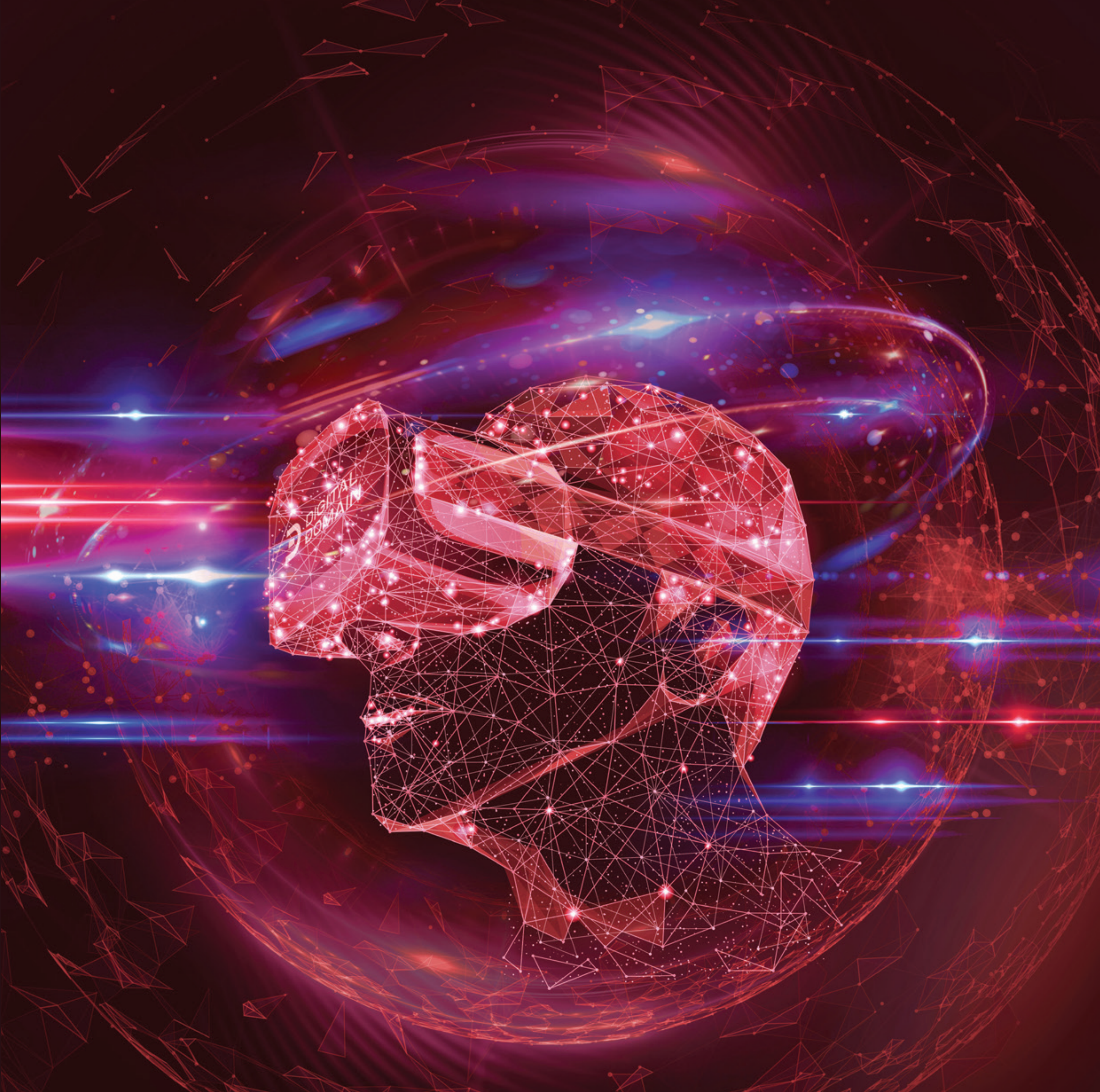
DIGITAL DOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED

數字王國集團有限公司 (Stock Code : 547)

(Incorporated in Bermuda with limited liability)



INTERIM REPORT 2018

The board of directors (the "Directors" and the "Board" respectively) of Digital Domain Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 (the "Review Period") together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		For the six months ended 30 June	
		2018	2017
	Notes	**HK$'000**	HK$'000
Revenue	*4*	**342,405**	416,457
Cost of sales and services rendered		**(301,255)**	(355,978)
Gross profit		**41,150**	60,479
Other income and gains		**13,881**	6,666
Selling and distribution expenses		**(12,803)**	(8,188)
Administrative expenses and other net operating expenses		**(259,512)**	(254,471)
Finance costs	*5*	**(9,403)**	(14,692)
Fair value gains on investment properties	*9*	**3,800**	1,100
Share of losses of associates		**(10,262)**	–
Share of profits/(losses) of joint ventures		**22**	(592)
Loss before taxation	*6*	**(233,127)**	(209,698)
Taxation	*7*	**4,015**	(412)
Loss for the period		**(229,112)**	(210,110)
Loss attributable to:			
– Owners of the Company		**(225,620)**	(202,756)
– Non-controlling interest		**(3,492)**	(7,354)
		(229,112)	(210,110)
Loss per share:	*8*		
– Basic and diluted		**HK cent (0.874)**	HK cent (1.045)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Loss for the period	**(229,112)**	(210,110)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**(4,368)**	6,113
Share of other comprehensive income of associates	**(12,883)**	–
Share of other comprehensive income of joint ventures	**(11)**	(43)
Other comprehensive income for the period, net of tax	**(17,262)**	6,070
Total comprehensive income for the period	**(246,374)**	(204,040)
Total comprehensive income attributable to:		
– Owners of the Company	**(241,038)**	(198,035)
– Non-controlling interest	**(5,336)**	(6,005)
	(246,374)	(204,040)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	Unaudited 30 June 2018 HK$'000	Audited 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment		**127,618**	124,251
Investment properties	9	**216,300**	212,500
Intangible assets	10	**1,482,221**	1,165,046
Interests in associates		**11,558**	15,102
Interests in joint ventures		**74**	62
Financial asset measured at fair value through other comprehensive income	11	**196,213**	–
Deposits and prepayments		**12,066**	31,908
Deferred tax assets		**3,808**	–
		2,049,858	1,548,869
Current assets			
Inventories		**15,119**	142
Trade receivables, other receivables and prepayments	12	**208,763**	118,684
Contract assets		**19,900**	–
Bank balances and cash		**203,484**	225,334
		447,266	344,160
Current liabilities			
Trade payables, other payables and accruals	13	**161,298**	126,668
Contract liabilities		**19,988**	–
Deferred revenue		**–**	16,218
Borrowings		**248,653**	152,646
Obligations under finance leases		**12,929**	12,139
Contingent consideration payable		**45,251**	–
Tax payable		**2,207**	1,978
		490,326	309,649
Net current (liabilities)/assets		**(43,060)**	34,511
Total assets less current liabilities		**2,006,798**	1,583,380
Non-current liabilities			
Borrowings		**226,312**	105,218
Obligations under finance leases		**19,180**	25,801
Contingent consideration payable		**55,439**	–
Deferred tax liabilities		**71,022**	49,330
		371,953	180,349
Net assets		**1,634,845**	1,403,031
Capital and reserves			
Share capital	14	**266,180**	244,418
Reserves		**1,285,102**	1,133,055
Equity attributable to owners of the Company		**1,551,282**	1,377,473
Non-controlling interest		**83,563**	25,558
Total equity		**1,634,845**	1,403,031

