862
Current liabilities	(844)
Non-current liabilities	–
Net assets	43,150
Group's share of net assets	15,102

16. INTERESTS IN ASSOCIATES (continued)

	數字王國空間(北京)傳媒科技有限公司 **2017** HK$'000
Included in the above amounts are:	
Cash and cash equivalents included in current assets	35,269
Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities	(225)
Non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities	–
Year ended 31 December:	
Revenue	174
Interest income	13
Interest expense	–
Taxation	–
Loss from continuing operations	(10,753)
Other comprehensive income	48,007
Total comprehensive income	37,254
Group's share of losses	(3,763)
Group's share of other comprehensive income	16,802

The carrying amount of the Group's interests in all individually immaterial associates that are accounted for using the equity method, in aggregate, and the aggregate amount of the Group's share of those associates' profit or loss and other comprehensive income, are immaterial.

17. INTERESTS IN JOINT VENTURES

	2017 HK$'000	2016 HK$'000
Share of net assets	62	4,203
Amounts due from joint ventures	2,878	8,406
	2,940	12,609
Less: Impairment loss on amounts due from joint ventures	(2,878)	(6,221)
	62	6,388

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

Reversal of impairment loss on amounts due from joint ventures of HK$3,343,000 (2016: provision for impairment loss on amounts due from joint ventures of HK$6,221,000) was recognised for the year ended 31 December 2017 because their recoverable amounts were estimated to be more/(less) than their carrying amounts.

Particulars of material joint ventures as at 31 December 2017 are as follows:

Name	Place of incorporation/ registration and business	Form of business structure	Percentage of ownership interests attributable to the Group	Principal activities
萬像數字王國（北京）傳媒科技有限公司	The PRC	Corporation	50% (2016: 50%)	Visual effect production
DD Tencent Company Limited	Cayman Islands	Corporation	– (2016: 50%)	Dissolved
DD Tencent Fund I LP	Cayman Islands	Partnership	– (2016: 50%)	Dissolved
DD-POW US, LLC ("DD-POW")	Delaware	Corporation	75%* (2016: 75%)	Media Entertainment

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

17. INTERESTS IN JOINT VENTURES (continued)

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

	萬像數字王國（北京）傳媒科技有限公司		DD Tencent Company Limited and its subsidiary, DD Tencent Fund I LP		DD-POW US, LLC	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
At 31 December:						
Current assets	4,274	–	–	21,048	–	–
Current liabilities	(2,783)	–	–	(199)	(9,130)	(8,294)
Net assets/(liabilities)	1,491	–	–	20,849	(9,130)	(8,294)
Group's share of net assets/(liabilities)	62	–	–	10,424	–	(6,221)
Included in the above amounts are:						
Cash and cash equivalents included in current assets	3,290	–	–	21,048	–	–
Current financial liabilities (excluding trade and other payables and provisions) included in current liabilities	–	–	–	–	–	–
Non-current financial liabilities (excluding trade and other payables and provisions) included in non-current liabilities	–	–	–	–	–	–
Year ended 31 December:						
Revenue	–	–	–	–	–	–
Interest income	2	–	1	2	–	–
Interest expense	–	–	–	–	–	–
Taxation	–	–	–	–	–	–
Profit/(loss) from continuing operations	45	–	(16)	(267)	(779)	(776)
Other comprehensive income	80	–	–	–	(57)	(4)
Total comprehensive income	125	–	(16)	(267)	(836)	(780)
Group's share of profit/(loss)	22	–	(8)	(134)	–	(582)
Group's share of other comprehensive income	40	–	–	–	–	(3)

17. INTERESTS IN JOINT VENTURES (continued)

(b) The Group has discontinued recognition of its share of loss of the following joint venture. The amounts of unrecognised share of that joint venture, extracted from the relevant management accounts of the joint venture, both for the year and cumulatively, are as follows:

	DD-POW US, LLC	
	2017 HK$'000	**2016** HK$'000
The unrecognised share of loss of joint venture for the year	584	–
Accumulated unrecognised share of loss of a joint venture	584	–

18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2017 HK$'000	**2016** HK$'000
Non-current portion:		
Deposits	12,315	–
Prepayments	19,593	–
	31,908	–
Current portion:		
Trade receivables	55,477	56,819
Accrued income	17,728	25,779
Other receivables	14,980	13,782
Deposits	3,249	27,149
Prepayments	27,250	23,246
	118,684	146,775
	150,592	146,775

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

(i) The Directors consider that the carrying amounts of trade receivables, accrued income, other receivables, deposits and prepayments approximate their fair values as at 31 December 2017 and 2016.

No interest is charged on trade and other receivables.

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

	2017 HK$'000	2016 HK$'000
Current	2,530	4,980
1 to 30 days	15,493	28,218
31 to 60 days	18,802	2,844
61 to 90 days	2,999	2,027
Over 90 days	15,653	18,750
	55,477	56,819

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

	2017 HK$'000	2016 HK$'000
Less than 1 month past due	15,493	28,218
1 to 3 months past due	18,802	4,871
Over 3 months past due	18,652	18,750
As at 31 December	52,947	51,839

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

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

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

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

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

	2017 HK$'000	2016 HK$'000
At 1 January	1,214	–
Impairment loss recognised	2,009	1,214
At 31 December	3,223	1,214

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

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for the year ended 31 December 2017

19. BANK BALANCES AND CASH

As at 31 December 2017, included in the bank balances and cash of the Group was an amount of HK$14,146,000 (2016: HK$12,416,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2017	**2016**
	HK$'000	HK$'000
Trade payables	30,111	20,258
Other payables	50,250	36,438
Accruals	46,307	45,157
	126,668	101,853

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2017 and 2016.