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Convertible notes – equity component HK$'000	Land and buildings revaluation reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Deferred shares reserve HK$'000	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2017	126,187	1,603,052	96,630	7,355	49,510	118,107	123,712	(3,997)	–	(1,097,902)	1,022,654	42,774	1,065,428
Changes in equity for the six months ended 30 June 2017													
Recognition of equity-settled share-based payment	–	–	–	–	–	40,937	3,197	–	–	–	44,134	–	44,134
Issue of shares upon conversion of convertible bonds	98,000	377,116	(96,630)	–	–	–	–	–	–	–	378,486	–	378,486
Issue of shares on exercise of share options	77	679	–	–	–	–	–	–	–	–	756	–	756
Lapse of share options	–	–	–	–	–	(265)	–	–	–	265	–	–	–
Release on dissolution of joint ventures	–	–	–	–	–	–	–	(12)	–	–	(12)	–	(12)
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	–	–	–	–	(1,057,872)	–	–	–	–	1,057,872	–	–	–
Loss for the period	–	–	–	–	–	–	–	–	–	(202,756)	(202,756)	(7,354)	(210,110)
Currency translation differences	–	–	–	–	–	–	–	4,764	–	–	4,764	1,349	6,113
Share of other comprehensive income of joint ventures	–	–	–	–	–	–	–	(43)	–	–	(43)	–	(43)
Total comprehensive income for the period	–	–	–	–	–	–	–	4,721	–	(202,756)	(198,035)	(6,005)	(204,040)
As at 30 June 2017 and 1 July 2017	224,264	377,795	–	7,355	594,690	158,779	126,909	712	–	(242,521)	1,247,983	36,769	1,284,752
Changes in equity for the six months ended 31 December 2017													
Recognition of equity-settled share-based payment	–	–	–	–	–	10,096	3,198	–	–	–	13,294	–	13,294
Issue of shares on placement, net of expenses	18,667	396,072	–	–	–	–	–	–	–	–	414,739	–	414,739
Issue of shares for acquisition of subsidiaries completed in prior years	1,036	56,371	–	–	–	–	(57,407)	–	–	–	–	–	–
Issue of shares for acquisition of intangible assets	127	7,593	–	–	–	–	(7,750)	–	–	–	(30)	–	(30)
Issue of shares on exercise of share options	324	2,847	–	–	–	(1,113)	–			1,113	3,171	–	3,171
Loss for the period	–	–	–	–	–	–	–	–	–	(322,137)	(322,137)	(11,894)	(334,031)
Currency translation differences	–	–	–	–	–	–	–	3,568	–	–	3,568	683	4,251
Share of other comprehensive income of associates	–	–	–	–	–	–	–	194	16,608	–	16,802	–	16,802
Share of other comprehensive income of joint ventures	–	–	–	–	–	–	–	83	–	–	83	–	83
Total comprehensive income for the period	–	–	–	–	–	–	–	3,845	16,608	(322,137)	(301,684)	(11,211)	(312,895)
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

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

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Land and buildings revaluation reserve HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Deferred shares reserve HK$'000	Exchange fluctuation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2018	**244,418**	**840,678**	**7,355**	**594,690**	**167,762**	**64,950**	**4,557**	**16,608**	**(563,545)**	**1,377,473**	**25,558**	**1,403,031**
Changes in equity for the six months ended 30 June 2018												
Recognition of equity-settled share-based payment	–	–	–	–	2,495	3,198	–	–	–	5,693	–	5,693
Issue of shares on placement, net of expenses	21,757	387,382	–	–	–	–	–	–	–	409,139	–	409,139
Issue of shares on exercise of share options	5	14	–	–	(17)	–	–	–	17	19	–	19
Additions from business combination	–	–	–	–	–	–	(5)	–	–	(5)	63,341	63,336
Loss for the period	–	–	–	–	–	–	–	–	(225,620)	(225,620)	(3,492)	(229,112)
Currency translation differences	–	–	–	–	–	–	(2,524)	–	–	(2,524)	(1,844)	(4,368)
Share of other comprehensive income of associates	–	–	–	–	–	–	(142)	(12,740)	–	(12,882)	–	(12,882)
Share of other comprehensive income of joint ventures	–	–	–	–	–	–	(11)	–	–	(11)	–	(11)
Total comprehensive income for the period	–	–	–	–	–	–	(2,677)	(12,740)	(225,620)	(241,037)	(5,336)	(246,373)
As at 30 June 2018	**266,180**	**1,228,074**	**7,355**	**594,690**	**170,240**	**68,148**	**1,875**	**3,868**	**(789,148)**	**1,551,282**	**83,563**	**1,634,845**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Cash flows from operating activities		
Loss before taxation	**(233,127)**	(209,698)
Adjustments for:		
Depreciation of property, plant and equipment	**30,418**	15,825
Amortisation of intangible assets	**41,961**	14,371
Loss on disposal of property, plant and equipment	**512**	1,676
Equity-settled share-based payment expenses	**5,693**	44,134
Net exchange losses/(gains)	**1,438**	(3,335)
Fair value gains on investment properties	**(3,800)**	(1,100)
Share of losses of associates	**10,262**	–
Share of (profits)/losses of joint ventures	**(22)**	592
Loss on dissolution of joint ventures	**–**	9
Impairment loss on trade receivables	**191**	365
Impairment loss on inventories	**–**	159
Reversal of impairment loss on amounts due from joint ventures	**–**	(3,938)
Interest income	**(10,333)**	(302)
Finance costs	**9,403**	14,692
Operating loss before working capital changes	**(147,404)**	(126,550)
(Increase)/decrease in trading merchandise goods	**(621)**	353
Increase in trade receivables, other receivables and prepayments	**(53,324)**	(76,487)
Increase in contract assets	**(14,473)**	–
(Decrease)/increase in trade payables, other payables and accruals	**(53,522)**	35,311
Increase in contract liabilities	**17,828**	–
(Decrease)/increase in deferred revenue	**(16,218)**	19,687
Cash used in operations	**(267,734)**	(147,686)
Income tax paid	**(856)**	(14)
Interest paid	**(7,604)**	(6,273)
Net cash used in operating activities	**(276,194)**	(153,973)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Cash flows from investing activities		
Interest received	**10,362**	390
Purchases of property, plant and equipment	**(15,820)**	(51,939)
Proceeds from disposal of property, plant and equipment	**119**	750
Additions to intangible assets	**(24,150)**	(9,096)
Capital injection in an associate	**(19,602)**	–
Advance to joint ventures	**–**	(725)
Decrease/(increase) in bank deposits with more than three months to maturity when placed or pledged	**7,659**	(7,649)
Proceeds from dissolution of joint ventures	**–**	10,407
Investment in financial asset measured at fair value through other comprehensive income	**(196,213)**	–
Net cash flow from business combination (Note 16)	**(119,158)**	–
Net cash used in investing activities	**(356,803)**	(57,862)
Cash flows from financing activities		
Proceeds from exercise of share options	**49**	756
Proceeds from issue of ordinary shares, net of issuing expenses	**409,110**	–
Repayment of obligations under finance leases	**(5,975)**	–
New borrowings	**223,012**	5,139
Repayment of borrowings	**(6,553)**	(8,014)
Repayment of promissory note	**–**	(35,000)
Net cash generated from/(used in) financing activities	**619,643**	(37,119)
Net decrease in cash and cash equivalents	**(13,354)**	(248,954)
Effect of foreign exchange rate changes	**(837)**	2,682
Cash and cash equivalents at 1 January	**217,675**	465,838
Cash and cash equivalents at 30 June	**203,484**	219,566
Represented by:		
Bank balances and cash	**203,484**	219,566

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 – "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

These unaudited condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2017 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2018. Details of any changes in accounting policies are set out in note 2.

The preparation of these unaudited condensed consolidated interim financial statements in compliance with HKAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

These unaudited condensed consolidated interim financial statements are presented in Hong Kong Dollars ("HK$"), unless otherwise stated. These unaudited condensed consolidated interim financial statements contain unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. These unaudited condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") and should be read in conjunction with the 2017 consolidated financial statements.

2. CHANGES IN HKFRSs

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

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers
- HK(IFRIC)-Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions
- Amendments to HKFRS 4, Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
- Amendments to HKFRS 1 included in Annual Improvements to HKFRSs 2014-2016 Cycle, First-time Adoption of Hong Kong Financial Reporting Standards
- Amendments to HKAS 28 included in Annual Improvements to HKFRSs 2014-2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to HKAS 40, Transfers of Investment Property

The impact of the adoption of HKFRS 9 Financial Instruments (see note 2A below) and HKFRS 15 Revenue from Contracts with Customers (see note 2B below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

2. CHANGES IN HKFRSs (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9")

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the unaudited condensed consolidated interim financial statements.

The impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves, accumulated losses and non-controlling interest ("NCI") as of 1 January 2018, if any, was immaterial.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2. **CHANGES IN HKFRSs (continued)**

A. **HKFRS 9 Financial Instruments ("HKFRS 9") (continued)**

(i) **Classification and measurement of financial instruments (continued)**

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK$'000	Carrying amount as at 1 January 2018 under HKFRS 9 HK$'000
Trade and other receivables	Loans and receivables (note 2A(ii))	Amortised cost	118,684	118,684
Bank balances and cash	Loans and receivables (note 2A(ii))	Amortised cost	225,334	225,334

(ii) **Impairment of financial assets**

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

2. CHANGES IN HKFRSs (continued)

A. HKFRS 9 Financial Instruments ("HKFRS 9") (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets, the ECLs are based on the 12-month ECLs. The 12-month ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables and contract assets

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts lifetime ECLs for all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade receivables. The loss allowance as at 1 January 2018 for trade receivables and contract assets was immaterial. Applying the ECLs model resulted in the recognition of ECLs of HK$191,000 for trade receivable and of nil amount for contract assets for the six months ended 30 June 2018.

(b) Impairment of other financial assets

The Group's other financial assets at amortised costs include other receivables. No ECLs were recognised on 1 January 2018 and for the six months ended 30 June 2018 as the amount was immaterial.

As a result, the impact of the new HKFRS 9 impairment model did not result in additional impairment allowance for Group's financial assets.

2. **CHANGES IN HKFRSs (continued)**

A. **HKFRS 9 Financial Instruments ("HKFRS 9") (continued)**

(iii) **Transition**

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(iv) **Hedge accounting**

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships, if any.

B. **HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")**

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of accumulated losses at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The impact, net of tax, of transition to HKFRS 15 on the opening balances of accumulated losses and NCI as at 1 January 2018, if any, was immaterial.

2. CHANGES IN HKFRSs (continued)

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

The following tables summarised the impact of adopting HKFRS 15 on the Group's unaudited condensed consolidated interim statement of financial position as at 30 June 2018.

Impact on the unaudited condensed consolidated interim statement of financial position as of 30 June 2018 (increase/decrease):

	HK$'000
Assets	
Current assets	
Contract assets	19,900
Trade and other receivables	(19,900)
Total current assets	–
Total assets	–
Liabilities	
Current liabilities	
Deferred revenue	(19,988)
Contract liabilities	19,988
Total current liabilities	–
Total liabilities	–

There was no material impact on the Group's unaudited condensed consolidated interim income statement, unaudited condensed consolidated interim statement of comprehensive income and unaudited condensed consolidated interim statement of cash flow for the six months period ended 30 June 2018.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's services are set out below:

Services	Nature of the services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Provision of services of visual effects production and post production	For the provision of services, the Group has determined that the customers simultaneously receive and consume the benefits of the Group's performance and thus the Group concludes that the services should be recognised over time. Invoices are issued according to contractual terms and are usually payable within 30 days. Uninvoiced amounts are presented as contract assets.	Impact HKFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of HKFRS 15, the Group has to make reclassification from trade and other receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing this unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2017 annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of HKFRS 9 and HKFRS 15 as described in note 2.

4. REVENUE AND SEGMENT REPORTING

Reportable segments

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

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

– Media entertainment (visual effects production, 360º digital capture technology application, post production service, sale of hardware and solution services)

– Property investment

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

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

	Media entertainment For the six months ended 30 June		Property investment For the six months ended 30 June		Consolidated For the six months ended 30 June	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Reportable segment revenue from external customers	**340,083**	412,353	**2,322**	4,104	**342,405**	416,457
Reportable segment (loss)/profit	**(131,184)**	(87,977)	**1,789**	3,585	**(129,395)**	(84,392)

	As at 30 June 2018 HK$'000	As at 31 December 2017 HK$'000	**As at 30 June 2018 HK$'000**	As at 31 December 2017 HK$'000	**As at 30 June 2018 HK$'000**	As at 31 December 2017 HK$'000
Reportable segment assets	**1,752,410**	1,329,294	**217,494**	215,768	**1,969,904**	1,545,062
Reportable segment liabilities	**607,242**	347,917	**2,808**	2,902	**610,050**	350,819

4. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Loss before taxation		
Reportable segment loss	**(129,395)**	(84,392)
Fair value gains on investment properties	**3,800**	1,100
Share of losses of associates	**(10,262)**	–
Share of profits/(losses) of joint ventures	**22**	(592)
Auditor's remuneration	**(888)**	(536)
Depreciation of unallocated property, plant and equipment and amortisation of unallocated intangible assets	**(23,835)**	(2,699)
Professional fees	**(14,632)**	(14,351)
Finance costs	**(9,403)**	(14,692)
Equity-settled share-based payment expenses	**(5,693)**	(44,134)
Unallocated rental expenses	**(3,530)**	(5,793)
Unallocated other income and gains	**11,652**	4,411
Other unallocated corporate expenses*	**(50,963)**	(48,020)
Consolidated loss before taxation	**(233,127)**	(209,698)

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

	As at	
	30 June	31 December
	2018	2017
	HK$'000	HK$'000
Assets		
Reportable segment assets	**1,969,904**	1,545,062
Unallocated bank balances and cash	**128,587**	174,067
Unallocated corporate assets	**398,633**	173,900
Consolidated total assets	**2,497,124**	1,893,029

	As at	
	30 June	31 December
	2018	2017
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**610,050**	350,819
Tax payable	**2,207**	1,978
Deferred tax liabilities	**71,022**	49,330
Unallocated borrowings	**63,320**	64,515
Unallocated corporate liabilities	**115,680**	23,356
Consolidated total liabilities	**862,279**	489,998

4. REVENUE AND SEGMENT REPORTING (continued)

Reportable segments (continued)

(c) Geographic information

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Hong Kong (place of domicile)	**2,488**	4,104
Mainland China	**69,762**	38,693
The United States of America	**109,748**	221,510
Canada	**130,582**	143,331
United Kingdom	**29,418**	2,962
Europe	**245**	514
Other countries	**162**	5,343
	342,405	416,457

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

(d) Revenue

All the Group's revenue is derived from contracts with customers.

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

	Unaudited	
	30 June 2018	1 January 2018
	HK$'000	HK$'000
Trade receivables	**75,663**	55,477
Contract assets	**19,900**	–
Contract liabilities	**(19,988)**	–

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

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Imputed interest on:		
Convertible notes	**–**	8,214
Promissory note	**–**	686
Contingent consideration payable	**948**	–
Interest on:		
Bank and other loans	**4,592**	3,432
Secured note	**1,190**	2,360
Finance leases	**2,673**	–
	9,403	14,692

6. LOSS BEFORE TAXATION

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
This is arrived at after crediting/charging:		
Crediting:		
Interest income	**10,333**	302
Charging:		
Staff costs (including directors' remuneration)	**342,413**	421,218
Depreciation of property, plant and equipment	**30,418**	15,825
Amortisation of intangible assets	**41,961**	14,371

7. TAXATION

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Current taxation – Hong Kong profits tax	**–**	–
Current taxation – Overseas tax		
– provision for the period	**1,390**	690
– over-provision in respect of prior years	**(257)**	–
Deferred taxation	**(5,148)**	(278)
	(4,015)	412

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

8. LOSS PER SHARE

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(225,620)**	(202,756)

	Number of shares	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic loss per share	**25,827,980,414**	19,408,659,303

Diluted loss per share

Since share options outstanding and the shares to be issued to the former option holders of share options in relation to the acquisition of subsidiaries completed in prior periods had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options and the issue of deferred shares to the former option holders of share options in relation to the aforesaid acquisition of subsidiaries were not assumed in the computation of diluted loss per share. Except for the above, there is no other dilutive potential share during the current and prior periods. Therefore, the basic and diluted loss per share in the current and prior periods are equal.

9. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
As at 1 January 2018	212,500
Fair value gains	3,800
As at 30 June 2018	216,300

The property rental income earned by the Group from its investment properties under operating lease amounted to HK$2,322,000 (2017: HK$4,104,000). Direct operating expenses arising from the investment properties during the period amounted to HK$491,000 (2017: HK$538,000).