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

	2017	**2016**
	HK$'000	HK$'000
Current	3,810	6,117
1 to 30 days	13,267	3,030
31 to 60 days	3,931	2,666
61 to 90 days	1,776	4,298
Over 90 days	7,327	4,147
	30,111	20,258

21. BORROWINGS

	2017 HK$'000	2016 HK$'000
Current		
Bank loans due for repayment within one year *(Notes (i)&(ii))*	36,114	14,291
Bank loans due for repayment after one year which contain a repayment on demand clause *(Note (i))*	57,206	–
Secured note *(Note (v))*	59,326	58,871
	152,646	73,162
Non-current		
Bank loans	–	52,596
Other loans *(Notes (iii)&(iv))*	105,218	104,618
Secured note	–	58,871
	105,218	216,085

(i) As at 31 December 2017, mortgage bank loans with principal amount of HK$60,000,000 are secured by investment properties of the Group located in Hong Kong (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

The current liabilities include mortgage bank loans of HK$57,206,000 that are not scheduled to repay within one year. They are classified as current liabilities as the related loan agreement contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

As at 31 December 2017, the bank loans with the principal amount of HK$28,804,000 are secured by bank deposits of the same amount placed in the banks.

21. BORROWINGS (continued)

(ii) As at 31 December 2011, a bank loan granted to a then subsidiary of the Company (the "Subsidiary") under the Special Loan Guarantee Scheme (the "SME loan") of the Hong Kong Special Administrative Region Government (the "Government") to the extent of HK$6,000,000. It represented a 5-year instalment loan which was 80% guaranteed by the Government and a corporate guarantee was provided to the bank by the Subsidiary's immediate holding company which is also an indirect wholly-owned subsidiary of the Company as at 31 December 2017, 2016, 2015, 2014 and 2013.

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

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

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year ended 31 December 2013, two joint and several liquidators were appointed in July 2013. Nevertheless, the obligation under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly, the SME loan and the related accrued interest payable were still included under the current liabilities of the Group as at 31 December 2017, 2016, 2015, 2014, 2013 and 2012.

21. BORROWINGS (continued)

(ii) (continued)

As at 31 December 2017, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2016: HK$4,854,000) and HK$5,763,000 (2016: HK$4,315,000), respectively. The related accrued interest payable was included in the Group's trade payables, other payables and accruals as calculated in accordance with the loan agreement and the Claim. In the opinion of the Directors, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 31 December 2017 and 2016. No further action has been taken against the Group during the current year.

Up to the date of approval of these financial statements, the SME loan and the related accrued interest payable have not been settled nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the Directors are of the opinion that adequate provisions and disclosures have been made in these financial statements, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Group.

(iii) One of the other loans with the principal amount of HK$27,065,000 is unsecured, interest-free and not repayable within 13 months from 31 December 2017.

(iv) As at 31 December 2017, the remaining other loan with the principal amount of HK$78,153,000 is a term loan facility guaranteed by the Company, interest-bearing at interest rate from prime rate quoted by banks in Hong Kong and not repayable within 13 months from December 2017.

(v) As at 31 December 2017 and 2016, the secured note formed part of the consideration of the business combination during the year ended 31 December 2015 as set out in Note 31(b). The note bears fixed interest rate at 4% per annum and repayable by three equal instalments respectively on the first, second and third anniversaries of 30 December 2015, of which the second instalment has been made during the year. Further details of the business combination are set out in Note 31(b).

As at 31 December 2017 and 2016, all the loans of the Group are denominated in HK$ and United States dollars ("US$").

21. BORROWINGS (continued)

The bank loans bear floating interest rates at effective rates ranging from 2.30% to 6.25% (2016: 3.25% to 6.25%) per annum.

The Directors consider that the carrying amounts of the Group's borrowings approximate their fair values as at 31 December 2017 and 2016.

At 31 December, total current and non-current borrowings were scheduled to repay as follows:

	2017 HK$'000	2016 HK$'000
On demand or within one year	95,440	73,162
After one year but within two years	107,676	166,417
In the second to fifth years inclusive	7,711	9,373
Over five years	47,037	40,295
	257,864	289,247

Note:

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

Banking facilities for the mortgage bank loans are subject to the fulfillment of covenants relating to certain of the Company's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants the drawn down facilities would become repayable on demand. In addition, the related loan agreements contain clauses which give the bank the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Company has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors the compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 41(b). As at 31 December 2017 none of the covenants relating to drawn down facilities had been breached.

22. PROMISSORY NOTE

	2017 HK$'000	2016 HK$'000
Promissory note:		
Payable within one year	–	34,314

The promissory note payable with the principal amount of HK$65,000,000 formed part of the consideration of the business combination during the year ended 31 December 2016 as set out in note 31. The promissory note was fully repaid during the year. Further details of the business combination are set out in note 31(a).

The movements of the promissory note payable during the years ended 31 December 2017 and 2016 are as follows:

	HK$'000
As at 1 January 2016	–
Additions from business combination *(Note 31(a))*	62,133
Repayment during the year	(30,000)
Effective imputed interest expense recognised *(Note 9)*	2,181
As at 31 December 2016 and 1 January 2017	34,314
Repayment during the year	(35,000)
Effective imputed interest expense recognised *(Note 9)*	686
As at 31 December 2017	–

23. CONVERTIBLE NOTES

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

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

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

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

23. CONVERTIBLE NOTES (continued)

On 27 January 2017 and 17 March 2017, all Convertible Notes holder exercised their conversion rights attaching to outstanding Convertible Notes with aggregate principal amount of HK$392,000,000. An aggregate of 9,800,000,000 shares were issued on 7 February 2017 and 22 March 2017 respectively. There are no outstanding Conversion Notes immediately after the conversion.