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

The fair value of the Group's investment properties as at 30 June 2018 have been arrived at on market value basis 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. Based on this valuation, it gave rise to fair value gains of HK$3,800,000 during the period (2017: HK$1,100,000).

10. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Virtual human know-how	Backlog	Licenses for intellectual property rights	Other licenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST										
As at 1 January 2018	689,557	158,522	136,682	382,568	108,534	31,446	–	26,082	–	1,533,391
Additions from business combination	164,709	–	1,298	–	157,921	–	18,178	–	1,406	343,512
Additions	–	–	17,135	–	6,120	–	–	–	895	24,150
Exchange realignment	338	(5,563)	(714)	1,035	(3,380)	–	–	–	(82)	(8,366)
As at 30 June 2018	854,604	152,959	154,401	383,603	269,195	31,446	18,178	26,082	2,219	1,892,687
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS										
As at 1 January 2018	–	–	85,246	258,056	10,360	6,872	–	7,811	–	368,345
Amortisation for the period	–	–	6,427	21,460	7,985	1,639	2,272	1,697	481	41,961
Exchange realignment	–	–	(30)	1,025	(821)	–	–	–	(14)	160
As at 30 June 2018	–	–	91,643	280,541	17,524	8,511	2,272	9,508	467	410,466
CARRYING AMOUNT										
As at 30 June 2018	854,604	152,959	62,758	103,062	251,671	22,935	15,906	16,574	1,752	1,482,221
As at 31 December 2017	689,557	158,522	51,436	124,512	98,174	24,574	–	18,271	–	1,165,046

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

	Unlisted equity instrument (note) HK$'000
Addition during the period and as at 30 June 2018	196,213

Note:

On 30 May 2018, the Group has acquired the unlisted equity instrument at the consideration of HK$196,213,000 with a carrying amount of HK$196,213,000.

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

Fair value measurement

A number of assets and liabilities included in these unaudited condensed consolidated interim financial statements require measurement at, and/or disclosure of, fair value.

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

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

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

Financial instruments measured at fair value

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

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

Information about level 2 fair value measurements

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

There were no changes in valuation techniques during the period.

During the six months ended 30 June 2018, there was no transfer between level 1 and level 2 fair value hierarchy (six months ended 30 June 2017: nil) or transfer into or out of level 3 (six months ended 30 June 2017: nil).

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 days (2017: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debts, based on due date, is as follows:

	30 June 2018 HK$'000	31 December 2017 HK$'000
Current portion		
Trade receivables by ageing		
Current	**48,289**	2,530
1 to 30 days	**8,334**	15,493
31 to 60 days	**7,745**	18,802
61 to 90 days	**947**	2,999
Over 90 days	**10,348**	15,653
Total trade receivables	**75,663**	55,477
Accrued income	**–**	17,728
Other receivables	**79,449**	14,980
Deposits	**1,244**	3,249
Prepayments	**52,407**	27,250
Sub-total current portion	**208,763**	118,684
Non-current portion		
Deposits	**12,066**	12,315
Prepayments	**–**	19,593
Sub-total non-current portion	**12,066**	31,908
Total trade receivables, other receivables and prepayments	**220,829**	150,592

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	30 June 2018 HK$'000	31 December 2017 HK$'000
Trade payables by ageing		
Current	**7,746**	3,810
1 to 30 days	**6,500**	13,267
31 to 60 days	**3,308**	3,931
61 to 90 days	**8,436**	1,776
Over 90 days	**8,403**	7,327
Total trade payables	**34,393**	30,111
Other payables	**67,691**	50,250
Accruals	**59,214**	46,307
Total trade payables, other payables and accruals	**161,298**	126,668

14. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
As at 31 December 2017 and 30 June 2018	75,000,000,000	750,000
Issued and fully paid:		
As at 31 December 2017	24,441,754,094	244,418
Issue of shares on exercise of share options	500,000	5
Issue of shares on placement	2,175,780,000	21,757
As at 30 June 2018	26,618,034,094	266,180

15. SHARE-BASED PAYMENT TRANSACTIONS

On 13 February 2017, 300,000,000 share options ("Options") were conditionally granted to an employee of the Group (the "Grantee"). 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 and subsequently were approved by the shareholders of the Company at the annual general meeting held on 1 June 2017.

During the six months ended 30 June 2018, 2,066,665 (2017: 11,133,328) share options were forfeited and 500,000 (2017: 7,710,000) share options were exercised.

As at 30 June 2018, the average exercise price of share options outstanding is HK$0.321 (As at 31 December 2017: HK$0.321) and their average remaining contractual life is 6.98 years (As at 31 December 2017: 7.48 years).

In addition, in connection with the acquisition of subsidiaries during the year ended 31 December 2015, 79,930,442 shares of the Company will be issued in 3 annual instalments by 31 December 2018 to the former option holders of share options of a subsidiary for replacement of the options. Since three years of post-combination services are required for certain former option holders, the acquisition completion date fair value of the options attributable to these post-combination services amounting to approximately HK$19,186,000 will be recognised as remuneration costs in profit or loss over the three-year period after the acquisition completion date. Accordingly, for the six months ended 30 June 2018 an amount of approximately HK$3,198,000 (2017: HK$3,197,000) was recognised as remuneration costs in profit or loss.

In aggregate, the Group has recognised an equity-settled shared-based payment expenses of HK$5,693,000 (2017: HK$44,134,000) during the six months ended 30 June 2018.

16. BUSINESS COMBINATION

On 31 March 2018, the Group completed its acquisition of 66.88% issued share capital of Lead Turbo Limited ("Lead Turbo") in consideration of approximately RMB240,000,000 (equivalent to approximately HK$298,000,000) (including (i) cash of RMB150,000,000 (equivalent to approximately HK$186,000,000) and (ii) contingent consideration payable of RMB90,000,000 (equivalent to approximately HK$112,000,000), which is adjustable according to the consideration adjustment mechanism based on the achievement of the target profit for the two years ending 31 December 2018 and 2019. Lead Turbo and its subsidiaries (collectively the "Lead Turbo Group") are principally engaged in the research, development and sale of virtual reality ("VR") and augmented reality ("AR") hardware, smart wearable devices, VR software development kit and other related products. The acquisition was made by the Group with the aim to provide synergy with the Group's existing VR business by embedding the Group's VR content and applications into Lead Turbo Group's VR headset for distribution, as well as developing VR hardware to the Group's Digital Domain Space VR Theatre, which is expected to enhance and integrate the Group's deployed resources in its offline and online VR business segments.

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

	HK$'000
Property, plant and equipment	2,726
Intangible assets	178,803
Trade receivables, other receivables and prepayments	42,308
Inventory	14,356
Bank balances and cash	67,541
Trade payables, other payables and accruals	(82,258)
Contract liabilities	(2,159)
Amounts due to related parties	(5,043)
Deferred tax liabilities	(25,026)
Net assets	191,248
NCI	(63,341)
	127,907
Goodwill (Note 10)	164,709
Total consideration	292,616
Total consideration at fair value consisted of:	
– Cash consideration	186,699
– Contingent consideration payable	105,917
	292,616

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

	HK$'000
Cash consideration	186,699
Bank balances and cash acquired	(67,541)
Net outflow of cash and cash equivalents included in cash flows from investing activities	119,158

The fair value of contingent consideration payable is estimated using a discounted cash flow method.

16. BUSINESS COMBINATION (continued)

The fair value of contingent consideration payable includes a performance-based contingent consideration adjustment, which is principally based on the consideration adjustment mechanisms towards the respective target profits of the Lead Turbo Group in financial years 2018 and 2019. The adjustment will be settled in cash after the issuance of 2018 and 2019 consolidated audited financial statements of the Lead Turbo Group. The potential undiscounted amount of the contingent consideration adjustment that the Group could be required to make under this arrangement is between nil and RMB90,000,000 (equivalent to approximately HK$108,745,000), and that the Group could receive under this arrangement is between nil and the aggregate amount the Group has paid. At the acquisition date, the fair value of the contingent consideration arrangement of RMB84,149,000 (equivalent to HK$105,916,000) was estimated by applying the income approach at a discount rate of 3.8% and estimated profits in Lead Turbo Group for the financial years 2018 and 2019 of RMB40,000,000 and RMB50,000,000 respectively. As of 30 June 2018, the carrying value of the contingent consideration payable has increased by the amount of the imputed interest thereon of HK$948,000, which was recognised in current period's profit or loss. As the contingent consideration payable is denominated in RMB, RMB fluctuates towards the functional currency results in the lower of amount as of 30 June 2018 compared to the acquisition date. There were no changes in the discount rate, estimated profits and valuation techniques during the period.

The fair value of trade and other receivables acquired as of the acquisition date amounted to HK$42,308,000. The gross contractual amount of these receivables is HK$42,308,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

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

Since the completion of the acquisition, the Lead Turbo Group has contributed approximately HK$18,684,000 to the Group's revenue and approximately HK$2,611,000 to the Group's profit for the period. If the acquisition had occurred on 1 January 2018, the Group's revenue and loss for the period would have been approximately HK$356,632,000 and HK$228,298,000 respectively. This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK$2,362,000 have been expensed and are included in administrative expenses.

17. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2018, the Group had the following material related party transaction:

		For the six months ended 30 June	
		2018	2017
Related party relationship	**Type of transaction**	**HK$'000**	HK$'000
Associate	Visual effects production service income	**5,767**	–

18. CAPITAL COMMITMENT

The Group did not have any significant capital commitment as at 30 June 2018 and 31 December 2017.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2018 (2017: nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group achieved a revenue of HK$342,405,000 (2017: HK$416,457,000), showing a decrease of approximately 18% compared to that of the previous corresponding period. The gross profit of the Group amounted to HK$41,150,000 (2017: HK$60,479,000) during the Review Period. The decrease in revenue and gross profit were mainly attributable to the media entertainment segment. As at 30 June 2018, the total assets of the Group amounted to HK$2,497,124,000 (as at 31 December 2017: HK$1,893,029,000). The loss attributable to the owners of the Company was HK$225,620,000 (2017: HK$202,756,000). The loss for the Review Period was approximately HK$229,112,000 (2017: HK$210,110,000). The adjusted loss for the Review Period (by deducting the 3 additional non-cash outflow expenses mentioned below) was HK$199,792,000 (2017 (no adjustment): HK$210,110,000). The loss for the Review Period was mainly caused by:

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

a) equity-settled, share-based payments for the share options granted between 2014 and 2017 to the value of HK$2,495,000 (2017: HK$40,937,000);

b) additional imputed interest expenses for contingent consideration for the acquisition of 3Glasses Group of HK$948,000 (2017: nil);

c) additional amortisation and depreciation expenses from the acquisition of 3Glasses Group of HK$8,116,000 (2017: nil);

d) additional amortisation expenses from the investment in TV drama series (grouped under "Participation Rights") of HK$20,256,000 (2017: nil);

e) other amortisation and depreciation expenses (besides the two items mentioned above) to the value of HK$44,007,000 (2017: HK$30,196,000); and

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

(iii) operating losses from the media entertainment segment.

Media Entertainment Segment

During the Review Period, this segment recorded a revenue of approximately HK$340,083,000 (2017: HK$412,353,000). The revenue from this segment accounted for approximately 99% of the Group's revenue for the Review Period. This segment incurred a loss of approximately HK$131,184,000 (2017: HK$87,977,000). 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$82,640,000 (2017: HK$60,481,000).

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. Augmented, Immersive and Virtual Reality and 360º Video Production

This segment includes businesses offering augmented, immersive and virtual reality (collectively as "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 a VR streaming platform and interactive toolset to support an end-to-end solution from concept to consumption of immersive content. Digital Domain teams use proprietary cameras and software for capturing 360° video footage, and their digital artists produce VR experiences in real time and for video on demand (VOD). In addition to using its own app for hosting VR content, Digital Domain technical teams also create custom VR apps for brands and telecommunication entities.

Digital Domain's VR team executed multiple 360° livestream broadcasts and immersive VOD content, including for the following events and brands in 2018:

- **NBCUniversal E! News:** For E! News' app, Digital Domain captured the action from the red carpet live in 360°, for awards shows including:
  - **The Golden Globes Red Carpet**
  - **The Grammys Red Carpet**
  - **The Academy Awards Red Carpet**
- **London Fashion Week and the British Fashion Awards:** Digital Domain created VOD sizzle reels in VR for the red carpet of fashion's biggest awards show.
- **SyFy Network's "The Expanse":** For SyFy Network's hit show, "The Expanse", Digital Domain created complementary VR content.
- **Red Bull Rampage 2018:** Digital Domain captured the world's greatest freeride mountain bikers in 360° as they mastered never-been-ridden terrain in Utah.
- **NBA All-Star Weekend 2018:** Digital Domain created customized virtual reality content for NBA All-Star Weekend 2018.
- **Untitled Google project**
- **2018 CCTV Spring Festival:** After the first collaboration in 2017 for the Year of Rooster, Digital Domain teamed up with China Central Television (CCTV) Technology Production Center to produce the VR promo video for the Year of Dog in 2018 CCTV Spring Festival Gala's sub-venue in Southeast Guizhou through 360° photographic techniques. 3,000 people performed in the 9-minute VR promo video. Viewers could review the VR content through CCTV and CCTV.com mobile app, and enjoyed the symbols and tradition of the local culture through the 360°, demonstrating the strong emotional connections of people from different ethnic groups.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. Augmented, Immersive and Virtual Reality and 360º Video Production (continued)

Digital Domain also created an original piece of VR content, wholly owned by the global studio:

- "***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.

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

"Sky VR": For Sky TV, Digital Domain updated and relaunched a VR app that allows viewers to enjoy fully immersive content.

The global studio participated in several events, including:

NAB 2018: At the National Association of Broadcasters' annual convention encompassing the convergence of media, entertainment and technology, Digital Domain met with current and up-coming partners to demo end-to-end solutions for creating and distributing VR experiences, including Digital Domain's spherical camera, live streaming capabilities, latest integrations with post-production suites and a cloud-based VR distribution platform.

2018 Sundance Film Festival: At the 2018 Sundance Film Festival New Frontier exhibition, Digital Domain debuted "*Micro Giants*." 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.

Effects MTL 2018: Digital Domain Animation Director Phil CRAMER gave the keynote address on work done for *"Avengers: Infinity War"* at Effects MTL 2018, the largest international conference for the VFX and animation industries on the North American East Coast.

RISE 2018: Digital Domain CEO, Daniel SEAH, was invited to be one of the speakers of RISE 2018, one of the largest technology conferences in Asia at the Hong Kong Convention and Exhibition Centre. As a keynote presenter, Daniel introduced our latest virtual human technologies by showcasing our achievements and breakthroughs of virtual human in the past years and sharing the future trend of virtual human technology and the application prospects combined with artificial intelligence. In the "Talk/Robot" discussion panel on the second day, Daniel and Brad SMITH, the President of Microsoft, shared their visions with "Engadget" on the hottest topic, "the application of artificial intelligence".

VidCon: Digital Domain Executive Producer John CANNING joined a panel to talk about the role of guilds, and specifically the Producers Guild of America (PGA).

Sandbox Interactive (2018 Qingdao International VR Week): Executive Producer John CANNING joined a panel to talk location-based entertainment ("LBE") and the interactive storytelling landscape. Digital Domain also exhibited the original VR creation "*Micro Giants*" in the event, the China's first independent virtual media festival.

IBC Roundtable: Business Development Director Julian RANDALL joined a webinar panel by IBC to talk 360° and VR.

Microsoft Reactor: Business Development Director Julian RANDALL joined a panel at Microsoft in London to talk 360° and VR.

Media Entertainment Segment (continued)

A. Augmented, Immersive and Virtual Reality and 360º Video Production (continued)

Acting and Performance Capture: A Revolution in Technology and Collaboration, hosted by The Academy: The Academy hosted an evening of discussions on performance capture innovations to their members. Head of Research & Development Doug ROBLE gave a presentation on Digital Domain's groundbreaking work in virtual humans. Head of Digital Humans Darren HENDLER joined a panel to talk virtual humans.