The movements of the liability component and equity component of the Convertible Notes during the years ended 31 December 2017 and 2016 were as follows:

	Liability component of Convertible Notes HK$'000	Equity component of Convertible Notes HK$'000	Total HK$'000
As at 1 January 2016, with liability component classified under non-current liabilities	330,863	96,630	427,493
Effective imputed interest expense recognised *(Note 9)*	39,410	–	39,410
As at 31 December 2016, with liability component classified under current liabilities	370,273	96,630	466,903
Effective imputed interest expense recognised *(Note 9)*	8,213	–	8,213
Conversion of Convertible Notes	(378,486)	(96,630)	(475,116)
As at 31 December 2017	–	–	–

Effective imputed interest on the Convertible Notes for the year ended 31 December 2017 was calculated using the effective interest method by applying the average effective interest rate of 13.60% (2016: 11.91%) per annum.

24. OBLIGATIONS UNDER FINANCE LEASES

	2017		2016	
	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Minimum finance lease payments payable under finance leases:				
Within one year	17,176	12,139	–	–
In the second to fifth years inclusive	29,556	25,801	–	–
Total minimum finance lease payments	46,732	37,940	–	–
Less: Future finance charges	(8,792)		–	
Total net finance lease payables	37,940		–	
Less: Amount due within one year	(12,139)		–	
Amount due after one year	25,801		–	

The Group leased certain software and computer equipment under finance leases. The average lease term is 2.5 years. Interest rates underlying the obligation under finance leases are fixed at respective contract dates and the average effective borrowing rate is 17.40% (2016: 17.74%) per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

25. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2017	**2016**	**2017** HK$'000	**2016** HK$'000
Ordinary shares of HK$0.01 each				
Authorised				
As at 1 January 2016, 31 December 2016 and 31 December 2017 of HK$0.01 each	75,000,000,000	75,000,000,000	750,000	750,000
Issued and fully paid ordinary shares:				
As at 1 January of HK$0.01 each	12,618,695,716	10,700,557,406	126,187	107,006
Issue of shares on exercise of share options *(Note (a))*	40,070,000	–	401	–
Issue of shares on placement *(Note (b))*	1,866,660,000	1,315,454,546	18,667	13,154
Issue of shares for acquisition of subsidiaries on acquisition completion date	–	87,051,143	–	870
Issue of shares for acquisition of subsidiaries completed in previous year *(Note (c))*	103,623,460	106,474,573	1,036	1,065
Issue of shares for acquisition of additional interests on a group of subsidiaries from non-controlling interest	–	390,100,671	–	3,901
Issue of shares for acquisition of intangible assets *(Note (d))*	12,704,918	19,057,377	127	191
Issue of shares upon conversion of convertible notes *(Note (e))*	9,800,000,000	–	98,000	–
As at 31 December	24,441,754,094	12,618,695,716	244,418	126,187

25. SHARE CAPITAL (continued)

Notes:

(a) During the year, 40,070,000 new ordinary shares of par value HK$0.01 each were issued to the share option holders of the Company at a conversion price of HK$0.098 each. The conversion gave rise to a credit of HK$3,526,000 to the share premium account.

(b) On 30 October 2017, 1,866,660,000 new ordinary shares of par value HK$0.01 each were issued at subscription price of HK$0.225 each to independent third parties of the Group at an aggregate consideration of HK$414,739,000, net of issuing expenses, of which HK$18,667,000 was credited to the share capital and the remaining balance of HK$396,072,000 was credited to the share premium account. Further details were set out in the Company's announcements dated 19 October 2017 and 30 October 2017.

(c) On 29 December 2017, the Company issued 103,623,460 shares of the Company as part of the considerations for the business combinations during the year ended 31 December 2015 as set out in note 31(b). HK$56,371,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 29 December 2017.

(d) On 8 December 2017, the Company issued 12,704,918 shares as part of the consideration for the acquisition of intangible assets during the year ended 31 December 2016, resulting in a balance of HK$7,593,000 credited to share premium. Further details were set out in the Company's announcement dated 8 December 2017.

(e) On 7 February 2017, 4,762,800,000 new ordinary shares of par value HK$0.01 each were converted from Convertible Notes at subscription price of HK$0.04 each to Convertible Notes holders of the Group at an aggregate consideration of HK$228,962,000, net of issuing expenses, of which HK$47,628,000 was credited to share capital and the remaining balance of HK$181,334,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 27 January 2017.

On 22 March 2017, 5,037,200,000 new ordinary shares of par value HK$0.01 each were converted from Convertible Notes at subscription price of HK$0.04 each to Convertible Notes holders of the Group at an aggregate consideration of HK$246,154,000, net of issuing expenses, of which HK$50,372,000 was credited to share capital and the remaining balance of HK$195,782,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 17 March 2017.