Acquisition of 3Glasses Group

On 22 March 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), Mr. LIN Che Chu George (the "Vendor"), Lead Turbo Limited (the "Target") and the guarantor entered into the agreement (the "Agreement"), pursuant to which the Purchaser conditionally agreed to acquire (or procure the acquisition of), and the Vendor conditionally agreed to sell, the 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration of up to RMB240,000,000 (equivalent to approximately HK$298,000,000), 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" or "3Glasses 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 profit of RMB30,000,000 and RMB50,000,000 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 augmented reality ("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 RMB20,000,000 (equivalent to approximately HK$25,000,000), and the Purchaser has undertaken to provide a non-interest bearing loan in an amount of RMB30,000,000 (equivalent to approximately HK$37,000,000), 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 senior management of the Target Group has more than 10 years of experiences in VR/AR technology development and is a pioneer in providing VR and AR solutions in the PRC. The major product of the Target Group is the self-developed VR headset, which is a head-mounted display device that provides VR for wearers and is widely used with computer games, simulators and trainers, under the brand name of "3Glasses". The Target Group has been collaborating with various famous international corporations in its products development. The Target Group, being one of the Windows Mixed Reality headset partners of Microsoft among other well-known brands such as Samsung, Acer, ASUS, Dell, HP and Lenovo, 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. According to a market report issued by Canalys, an independent analyst company focusing on technology market, the Target Group ranked the third in terms of VR headset sold by volume (with market share of 9.4% by volume), in the PRC in 2016.

As certain applicable percentage ratios under Rule 14.07 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (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. For details, please refer to the Company's announcement dated 22 March 2018.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

A. Augmented, Immersive and Virtual Reality and 360º Video Production (continued)

Acquisition of 3Glasses Group (continued)

As at the date of this report, the acquisition has been completed. During the period ended 30 June 2018, 3Glasses Group has increased its focus on the solutions services with different customers from different industries including automobile, theme park and architecture, to increase the variety of the existing product offering in the market. There were additional amortization and depreciation expenses for intangible and fixed assets (e.g. patents, computers) acquired from 3Glasses Group being charged to the condensed consolidated income statement for the Review Period.

B. Visual Effects Production and Post-Production Business

This segment provides visual effects ("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 award and nominations offers recognition for Digital Domain's artists and technology:

- VR interactive adventure DreamWorks "*Voltron VR CHRONICLES*" was nominated for an Emmy for Outstanding Interactive Media Enhancement to a Daytime Program or Series.

- The Academy of Motion Picture Arts and Sciences (Oscars) – Science and Technical Achievement Award was given to **Bill Spitzak** and **Jonathan Egstad** for the visionary design, development and stewardship of the Nuke compositing system. Built for production at Digital Domain, Nuke has become a ubiquitous and flexible tool used across the motion picture industry, enabling novel and sophisticated workflows at an unprecedented scale.

Since 1 January 2018, the artists of Digital Domain 3.0, Inc. ("DD3I", a subsidiary of the Company) have provided VFX production services for feature films and television. Work completed in 2018 includes:

- *"Shadow"*

- *"Ready Player One"*

- *"Wrinkle in Time"*

- *"Avengers: Infinity War"*- including the first-of-its-kind work to create lead character Thanos

- *"Ant-Man and the Wasp"*

- *"Lemony Snicket: A Series of Unfortunate Events"*

Visualisation, virtual production and motion capture are additional capabilities from Digital Domain. Often they work in conjunction, or can be stand-alone services. The visualisation, virtual production and motion capture teams at Digital Domain completed several projects, including:

- *"Ready Player One"*

- *"Aqua Man"*

- *"Feng Shen Bang"*

- Multiple unnamed projects for entities including NBCUniversal, Apple and Google.

Media Entertainment Segment (continued)

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

Digital Domain North America (USA and Canada): (continued)

For Digital Domain's Commercials group, we provided VFX and production services for brands, advertisements, music videos and games. Work completed in 2018 includes:

- *"Pepsi Super Bowl LII Halftime show"* – Digital Domain created a visual of the Minneapolis skyline turning purple and into the Prince symbol for the largest broadcast show in U.S.
- Activision: *"Black Ops 4"* trailer and in-game cinematics
- Activision: *"Destiny 2: Forsaken"* trailer
- Jennifer Lopez's music video for *"El Anillo"*
- Dollar Shave Club commercial spot *"Buttery Lagoon"*
- Electronic Arts *"Command & Conquer: Rivals"* trailer

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

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

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

Possible Indemnification (continued)

The US Subsidiary has submitted the indemnity requests that it has received from these clients to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company initially acknowledged its obligation to provide a defence to the US Subsidiary's clients, but has recently communicated to US Subsidiary that it was re-evaluating its coverage obligations under the insurance policy. The insurance company has identified its concerns to the US Subsidiary and has solicited the US Subsidiary's response to those concerns. The insurance company and the US Subsidiary are presently in the process of discussing whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits.

Digital Domain China:

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

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

In 2018, 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, Bvlgari, P&G, AVON, Marie Dalgar, Huawei, Vivo, Mercedes-Benz, BMW, Ford, Jaguar, Coca-Cola, Perrier, Amazon, Alibaba, Tencent, Disney, Adidas, New Balance, Kispa, and Henderson Land.

Featured films and TV drama series projects include the star-studded *"The Legends Of Monkey King", "Hidden Man", "Hello Mr. Billionaire", "The Principle", "Wolf Warriors II", "Detective Chinatown II", "Nirvana In Fire II", "Monster Hunt II", "Legend Of The Demon Cat", "Cats And Peachtopia", "Operation Red Sea", "The Drug Hunter", "The Nobodies"* and *"About Youth"*.

Commercials projects include: McD Premium Burger, P&G SFG, P&G Olay, Adidas Climacool, New Balance 520 V-day Campaign, Kispa Monster Hunt, Benz Maybach, BMW X3, Ford Edge & Kuga, Ford Mondeo, Jaguar XFL, Huawei Nova mobile, VIVO Sky mobile, Coke Phase, Coke Rooftop, Alibaba Taobao F4, Alibaba Tangeche, Tencent KOF, Tencent Glory of Kings, Estee Lauder Cushion BB Cream, Marie Dalgar Eye Shadow, and Henderson Land Sky-City.

Digital Domain India:

The Group has already set up its own studio in Hyderabad, India for VFX and VR productions. The studio caters internally to Digital Domain's North America and China facilities and also independent clients, both local and international.

The Hyderabad facility has a total capacity of 500. The current setup provides production support across departments from previsualisation to final composition as well as full shot production.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

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

Digital Domain India: (continued)

In 2018, Digital Domain India provides services across platforms, i.e. features, television, web and over-the-top ("OTT"). Digital Domain India also successfully passed security audits of The Motion Picture Association of America, Inc. ("MPAA"), Walt Disney Studios Motion Pictures ("Disney") and Marvel Studios, LLC ("Marvel") this March and is a certified secured facility to handle content for all "A" list Hollywood and other international shows. In second half of 2018, Digital Domain India is set to start work on local projects thus making an entry into mainstream Indian film market that need Digital Domain's level of expertise at affordable rates. In 2018, Digital Domain India starts to initiate the Tech & Software development departments to work as an extension to our already existing teams in North America for their ever-growing VR and global pipeline requirements.

C. 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 2018, in collaboration with the Teresa Teng Foundation and Ever Rich Foundation, Digital Domain again created the Virtual Human of Teresa TENG for a charity show in Taipei to memorize the "65th anniversary of the legend of Teresa Teng" on the eve of Mother's Day.

In 2017, Digital Domain announced their cooperation with 浙江棱鏡文化傳媒有限公司 ("Prism Entertainment") to create the world's pilot holographic virtual human concert *"Teresa Teng • The Legend"* featuring the late legendary Chinese superstar Teresa TENG where she would once again return to the big stage. The *"Teresa Teng • The Legend"* has been presented to audience from August 2018 at Prism Entertainment's Holographic Theatre (also known as "Hangzhou Redstar Theatre").