26. RESERVES

Company

	Share premium HK$'000 *(Note (i))*	Convertible notes – equity component HK$'000 *(Note (ii))*	Contributed surplus HK$'000 *(Note (iv))*	Share option reserve HK$'000 *(Note (v))*	Deferred share reserve HK$'000 *(Note (vi))*	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2016	622,396	96,630	49,510	43,355	153,036	(367,250)	597,677
Recognition of equity- settled share-based payment	–	–	–	74,752	6,395	–	81,147
Issue of shares on placement, net of expenses	669,861	–	–	–	–	–	669,861
Issue of shares on acquisition completion date for being consideration of acquisition of subsidiaries *(Note 31(a))*	52,231	–	–	–	–	–	52,231
Issue of shares for being consideration of acquisition of subsidiaries completed in previous year *(Note 31(b))*	57,922	–	–	–	(58,987)	–	(1,065)
Issue of shares for acquisition of intangible assets	11,443	–	–	–	23,268	–	34,711
Issue of shares for acquisition of additional interests on a group of subsidiaries from non-controlling interest	189,199	–	–	–	–	39,400	228,599
Loss and total comprehensive income for the year	–	–	–	–	–	(730,019)	(730,019)
As at 31 December 2016	1,603,052	96,630	49,510	118,107	123,712	(1,057,869)	933,142
Share premium balance transferred to contributed surplus pursuant to the capital reorganisation	(1,603,052)	–	1,603,052	–	–	–	–
Contributed surplus set off against accumulated losses pursuant to the capital reorganisation	–	–	(1,057,872)	–	–	1,057,872	–
Recognition of equity- settled share-based payment	–	–	–	51,033	6,395	–	57,428
Issue of shares on placement, net of expenses	396,072	–	–	–	–	–	396,072
Issue of shares for being consideration of acquisition of subsidiaries completed in previous year *(Note 31(b))*	56,371	–	–	–	(57,407)	–	(1,036)
Issue of shares for acquisition of intangible assets in previous year	7,593	–	–	–	(7,750)	–	(157)
Issue of shares on exercise of share options	3,526	–	–	(1,378)	–	1,378	3,526
Issue of shares upon conversion of convertible notes	377,116	(96,630)	–	–	–	–	280,486
Loss and total comprehensive income for the year	–	–	–	–	–	(794,462)	(794,462)
As at 31 December 2017	840,678	–	594,690	167,762	64,950	(793,081)	874,999

26. RESERVES (continued)

Notes:

(i) Share premium

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

(ii) Convertible notes – equity component

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

(iii) Land and buildings revaluation reserve

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

(iv) Contributed surplus

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the years ended 31 December 2009 and 2017 (the "Capital Reorganisation") which was transferred to the contributed surplus account and; (ii) all amounts standing to the credit of the share premium account of the Company immediately after the Capital Reorganisation were cancelled and the credit arising therefrom was transferred to the contributed surplus. Both took place in the years ended 31 December 2009 and 2017.

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

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(v) Share options reserve

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

26. RESERVES (continued)

Notes: (continued)

(vi) Deferred shares reserve

This reserve represents the shares to be issued of HK$51,012,000 (2016: HK$100,444,000) by the Company by 30 December 2018 as part of the considerations for the business combination during the year ended 31 December 2015 as set out in note 31; and the shares to be issued of HK$7,750,000 (2016: HK$23,268,000) in 2 annual instalments by 9 December 2019 as part of the considerations for the acquisition of intangible assets during the year ended 31 December 2016.

(vii) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 4 "Translation of foreign currencies".

(viii) Other reserve

This reserve represents the statutory surplus reserve of an associate established in the PRC, and the change in net assets attributable to the Group in relation to the increase in ownership interests in an associate through cash injection.

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of reporting period (2016: Nil).

27. SHARE-BASED PAYMENT TRANSACTIONS

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

(i) Share option scheme

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

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

On 13 February 2017, 300,000,000 share options ("Options") were conditionally granted to an employee of the Group (the "Grantee", who was appointed as a director of the Company on 5 July 2017), subject to the approval by the shareholders of the Company. The Options have immediately vested on 13 February 2017, and will be exercisable from 13 February 2017 until 12 February 2027. The exercise price of the Options is HK$0.469, being the average closing price of the Company's ordinary shares for the five business days immediately before 13 February 2017. The Options conditionally granted to the Grantee were approved by the shareholders of the Company at the annual general meeting held on 1 June 2017.

During the year, 16,633,321 share options (2016: 60,053,332) were forfeited and 40,070,000 share options (2016: Nil) was exercised and the weighted average share price at the dates of exercise was HK$0.098, the average remaining contractual life is 7.48 years (2016: 8.10 years).

The fair value of services received in return for share options granted on the respective grant dates is measured by reference to the fair value of share options granted. The fair value is determined based on binomial option pricing model. The weighted average fair value of each option granted during the year is HK$0.068 (2016: HK$0.146). The key valuation parameters are as follows:

	2017	2016
Share price at grant date	HK$0.315	HK$0.405 to HK$0.560
Exercise price	HK$0.469	HK$0.413 to HK$0.556
Expected volatility	40%	45%
Life of the share options	10 years	10 years
Expected dividend yield	0%	0%
Risk-free rate	1.24%	0.96% to 1.60%
Forfeiture rate	5%	0% to 32%
Suboptimal exercise behaviour multiple	1.40	1.40 to 1.45

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

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

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

Under this share option scheme, the fair value of the share options granted during the year was approximately HK$20,313,000 (HK$0.068 each) (2016: HK$77,222,000). The Group recognised a share option expense in connection to all share options granted in current and prior years of approximately HK$51,033,000 (2016: HK$74,752,000) during the year ended 31 December 2017.

In addition, in connection with the acquisition of subsidiaries during the year ended 31 December 2015, 79,930,442 shares of the Company will be issued in 3 annual instalments by 31 December 2018 to the former option holders of share options of a subsidiary for replacement of the options. Since three years of post-combination services are required for certain former option holders, the acquisition completion date fair value of the options attributable to these post-combination services amounting to approximately HK$19,186,000 will be recognised as remuneration costs in profit or loss over the three-year period after the acquisition completion date. Accordingly, for the year ended 31 December 2017 an amount of approximately HK$6,395,000 (2016: HK$6,395,000) was recognised as remuneration costs in profit or loss.

In aggregate, the Group had recognised an equity-settled shared-based payment expenses of HK$57,428,000 (2016: HK$81,147,000) during the year ended 31 December 2017.

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27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

The following tables disclose movements in the Company's share options during the years ended 31 December 2017 and 2016.

2017

Name or category of participants	At 1 January 2017	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2017	Date of grant	Exercise period	Exercise price per share (HK$)
Directors								
Seah Ang	100,000,000	–	–	–	100,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.098
Amit Chopra	48,000,000	–	–	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	33,333,334	–	–	–	33,333,334	7 Jun 2016#	29 Jan 2016 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016#	29 Jan 2017 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016#	29 Jan 2018 to 28 Jan 2026	0.413
Wei Ming	–	300,000,000	–	–	300,000,000	1 Jun 2017*	13 Feb 2017 to 12 Feb 2027	0.469
Employees, in aggregate								
- 2014	691,300,000	–	(40,070,000)	–	651,230,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
- 2015	20,990,000	–	–	–	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	20,000,000	–	–	–	20,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	19,000,000	–	–	–	19,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
- 2016	93,166,677	–	–	–	93,166,677	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	83,166,665	–	–	–	83,166,665	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	83,166,658	–	–	(5,333,332)	77,833,326	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	0.495
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	0.495
	16,666,692	–	–	–	16,666,692	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	0.566
	16,599,996	–	–	(4,899,998)	11,699,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	0.566
	16,599,980	–	–	(6,399,991)	10,199,989	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
	1,423,656,668	300,000,000	(40,070,000)	(16,633,321)	1,666,953,347			
Weighted average exercise price	HK$0.286	HK$0.469	HK$0.098	HK$0.517	HK$0.321			

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

2016

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

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

* The share option conditionally granted to Mr. Wei Ming on 13 February 2017 was approved by the shareholders of the Company at the annual general meeting held on 1 June 2017.

(ii) Option granted under general mandate

No option was granted under general mandate during the year (2016: Nil).

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		26	675
Interests in subsidiaries		1,066,000	1,203,000
		1,066,026	1,203,675
Current assets			
Other receivables and prepayments		2,956	6,383
Bank balances and cash		115,288	318,605
		118,244	324,988
Current liabilities			
Other payables and accruals		5,247	9,311
Borrowings		59,606	2,839
Promissory note		–	34,314
Convertible notes		–	370,273
		64,853	416,737
Net current assets/(liabilities)		53,391	(91,749)
Total assets less current liabilities		1,119,417	1,111,926
Non-current liabilities			
Borrowings		–	52,597
NET ASSETS		1,119,417	1,059,329
Capital and reserves			
Share capital	25	244,418	126,187
Reserves	26	874,999	933,142
TOTAL EQUITY		1,119,417	1,059,329

On behalf of the Board

Seah Ang
Director

On behalf of the Board

Peter Chou
Director

29. SUBSIDIARIES

Particulars of the Company's material subsidiaries as at 31 December 2017 and 2016 are as follows:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016		Nature of business
			Direct	Indirect	
Alpha Image Holdings Limited	The British Virgin Islands	US$1	–	100%	Dormant
Choice Excel Holdings Limited	The British Virgin Islands	US$100	–	85%	Investment holdings
Chosen Elite Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
City Trend International Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Cornwick Investments Limited	Hong Kong	HK$2	–	100%	Holding investment properties in Hong Kong
Cosmos Glory Limited	Hong Kong	HK$27,392,698	–	85%	Investment holdings
Creation Smart Investments Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DD & TT Company Limited	Hong Kong	HK$55,000,000	–	60%	Holding licence for intellectual property right of a well-known deceased singer
DD Asset Management (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DD Holdings US, LLC	USA	US$35,000,000	–	100%	Investment holdings
DD Investments US, Inc.	USA	US$1	–	100%	Dormant
DD Licensing Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DD Licensing (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings

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29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016 Direct	Indirect	Nature of business
DD Licensing (US), Inc.	USA	US$1	–	100%	Dormant
DD Micoy, Inc.	USA	US$1	–	100%	Holding assets
DD IP Management Limited	The British Virgin Islands	US$1	–	100%	Dormant
DDH Assets Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DDH Management Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DDHK Asset Management Limited	Hong Kong	HK$1	–	100%	Dormant
DDHK IP Management Limited	Hong Kong	HK$1	–	100%	Dormant
DDHU Management Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDI Visuals Private Limited#	India	INR1,000	–	100% (2016: –)	Visual effects production
DDLTV (BVI) Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDPO (BVI) Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDVR, Inc.	USA	US$1	–	100%	Investment holdings and virtual reality businesses
Digital Domain (International) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain 3.0 Virtual Performer Productions (BC) Ltd.	Canada	CAD100	–	100%	Dormant
Digital Domain (Taiwan) Limited	Taiwan	NT$15,000,000	–	100%	Research and development of virtual human technology

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016 Direct	Indirect	Nature of business
Digital Doman (Taiwan) Company Limited	The British Virgin Islands/ Hong Kong	US$1	–	100%	Investment holdings
DDR (US), LLC	USA	US$50,000,000	–	100%	Investment holdings
Digital Domain 3.0, Inc.	USA	US$50	–	100%	Visual effects production
Digital Domain Assets Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Broadcasting Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Broadcasting (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Consultancy Limited	Hong Kong	HK$1	–	100%	Provision of management services
Digital Domain Content Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Content (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Virtual reality content business
Digital Domain Content Studio, Inc.	USA	US$1	–	100%	Dormant
Digital Domain Distribution Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Distribution (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Development Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Development Limited	Hong Kong	HK$1	–	100%	Investment holdings