D. Co-production

TV Drama Series:

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

During the Review Period, there were additional amortization expenses from investment in TV drama series mentioned above (grouped under "Participation Rights") of HK$20,256,000 (2017: nil). For the revenue, we are expecting to recognise it in the second half of the financial year.

FINANCIAL AND BUSINESS REVIEW (continued)

Media Entertainment Segment (continued)

E. Investment in Handy

During the Review Period, the Group had its US$25,000,000 (approximately HK$196,213,000) equity investment in Mango International Group Limited ("Mango") with its flagship product **handy**, is leveraging millions of hotel rooms globally to create the world's most comprehensive travel ecosystem encompassing a traveler's end-to-end journey, from pre-trip to in-destination to post-travel. The strategic investment is to create synergies between Mango's hardware-as-a-service business model and the Group's expertise in VR related products, contents and services, which will in turn generate further value for the Group and its investment in Mango. As at 30 June 2018, the investment was classified as "financial asset measured at fair value through other comprehensive income".

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. One shop and certain car parking spaces were leased out in the Review Period. The property investment portfolio of this segment continues to contribute a steady income for the Group.

During the Review Period, the revenue of this segment decreased by approximately 43% to HK$2,322,000 (2017: HK$4,104,000). The revenue accounted for approximately 1% of the Group's overall revenue during the Review Period. The profit of this segment decreased during the Review Period, amounting to HK$1,789,000 (2017: HK$3,585,000).

Corporate Event

The Company held its 2018 Strategic Conference in Beijing on 22 August 2018. During the event, the Company shared Digital Domain's new strategic plan in "virtual world - Oasis" with the Company's capabilities in 4 areas, namely (a) visual effects, (b) virtual reality (with 3Glasses for hardware/solution businesses and Digital Domain Space for distribution channel), (c) virtual human technology (with interactive applications in social-networking platforms and entertainment business) and (d) IPs/content (further investments and developments by ourselves or strategic partners).

At the conference, certain Virtual Humans (holograms), namely the late Miss Teresa TENG (first Asian pop star virtual human created by Digital Domain), Mr. WANG Wei-chung, Mr. WU Xinhong (CEO and founder of Meitu, Inc.), Ms. Ruby LIN, Mr. Nicholas TSE (Chairman of Digital Domain Greater China) and Mr. Daniel SEAH (CEO of Digital Domain), produced by Digital Domain were present or performed on the stage.

INTERESTS IN ASSOCIATES

Digital Domain Space (VR Theatre)

In September 2017, Digital Domain announced its collaboration with Poly Capital and Hony Capital, to establish 數字王國空間(北京)傳媒科技有限公司 (Digital Domain Space). 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. The share of losses from this associate was amounted to approximately HK$10,262,000.

CAPITAL

Shares

On 1 March 2018, the Group entered into a placing agreement with 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 ("Placing"). 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), at the Placing price of HK$0.19 per Placing share. Kingkey Enterprise is an investment holding company, while Keywise Capital is principally engaged in the business of asset management. Immediately before the completion of the Placing, Keywise Capital holds 693,060,000 shares, representing approximately 2.84% of the issued share capital of the Company. The Placing shares were allotted and issued pursuant to the general mandate of the Company. The 2,175,780,000 Placing shares in aggregate represent approximately 8.17% of 26,618,034,094 shares, the issued share capital of the Company as enlarged by the Placing.

The Placing price represents (i) a premium of approximately 0.53% to the closing price of HK$0.189 per share as quoted on the Stock Exchange on 1 March 2018, being the date of the placing agreement; and (ii) a premium of approximately 9.83% to the average closing price per share of HK$0.173 as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of the placing agreement.

The gross proceeds and net proceeds from the Placing are approximately HK$413,400,000 and HK$409,120,000 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.

As at 30 June 2018, the total number of Company shares of HK$0.01 each in issue (the "Shares") was 26,618,034,094 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 Review Period, 500,000 share options were exercised. No share options were cancelled or have lapsed during the Review Period. 40,570,000 share options were exercised and 140,760,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

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

On 29 January 2016, a total of 379,500,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new shares at an exercise price of HK$0.413 per share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the Review Period, no share options were exercised and 333,333 share options were cancelled or have lapsed. No share options were exercised and 25,666,665 share options were cancelled or have lapsed since the grant-date (29 January 2016).

CAPITAL (continued)

Share Options (continued)

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

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new shares at an exercise price of HK$0.566 per share. For details, please refer to the Company's announcement dated 29 July 2016. During the Review Period, no share options were exercised and 1,733,332 share options were cancelled or have lapsed. No share options were exercised and 13,166,653 share options were cancelled or have lapsed since the grant-date (29 July 2016).

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

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

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

During the Review Period, the Company had banking facilities from a bank in Hong Kong amounted to approximately HK$172,002,000. The banking facilities included instalment loans (HK$60,000,000), credit limits for issuing 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$216,300,000 as at 30 June 2018 and a pledged time deposit of US$3,000,000 (approximately HK$23,539,000). The Group also had working capital loans in amount of RMB7,980,000 (approximately HK$9,459,000) and US$9,000,000 (approximately HK$70,617,000). Each working capital loan was secured by a standby letter of credit issued by a bank in Hong Kong mentioned above.

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

As at 30 June 2018, the Group also had obligations under finance leases of US$4,092,000 (approximately HK$32,109,000). These obligations relate to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. The term of these obligations were 30 months. 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.

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

The Group had other loans of approximately HK$155,528,000 as at 30 June 2018. 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 30 June 2018. An indirect wholly-owned subsidiary also had two term loan facilities of US$10,000,000 (approximately HK$78,463,000) and HK$50,000,000, with a guarantee provided by the Company. The subsidiary drew down the facility in 2015 and 2018. The outstanding balance of these shareholder's loans as at 30 June 2018 was US$10,000,000 (approximately HK$78,463,000) and HK$50,000,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 13 months from 30 June 2018.

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive Ventures, Inc. ("Immersive"). As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. ("DDVR"). The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by DDVR. As at 30 June 2018, the outstanding value on the book is US$7,591,000 (approximately HK$59,562,000). 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.

The total cash and bank balance as at 30 June 2018 was approximately HK$203,484,000. As at 30 June 2018, the Group had banking facilities of approximately HK$138,487,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK$58,411,000 are denominated in Hong Kong dollars, loans amounting to approximately HK$70,617,000 are denominated in United States dollars and loans amounting to approximately HK$9,459,000 are denominated in Renminbi. During the Review Period, all of the Group's bank loans (except the Five Year Loan and instalment loans with a repayment on demand clause ("Instalment Loans") mentioned above) were classified as either current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (except the Five Year Loan and Instalment Loans which are fully classified as current liabilities) as at 30 June 2018 was spread over a period of two years, with approximately 41% repayable within one year and 59% repayable between one to two years.

The Group's current assets were approximately HK$447,266,000 while the current liabilities were approximately HK$490,326,000 as at 30 June 2018. As at 30 June 2018, the Group's current ratio was 0.9 (as at 31 December 2017: 1.1). The ratio was adversely affected by the Instalment Loans (with a repayment on demand clause) which were fully classified as a current liability (the non-current portion according to agreed scheduled repayment dates is HK$55,984,000) and the contingent consideration payable (current portion is HK$45,251,000) related to the acquisition of 3Glasses Group.

As at 30 June 2018, the Group's gearing ratio, representing the Group's financial liabilities (i.e., if any, bank loans, other loans, obligations under finance leases and secured note) divided by the equity attributable to owners of the company was 33% (as at 31 December 2017: 21%).

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 Review Period. As some of the financial statements for the business operations in North America, Mainland of China and India were reported in CAD, RMB and INR, respectively, if the CAD or RMB or INR were to depreciate relative to the HKD, the reported earnings/expenses for the Canadian portion, Mainland of China portion or Indian portion would decrease.

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

CONTINGENT LIABILITIES

Save as disclosed under "Possible Indemnification" of Visual Effects Production and Post-Production Business above, as at 30 June 2018, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2018, the total headcount of the Group was 992. 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 Group is planning to set up a studio in Montreal, Quebec, Canada which can provide additional production capacity and the Montreal Studio can also enjoy the tax and other benefits provided by the Quebec provincial/Canadian federal governments. The ongoing expansion in China, India and Canada will increase the working capacity of the Group and reduce production costs in the long run. The effectiveness and efficiency of these expansions will be reflected in the coming years.