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016 Direct	Indirect	Nature of business
Digital Domain Education Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Education (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Enterprise Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Enterprises Group (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Enterprises Group Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Entertainment Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Entertainment (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Group Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Interactive, LLC	USA	–	–	100%	Virtual reality business
Digital Domain International Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Management Limited	Hong Kong	HK$100	–	100%	Dormant
Digital Domain Media (AM) Company Limited	Hong Kong	HK$1	–	100%	Virtual human business

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016 Direct	Indirect	Nature of business
Digital Domain Media (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Media Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Music Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Music (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Network Technology Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Network Technology (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Pictures Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Pictures (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Production Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Production (HK) Limited	Hong Kong	HK$1	–	100%	TV drama investment
Digital Domain Shadow Productions (BC), Ltd.#	Canada	CAD1	–	100% (2016: –)	Dormant
Digital Domain Studio Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Studio (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Productions 3.0 (BC), Ltd.	Canada	CAD1	–	100%	Visual effects production

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016		Nature of business
			Direct	Indirect	
Digital Domain Resources Limited	Hong Kong	HK$2	–	100%	Provision of management services
Digital Domain Technology Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Technology (US), Inc.	USA	US$1	–	100%	Virtual reality business
Digital Domain Trading Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain YK Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain YK (HK) Company Limited	Hong Kong	HK$1	–	100%	Dormant
Driven Global Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Ever Champ Management Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Ever Ultra Limited	The British Virgin Islands	US$100	–	100%	Investment holdings
Ever Union Medial Services Group Limited	Hong Kong	HK$100	–	100%	Investment holdings
Ever Union Services Development Limited	Hong Kong	HK$100	–	100%	Investment holdings and provision of consultancy services
Golden Stream Global Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
IM360 Entertainment Inc.	Canada	CAD7,307,647	–	91.71%	Interactive media technology through 360 degree video

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016 Direct	Indirect	Nature of business
Immersive Licensing, Inc.	USA	US$1,000	–	83.10%	Manage intellectual property licences and trademarks
Immersive Media Company	USA	US$15	–	83.10%	Interactive media technology through 360 degree video
Immersive Ventures Inc.	Canada	CAD 11,108,656	–	83.10%	Interactive media technology through 360 degree video
Lucrative Skill Holdings Limited	The British Virgin Islands	US$100	–	85%	Investment holdings
Mothership Media, Inc.	USA	US$0.01	–	100%	Visual effects production
Post Production Office Limited	Hong Kong	HK$16,993,446	–	85%	Investment holdings
Praya Star Limited#	The British Virgin Islands	US$1	–	100% (2016: –)	Investment holdings
Rise Honour Development Limited	Hong Kong	HK$1	–	100%	Investment holdings
S. I. Travel Group Limited	The British Virgin Islands/ Hong Kong	US$1	100%	–	Trading
Sai Chak Company Limited	Hong Kong	HK$100,000	–	100%	Holding investment properties in Hong Kong
Sun Innovation HK Properties Holdings Limited	The British Virgin Islands	US$1	–	100%	Investment holdings

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2017 and 2016		Nature of business
			Direct	Indirect	
Sun Innovation International Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Sun Innovation Management Services Limited	Hong Kong	HK$2	100%	–	Provision of management services
Sun Innovation Properties Holdings Limited	The British Virgin Islands	US$2	100%	–	Investment holdings
Tower Talent Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Treasure Well Development Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Upfield Sky Limited	The British Virgin Islands	US$10,000	–	100%	Investment holdings
Vibrant Global Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Virtue Global Holdings Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK$1	–	100%	Securities investment and investment holding
Wide Profit Enterprises Limited	The British Virgin Islands	US$100	–	100%	Investment holdings
長和技術發展(深圳)有限公司 (formerly known as "長和投資諮詢(深圳)有限公司")	The People's Republic of China (the "PRC")	RMB1,500,358.72	–	100%	Provision of consultancy services
數字王國(深圳)科技發展有限公司*	The PRC	HK$1,503,000	–	100%	Visual effects production
文霆廣告製作(北京)有限公司	The PRC	RMB19,716,665.32	–	85%	Visual effects production and post production
朝霆廣告製作(上海)有限公司	The PRC	RMB6,000,000	–	85%	Visual effects production and post production

29. SUBSIDIARIES (continued)

Notes:

[#] These subsidiaries were newly incorporated/established during the year.

° The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HKD10,000,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.

All the above are limited liability companies.

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

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

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30. NON-CONTROLLING INTEREST

The following table lists out the information relating to Immersive Ventures Inc. ("Immersive"), IM360 Entertainment Inc., DD & TT Company Limited and Lucrative Skill Holdings Limited ("Lucrative Skill"), subsidiaries of the Company which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	Digital Domain 3.0 Inc.		Digital Domain Productions 3.0 (BC), Ltd.		Immersive Ventures Inc.		IM360 Entertainment Inc.		DD & TT Company Ltd.		Lucrative Skill Holdings Limited	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note 25(d))		*(Note 25(d))*									
At 31 December:												
NCI percentage	–	–	–	–	16.9%	16.9%	8.281%	8.281%	40%	40%	15%	15%
Non-current assets	–	–	–	–	215,121	204,856	7,374	6,500	50,749	57,537	50,675	15,039
Current assets	–	–	–	–	2,066	2,791	33,904	37,215	4,268	4,515	58,981	56,992
Non-current liabilities	–	–	–	–	(49,316)	(46,242)	–	–	–	–	–	–
Current liabilities	–	–	–	–	(84,814)	(49,233)	(35,750)	(27,011)	(23,226)	(17,529)	(120,677)	(41,202)
Net assets/(liabilities)	–	–	–	–	83,057	112,172	5,528	16,704	31,791	44,523	(11,021)	30,829
Accumulated NCI	–	–	–	–	14,037	18,957*	458	1,383*	12,716	17,810*	(1,653)	4,624*
Year ended 31 December:												
Revenue	–	165,812	–	150,077	4,403	4,726	33,616	43,139	–	3,925	86,300	98,583
Loss for the year	–	(16,599)	–	(8,388)	(37,780)	(33,140)	(12,061)	(14,702)	(12,733)	(5,430)	(45,146)	(16,781)
Total comprehensive income	–	(16,549)	–	(9,137)	(29,115)	(26,049)	(11,175)	(15,914)	(12,733)	(5,430)	(41,849)	(19,461)
Loss allocated to NCI	–	(4,980)*	–	(2,516)*	(6,384)	(5,601)*	(999)	(1,218)*	(5,093)	(2,171)*	(6,772)*	(2,517)*
Dividend paid to NCI	–	–	–	–	–	–	–	–	–	–	–	–
Net cash inflows from operating activities	–	47,527	–	(2,606)	(1,469)	(2,768)	(2,910)	(19,756)	(1,740)	16	4,469	(9,446)
Net cash outflows from investing activities	–	(6,574)	–	(3,631)	(179)	–	(804)	–	–	(14)	(22,736)	(1,854)
Net cash (outflows)/inflows from financing activities	–	(6,537)	–	–	–	–	–	–	–	–	5,359	(2,999)