Building on the patents acquired from 3Glasses, Immersive and Micoy Corporation, Digital Domain is uniquely positioned to play a key role in the VR market (from content to hardware and from standalone product to one-stop total solution for clients' projects). Following years of experience creating visual effects for Hollywood feature films, advertisements, and video games, in 2018 the company made advances in 360° live streaming, producing virtual reality experiences for audiences in the North American Region and Mainland of China.

In addition to 360° capture and live streaming, the Group will continue to develop VR products (e.g. content, cinematic series and games). VR products (such as *"Micro Giants"*) had been launched in VR theatres of Digital Domain Space in Mainland of China and some were also launched in VR facilities/channels in European countries/North American Region. These products were highly praised by audience. We believed the Digital Domain's VR products will be further distributed in different countries, platforms or channels in coming years.

Following the successful performance of the holographic virtual human concert *"Teresa Teng • The Legend"* in Hangzhou in 2018. 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 in social-networking platform and entertainment business.

The Group will continue to seek opportunities for financing and collaboration with strategic partners and recruitment of appropriate global talent to support the Group's efforts towards enhancing its VFX ecosystem and expanding its VR ecosystem, virtual human ecosystem 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.

SHARE OPTION SCHEME

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

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

	Number of Options							
Name and category of participant	**At 1 January 2018**	**Granted during the Review Period**	**Exercised during the Review Period**	**Cancelled/ lapsed during the Review Period**	**At 30 June 2018**	**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

SHARE OPTION SCHEME (continued)

	Number of Options							
Name and category of participant	At 1 January 2018	Granted during the Review Period	Exercised during the Review Period	Cancelled/ lapsed during the Review Period	At 30 June 2018	Date of grant	Exercise period	Exercise price per Share (HK$)
Employees of the Group								
Zhou Jian	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Other employees, in aggregate	351,230,000 *(Note 2)*	–	(500,000)	–	350,730,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	20,990,000 *(Note 4)*	–	–	–	20,990,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	20,000,000 *(Note 4)*	–	–	–	20,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	19,000,000 *(Note 4)*	–	–	–	19,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	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
	77,833,326 *(Note 5)*	–	–	(333,333)	77,499,993	29/01/2016	29/01/2018 to 28/01/2026	0.413
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/06/2017 to 21/06/2026	0.495
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/06/2018 to 21/06/2026	0.495
	16,666,692 *(Note 8)*	–	–	–	16,666,692	29/07/2016	29/07/2016 to 28/07/2026	0.566
	11,699,998 *(Note 8)*	–	–	–	11,699,998	29/07/2016	29/07/2017 to 28/07/2026	0.566
	10,199,989 *(Note 8)*	–	–	(1,733,332)	8,466,657	29/07/2016	29/07/2018 to 28/07/2026	0.566
Total	1,666,953,347	–	(500,000)	(2,066,665)	1,664,386,682			

SHARE OPTION SCHEME (continued)

Notes:

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

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

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

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

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

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

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

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Interests and short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,625,681,442	–	2,625,681,442 (Long position)	9.86%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.26%
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)	9.61%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.89%
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)	9.85%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	1.89%
Wei Ming	Beneficial Owner *(Note 7)*	–	300,000,000	300,000,000 (Long position)	1.13%

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 167,510,000 Shares. Mr. Peter Chou was deemed to be interested in the above Shares by virtue of his 100% shareholding interests in Honarn Inc.

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 30 June 2018, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 30 June 2018, 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)	9.23%
	Beneficial owner *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.26%
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,625,681,442	–	2,625,681,442 (Long position)	9.86%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.26%
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)	9.23%
	Beneficial owner *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.89%
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)	9.61%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.89%
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)	9.23%
	Beneficial owner *(Note 5)*	502,134,789	–	502,134,789 (Short position)	1.89%
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)	9.85%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	1.89%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner *(Note 7)*	2,458,171,442	–	2,458,171,442 (Long position)	9.23%
Bright Ace Holdings Limited	Interest of controlled corporation *(Note 7)*	2,458,171,442	–	2,458,171,442 (Long position)	9.23%
Zhou Jian	Interest of controlled corporation and beneficial owner *(Notes 7, 8 and 9)*	2,685,395,180	150,000,000	2,835,395,180 (Long position)	10.65%
Fortune Source International Limited	Beneficial owner *(Note 10)*	1,672,035,000	–	1,672,035,000 (Long position)	6.28%
Zhang Xiaoqun	Interest of controlled corporation *(Note 10)*	1,672,035,000	–	1,672,035,000 (Long position)	6.28%
Jade Link Holdings Limited	Beneficial owner *(Note 11)*	5,037,200,000	–	5,037,200,000 (Long position)	18.92%
Tang Elaine Yilin	Interest of controlled corporation *(Note 11)*	5,037,200,000	–	5,037,200,000 (Long position)	18.92%
CITIC Limited	Interest of controlled corporation *(Note 12)*	2,281,818,182	–	2,281,818,182 (Long position)	8.57%
CITIC Group Corporation	Interest of controlled corporation *(Note 12)*	2,281,818,182	–	2,281,818,182 (Long position)	8.57%
SBCVC Digital Fund, L.P.	Beneficial owner *(Note 13)*	2,281,818,182	–	2,281,818,182 (Long position)	8.57%
SBCVC Management V, L.P.	Interest of controlled corporation *(Note 13)*	2,281,818,182	–	2,281,818,182 (Long position)	8.57%
Kingkey Enterprise Holdings Limited	Beneficial owner *(Note 14)*	2,052,630,000	–	2,052,630,000 (Long position)	7.71%
Chen Jiarong	Interest of controlled corporation *(Note 14)*	2,052,630,000	–	2,052,630,000 (Long position)	7.71%
Chen Jiajun	Interest of controlled corporation *(Note 14)*	2,052,630,000	–	2,052,630,000 (Long position)	7.71%

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 167,510,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.

3. Global Domain Investments Limited was deemed to be interested in 2,458,171,442 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 524,960,118 Shares, 75,320,000 Shares of which were held by Cosmic Power Holdings Limited, and by having a security interest in 1,933,211,324 Shares under section 317 of the SFO. Cosmic Power Holdings Limited is wholly-owned by Wise Sun Holdings Limited and Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in the 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 and 75,000,000 Shares held by Ultra Gain Development Limited and Union Fortune Investment Limited respectively, which are also 100% controlled by Mr. Zhou Jian.

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

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

11. Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in 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.

14. Kingkey Enterprise Holdings Limited is 50% controlled by each of Mr. Chen Jiarong and Mr. Chen Jiajun. Mr. Chen Jiarong and Mr. Chen Jiajun were deemed to be interested in 2,052,630,000 shares held by Kingkey Enterprise Holdings Limited.

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

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

There was a banking facility (the "Facility") with the principal amount of HK$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 30 June 2018, 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.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES (continued)

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

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

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

CORPORATE GOVERNANCE

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

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

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

(c) Due to other pre-arranged business commitments which must be attended to by Mr. Peter Chou, the Chairman of the Board, Mr. Pu Jian, Dr. Song Alan Anlan, the non-executive Directors, and Ms. Lau Cheong, the independent non-executive Director, they were not present at the annual general meeting of the Company held on 7 June 2018.

CHANGES IN DIRECTOR'S INFORMATION

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

(1) Mr. Pu Jian, a non-executive Director, is currently an executive director and a vice president of CITIC Group Corporation.

(2) Mr. Wong Ka Kong Adam, the independent non-executive Director, currently holds a senior executive position in a conglomerate listed on the main board of the Stock Exchange.

(3) Mr. John Alexander Lagerling, the independent non-executive Director, is currently a member of remuneration committee of Modern Times Group MTG AB. In addition, he is the executive director, chief executive officer US and global chief business officer of Mercari, Inc., the shares of which are listed on the Market of the High-growth and Emerging Stocks (Mothers) of Tokyo Stock Exchange, Inc. in June 2018.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

REVIEW BY AUDIT COMMITTEE

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

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

Hong Kong, 30 August 2018