* The aggregate NCI as at 31 December 2017 amounted to credit balance of approximately HK$25,558,000 (2016: HK$42,774,000) and the aggregate net losses allocated to NCI for the year then ended amounted to approximately HK$19,248,000 (2016: 19,003,000).

31. BUSINESS COMBINATION

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

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

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

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

31. BUSINESS COMBINATION (continued)

(a) *(continued)*

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

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

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.

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

32. NOTES SUPPORTING STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2017 HK$'000	2016 HK$'000
Cash available on demand	104,141	352,398
Short-term deposits	113,534	113,440
As at 31 December	217,675	465,838
Significant non-cash transactions are as follows:		
Investing activities		
Consideration for additions of intangible assets		
– shares	–	11,634
– deferred shares	–	23,268
	–	34,902
Consideration for business combination		
– shares	–	53,101
– promissory note	–	62,133
	–	115,234
Financing activities		
Property, plant and equipment acquired under finance leases	39,952	–
Conversion of convertible notes	466,903	–
	506,855	–
	506,855	150,136

32. NOTES SUPPORTING STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings *(Note 21)* HK$'000	Promissory note *(Note 22)* HK$'000	Convertible Notes *(Note 23)* HK$'000	Obligations under finance leases *(Note 24)* HK$'000	Total HK$'000
At 1 January 2017	289,247	34,314	370,273	–	693,834
Changes from cash flows:					
– Proceed from new borrowings	88,831	–	–	–	88,831
– Repayment of borrowings	(121,701)	–	–	–	(121,701)
– Repayment of obligations under financial leases	–	–	–	(2,017)	(2,017)
– Repayment of promissory note	–	(35,000)	–	–	(35,000)
Non-cash changes:					
– New obligations under finance leases	–	–	–	39,952	39,952
– Interest expenses *(Note 9)*	–	686	8,213	–	8,899
– Conversion rights exercised	–	–	(378,486)	–	(378,486)
Effects of foreign exchange	1,487	–	–	5	1,492
At 31 December 2017	257,864	–	–	37,940	295,804

33. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme"), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,500 (2016: HK$1,500) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the MPF Scheme was HK$559,000 (2016: HK$475,000).

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK$3,781,000 (2016: HK$582,000).

34. OPERATING LEASE COMMITMENTS

(i) As at 31 December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Not later than one year	42,724	33,574	5,872	410
Later than one year and not later than five years	142,770	99,625	23,974	374
Later than five years	54,812	70,393	–	–
	240,306	203,592	29,846	784

Leases for land and buildings are negotiated for an average term of three years at fixed rental.

Leases for equipment are negotiated for an average term of four years at fixed rental.

(ii) As at 31 December 2017, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases as follows:

	Investment properties	
	2017 HK$'000	2016 HK$'000
Not later than one year	4,270	6,886
Later than one year and not later than five years	–	35
	4,270	6,921

The investment properties have committed tenants for an average term of one year.

35. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

(a) As at 31 December 2017, the Group had aggregate banking facilities of HK$176,971,000 (2016: HK$66,887,000) from banks for guarantees and loans. The banking facilities are secured by:

(i) Pledge of all investment properties of the Group as at 31 December 2017 (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

(ii) 80% guarantee given by the Government and a corporate guarantee from a subsidiary of the Company for the SME loan as disclosed in note 21.

(iii) As at 31 December 2017, a margin securities trading account of a wholly-owned subsidiary of the Company is secured by an unlimited corporate guarantee provided by the Company. This margin facility has not been utilised as at 31 December 2017 (2016: Nil).

(iv) As at 31 December 2017, the Group's bank loan with a carrying amount of approximately HK$23,446,000 is secured by a pledged deposit of same amount in a subsidiary's account.

(b) The secured note payable is secured by all personal property of each of DDVR, Inc. and Immersive, both of which are subsidiaries of the Company, and their entire issued share capital.

(c) In December 2017, a subsidiary obtained a term loan facility of HK$78,153,000 (2016: HK$77,553,000) denominated in US$ from a substantial shareholder of the Company, Wise Sun Holdings Limited. The loan facility has been fully utilised since 7 December 2015. The Company acts as a guarantor of this term loan.

36. CAPITAL COMMITMENTS

Other than those disclosed elsewhere in these consolidated financial statements, the Group did not have any significant capital commitment as at 31 December 2017 and 2016.

37. RELATED PARTY TRANSACTIONS

(i) Details of transaction between the Group and other related parties during the year ended 31 December 2017, save as disclosed elsewhere in these consolidated financial statements, were as follows:

		2017 HK$'000	**2016** HK$'000
Related party relationship	**Type of transaction**		
Related companies of the non-controlling interest	Production costs	–	22

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

38. CONTINGENT LIABILITIES

The Group has been acknowledged by several customers in the USA in connection with the possible indemnification of losses suffered by these customers as a result of their involvements in other lawsuits filed by a claimant (the "Claimant") against these customers. This Claimant had dispute over ownership of certain physical equipment and intellectual property (the "Disputed IP") with the original owner (the "Original Owner") and a court in the USA concluded that the Claimant owns the Disputed IP on 11 August 2017. The Group had used these Disputed IP under a license from the Original Owner and completed certain visual effect projects for these customers. No specific monetary amount has been identified in the indemnity requests by these customers. The Group is currently in the process of negotiating with an insurance company and with these customers the extent to which the insurance company will pay.

No provision for the indemnity has been recognised for the year ended 31 December 2017 as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

39. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On 1 March 2018, the Group entered into a placing agreement with the placing agent in relation to the placing, on a best effort basis, of up to 2,175,780,000 placing shares at the placing price of HK$0.19 per placing share. As at 1 March 2018, the authorised share capital of the Group is HK$750,000,000 divided into 75,000,000,000 Shares, of which 24,442,254,094 Shares are in issue.

39. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD (continued)

On 22 March 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), entered into an agreement with, among others, a vendor (the "Vendor") for the acquisition of 66.88% of the issued share capital of a company incorporated in the British Virgin Islands and its subsidiaries (the "Target Group") at an aggregate consideration of up to RMB240 million (equivalent to approximately HK$298 million), subject to adjustments, which is to be settled in cash. Upon completion, the Target Group will be a 66.88% owned subsidiary of the Group. As at the date of this report, the acquisition is not completed yet. Further details of the transaction refer to announcement of the Company on 22 March 2018.

40. CAPITAL RISK MANAGEMENT

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

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

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

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

	2017 HK$'000	**2016** HK$'000
Debts	295,804	693,834
Bank balances and cash	(225,334)	(465,838)
Net debt	70,470	227,996
Total equity	1,403,031	1,065,428
Net debt to equity ratio	5%	21%

41. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables.

Management have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due within 30 days (2016: 30 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

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

At 31 December 2017, the Group has a concentration of credit risk as 27% and 63% (2016: 29% and 61%) respectively of the total gross trade receivables were due from the Group's largest customer and the five largest customers respectively.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

The credit risk for bank balances is limited because the counter parties are banks with high credit ratings.

(b) Liquidity risk

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

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

41. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

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

Group	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	88,465	88,905	88,905	–	–	–
Other loan	105,218	109,467	3,907	105,560	–	–
Secured note	59,327	61,700	61,700	–	–	–
Trade payables, other payables and accruals	108,771	108,771	108,771	–	–	–
Obligations under finance leases	37,940	46,731	17,176	17,106	12,449	–
	404,575	420,699	285,584	122,666	12,449	–
2016						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	62,033	77,094	11,216	4,594	13,783	47,501
Other loan	104,618	112,213	3,877	108,336	–	–
Secured note	117,742	124,807	63,581	61,226	–	–
Trade payables, other payables and accruals	97,333	97,333	97,333	–	–	–
Promissory note	34,314	35,000	35,000	–	–	–
Convertible Notes	370,273	392,000	392,000	–	–	–
	791,167	843,572	608,132	174,156	13,783	47,501

41. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans and other loans. All bank borrowings and one of the other loans were issued at variable rates which exposed the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group's net borrowings at the end of reporting period:

	2017		2016	
	Effective interest rate%	HK'$000	Effective interest rate%	HK'$000
Variable-rate borrowings				
Bank loans	2.3 – 6.25	93,320	3.25 – 6.25	66,887
Other loan	prime rate	78,153	prime rate	77,553
		171,473		144,440

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

Sensitivity analysis

As at 31 December 2017, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the loss after taxation and decrease/increase accumulated losses of the Group by HK$1,714,000/HK$854,000 (2016: HK$1,444,000/HK$2,080,000) respectively. Other components of consolidated equity would not be affected by the general increase/ decrease in interest rates.

41. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

Sensitivity analysis (continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2016.

(d) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in the respective functional currencies of the group entities. All the Group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of group entities whose functional currency is HK$, in either HK$ or US$. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2017 and 2016 may be categorised as follows:

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash), at amortised cost	302,895	559,714
Financial liabilities		
Financial liabilities, at amortised cost	408,734	791,167

FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group are summarised below:

	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Results					
Revenue	703,004	763,501	527,341	849,952	467,311
(Loss)/profit attributable to owners of the Company	(524,893)	(479,377)	(156,298)	43,323	(192,215)
Assets and Liabilities					
Total assets	1,893,029	1,919,803	1,540,353	750,746	835,042
Total liabilities	(489,998)	(854,375)	(838,112)	(483,986)	(608,022)
	1,403,031	1,065,428	702,241	266,760	227,020
Non-controlling interest	(25,558)	(42,774)	(28,813)	1,011	(8,829)
Equity attributable to owners of the Company	1,377,473	1,022,654	673,428	267,771	218,191

PARTICULARS OF PROPERTIES

		Type	Lease term
Properties held for investment			
(1)	Shop A (including the external walls), Ground Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium
(2)	Shop B (including the external walls), Ground Floor, Loading and Unloading Bays Nos. U1, U2, U3, U9 and U10, 1st Floor and Car Parking Space Nos. 22, 23, 33, 50 and 50A, 2nd Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium