THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Digital Domain Holdings Limited** (the "**Company**"), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

DIGITALDOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

MAJOR AND CONNECTED TRANSACTION
AND
NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser

Hercules

Hercules Capital Limited

A letter from the Independent Board Committee (as defined herein) containing its advice and recommendation to the Independent Shareholders (as defined herein) is set out on pages 20 to 21 of this circular. A letter from the Independent Financial Adviser (as defined herein) to the Independent Board Committee and Independent Shareholders, is set out on pages 22 to 48 of this circular. A notice convening the SGM (as defined herein) to be held at the Conference Room, Suite 7003, 70/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Wednesday, 29 June 2016 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A proxy form is also enclosed.

Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

13 June 2016

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In this circular and the appendices to it, unless the context otherwise requires, the following expressions have the following meanings:

"2013 Acquisition"	the acquisition of the entire issued share capital of Upfield Sky Limited which indirectly held 70% interest in the Target Company at the time, details of which were disclosed in the Company's circular dated 14 June 2013
"Accountant's Report"	the accountant's report on the Target Group dated 13 June 2016 issued by the Reporting Accountant, set out as Appendix II to this circular
"Acquisition"	the proposed acquisition by the Purchaser of the Sale Interest under the SPA
"Acquisition Consideration Shares"	the new 390,100,671 Shares, credited as fully paid, to be issued and allotted to De-fi Media, a wholly-owned subsidiary of Prime Focus, in accordance with the SPA as payment of the consideration for the Sale Interest
"Board"	the board of Directors
"Bye-laws"	the bye-laws of the Company
"Closing Date"	seventh business day following the grant by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the Acquisition Consideration Shares and the approval by the Independent Shareholders in a general meeting of the transactions contemplated under the SPA
"Company"	Digital Domain Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 547)
"Completion"	completion of the Acquisition pursuant to the SPA
"connected person"	has the meaning ascribed to it in the Listing Rules
"DD Opco"	Digital Domain 3.0, Inc., a corporation incorporated in the State of Delaware, U.S. that owns the entire issued share capital in each of Digital Domain Productions and Mothership Media as at the Latest Practicable Date
"DD Enterprise"	Digital Domain Enterprise Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company

"DD Licensing"	DD Licensing Limited (formerly known as Classic Beauty Investments Limited), a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company
"De-fi Media"	De-fi Media Limited, a company incorporated in the United Kingdom with limited liability and a wholly-owned subsidiary of Prime Focus, and is principally engaged in the provision of post-production services and investment and exploitation of film and media assets
"Digital Domain Productions"	Digital Domain Productions 3.0 (BC), Ltd., a company incorporated in the province of British Columbia, Canada
"Director(s)"	director(s) of the Company
"EBITDA"	earnings before interest, tax, depreciation and amortization
"FY2014"	financial year ended 31 December 2014
"FY2015"	financial year ended 31 December 2015
"Greater China"	collectively, the PRC, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising Mr. Duan Xiongfei, Ms. Lau Cheong and Mr. Wong Ka Kong Adam, being all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the Acquisition (including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate)
"Independent Financial Adviser"	Hercules Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the SPA and the transactions contemplated thereunder (including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate)

"Independent Shareholders"	Shareholders, other than those required under the Listing Rules to abstain from voting, who have no interest in the transactions contemplated under the SPA
"Issue Price"	HK$0.596 per Acquisition Consideration Share
"Latest Practicable Date"	10 June 2016, being the latest practicable date prior to printing of this circular for ascertaining certain information referred to in this circular
"License"	a non-exclusive and non-transferable license to use Lowry Digital®, the patented film restoration technology owned by Reliance Lowry Digital for an annual fee of US$1
"License Agreement"	the license agreement to be entered into between Reliance Lowry Digital as licensor and DD Licensing as licensee in respect of the grant of the License
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Mothership Media"	Mothership Media, Inc., a corporation incorporated in the State of Delaware, U.S.
"PRC"	the People's Republic of China
"Prime Focus"	Prime Focus Limited, a limited liability company formed in India, whose shares are listed on BSE Limited and National Stock Exchange of India Limited
"Prime Focus Group"	Prime Focus and its subsidiaries
"Purchaser"	DD Holdings US, LLC (formerly known as Galloping Horse US, LLC), a limited liability company formed in the State of Delaware, U.S. and an indirect wholly-owned subsidiary of the Company
"Reliance Lowry Digital"	Reliance Lowry Digital Imaging Services Inc., a subsidiary of Prime Focus
"Reporting Accountant"	BDO Limited, Certified Public Accountants, Hong Kong
"Sale Interest"	30% interest in the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"SGM"	the special general meeting of the Company to be held on Wednesday, 29 June 2016 at 10:00 a.m. to consider and, if thought fit, approve the SPA and the transactions contemplated thereunder, as well as the Specific Mandate
"Share(s)"	ordinary share(s) of par value HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"SPA"	the membership interest purchase agreement dated 27 April 2016 entered into between the Company, the Purchaser, Prime Focus (in relation to the procurement of the sale of Sale Interest) and the Target Company in respect of the Acquisition
"Specific Mandate"	the specific mandate to be sought from the Shareholders at the SGM for the issue of the Acquisition Consideration Shares on terms set out in the ordinary resolution contained in the notice convening the SGM set out in pages SGM-1 and SGM-2 in this circular
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Digital Domain-Reliance, LLC (formerly known as Galloping Horse-Reliance, LLC and Galloping Horse America, LLC), a limited liability company formed in the State of Delaware, U.S. and an indirect subsidiary owned as to 70% by the Company
"Target Group"	Target Company, DD Opco, Digital Domain Productions and Mothership Media
"U.S."	United States of America
"US$"	U.S. dollar, the lawful currency of U.S.
"Valuation Report"	valuation report dated 13 June 2016 issued by the Valuer, set out as Appendix V to this circular
"Valuer"	an independent valuer, Knight Frank Asset Appraisal Limited
"VFX"	visual effects
"%"	per cent.

Note: In this circular, conversion of US$ into HK$ is based on the exchange rate of US$1 to HK$7.75. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts in US$ or HK$ were or may have been exchanged at this or any other rates or at all.

DIGITALDOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

Executive Directors:
Mr. Peter CHOU *(Chairman)*
Mr. SEAH Ang *(Chief Executive Officer)*
Mr. Amit CHOPRA *(Chief Operating Officer)*

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

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Suite 7003, 70/F.
Two International Finance Centre
8 Finance Street, Central
Hong Kong

13 June 2016

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 27 April 2016 in relation to, among other things, entering into of the SPA among the Company, the Purchaser, Prime Focus and the Target Company regarding the proposed acquisition of the 30% interest in the Target Company not already held by the Group so that upon Completion, the Target Company will be an indirect wholly-owned subsidiary of the Company.

ACQUISITION OF 30% INTEREST IN THE TARGET COMPANY

On 27 April 2016, the Company and the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the SPA with Prime Focus and the Target Company, pursuant to which Prime Focus has conditionally agreed to procure its subsidiary that owns the Sale Interest to sell and the Purchaser has conditionally agreed to purchase the Sale Interest at the consideration of US$30 million (equivalent to approximately HK$232,500,000) which will be settled by the issue and allotment of the Acquisition Consideration Shares to De-fi Media, a wholly-owned subsidiary of Prime Focus, at the Issue Price of HK$0.596 per Share. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

Further information on the SPA and the Target Company is set out below:

The SPA

The principal terms of the SPA are set out below.

Date: 27 April 2016

Parties:

(1) The Purchaser, an indirect wholly-owned subsidiary of the Company

(2) The Company as guarantor of the obligations of the Purchaser

(3) Prime Focus (whose shares are listed on BSE Limited and National Stock Exchange of India Limited, further information relating to which is set out in *"Information on the Parties to the SPA (other than the Target Company)"* below) in relation to the procurement of the sale of the Sale Interest

(4) The Target Company, an indirect subsidiary owned as to 70% by the Company

As Prime Focus indirectly owns the Sale Interest, it is a substantial shareholder of the Target Company which is a non-wholly owned subsidiary of the Company. Therefore Prime Focus is a connected person of the Company under the Listing Rules at subsidiary level.

Assets being acquired: The Sale Interest, representing 30% interest in the Target Company, with all rights (including voting rights and rights to dividends) accruing from 1 April 2016

Consideration for the Sale Interest:	US$30 million (equivalent to approximately HK$232,500,000) which will be settled by the issue and allotment of the Acquisition Consideration Shares to De-fi Media, a wholly-owned subsidiary of Prime Focus, at the Issue Price.

The Company agreed to the consideration for the Sale Interest after arm's length negotiations with Prime Focus and having regard to the following:

(a) the preliminary valuation by the Valuer of the fair value of 30% interest of the Target Company as at 31 March 2016 of approximately US$30,000,000 (the finalised valuation of such 30% equity interest amounting to US$36,345,000, based on the Valuation Report); and

(b) the financial performance and prospects of the Target Group since the Company's acquisition of 70% interest in the Target Company (as described in *"Information on the Target Company and Reasons For and Benefits of the Acquisition"* below).

In this regard, the Company has noted that the consideration for the Sale Interest represents 38.4% premium over the HK$392,000,000 consideration it paid for the 70% interest in the Target Company in the 2013 Acquisition (which implied a valuation of the entire share capital of the Target Company at HK$560,000,000), with the approval of the Company's shareholders at a special general meeting held on 3 July 2013. While the Target Group has continued to report losses and net liabilities since the 2013 Acquisition which renders traditional measures of valuation (such as price/earning ratios) not applicable, the Target Group has continued to deliver award winning products and has secured certain large scale VFX production projects in the U.S. and the PRC in 2016 which are expected to contribute substantial revenue to the Target Group. In addition, the Company also noted that the consideration for the Sale Interest represented (a) approximately 17.5% discount to the fair value of the Sale Interest based on the Valuation Report and (b) approximately 86% discount to the market capitalisation of the Company of HK$5,500 million as at 10 December 2015, being the last trading date of the Shares immediately prior to the Company's announcement of its acquisition of majority interest in Immersive Ventures Inc. As the Target Group contributed substantially all of the Group's revenue other than the rental income from its investment properties (of approximately HK$5.6 million for the year ended 31 December 2015), the Company believes that the Company's market capitalisation at that time is a good indicator of the value ascribed by investors to the Target Group. In this regard, the Company noted that its market capitalisation as at 4 July 2013 when it acquired its 70% interest in the Target Company was only approximately HK$1,426 million and as at the Latest Practicable Date was approximately HK$5,859 million.

Based on the shareholders' agreement for the formation of the Target Company in anticipation of the purchase in 2013 of the assets of the Target Group, the contribution made by the holder of the Sale Interest, which is now indirectly held by Prime Focus, was US$15 million.

Acquisition Consideration Shares:

The 390,100,671 Acquisition Consideration Shares issuable to De-fi Media, a wholly-owned subsidiary of Prime Focus, represent approximately 3.40% of the total number of Shares in issue as at the Latest Practicable Date and approximately 3.28% of the total number of Shares in issue as enlarged by the issue of the Acquisition Consideration Shares.

The Issue Price of HK$0.596 represents:

(a) a premium approximately 16.86% to the closing price of HK$0.51 per Share as quoted on the Stock Exchange on Latest Practicable Date;

(b) a discount of approximately 5.40% to the closing price of HK$0.63 per Share as quoted on the Stock Exchange on 27 April 2016, being the date of the SPA;

(c) a discount of approximately 10.51% to the average closing price of HK$0.666 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to date of SPA; and

(d) a discount of approximately 9.15% to the average closing price of HK$0.656 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to date of SPA.

The issue price of the Acquisition Consideration Shares was determined after arm's length negotiations by reference to the prevailing market prices of the Shares. The Directors considered that the issue price of the Acquisition Consideration Shares is fair and reasonable and in the interests of the Shareholders as a whole.

The Acquisition Consideration Shares, when issued and allotted, will rank *pari passu* in all aspects with the Shares then in issue, including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such issue and allotment.

The Acquisition Consideration Shares are to be issued under the Specific Mandate.

Application will be made by the Company to the Stock Exchange for the listing of and permission to deal in the Acquisition Consideration Shares.

As at the Latest Practicable Date, the authorised share capital of the Company is HK$750,000,000 divided into 75,000,000,000 Shares of HK$0.01 each.

Conditions precedent to Completion:

Completion of the transactions contemplated in the SPA is conditional upon fulfillment of certain conditions precedent for the benefit of the Purchaser and Prime Focus specified below, or the waiver (if applicable) by the party for whose benefit the relevant condition precedent is included in the SPA.

Conditions precedent for the benefit of the Purchaser:

The conditions precedent for the benefit of the Purchaser are, among other things, as follows:

(i) all representations and warranties of Prime Focus being and remaining true and correct in all material aspects as of the date of the SPA and the Closing Date and Prime Focus will cause its wholly-owned subsidiary which owns or will own the Sale Interest at Completion to give representations and warranties to the Purchaser in writing at or before Completion *mutatis mutandis*;

(ii) delivery of completion deliverables by Prime Focus on or before the Closing;

(iii) a wholly-owned subsidiary of Prime Focus being the sole legal and beneficial owner of the Sale Interest free and clear of all claims, liens, mortgages, charges, security interests, encumbrances and other restrictions and limitations of any kind and nature whatsoever immediately prior to the Closing Date;

(iv) there being no order or injunction in effect restraining or otherwise prohibiting the transactions contemplated under the SPA at Completion;

(v) neither the execution of the SPA by Prime Focus for the procurement of the sale of the Sale Interest nor the performance of its obligations thereunder being in conflict with, or resulting in a breach of any agreement to which Prime Focus or a wholly-owned subsidiary of Prime Focus (which is or will be the sole legal and beneficial owner of the Sale Interest at Completion) may be a party or by which the Sale Interest may be subject;

(vi) Prime Focus having granted or procured the grant of the License to DD Licensing pursuant to the License Agreement;

(vii) the Listing Committee of the Stock Exchange having unconditionally granted the listing of and permission to deal in the Acquisition Consideration Shares; and

(viii) the Independent Shareholders having approved in a general meeting the transactions contemplated under the SPA as required by the Listing Rules.

Conditions (vii) and (viii) above cannot be waived by the Purchaser.

Conditions precedent for the benefit of Prime Focus:

The conditions precedent for the benefit of Prime Focus and the Target Company are, among other things, as follows:

(i) all representations and warranties of the Purchaser and the Company being and remaining true and correct in all material aspects as of the date of the SPA and the Closing Date;

(ii) delivery of completion deliverables by the Purchaser, the Company and the Target Company on or before the Closing;

(iii) there being no order or injunction in effect restraining or otherwise prohibiting the transactions contemplated under the SPA at Completion;

(iv) neither the execution of the SPA by the Purchaser and the Company nor the performance of its respective obligations thereunder being in conflict with or resulting in a breach of any agreement to which the Purchaser and/or the Company may be a party or by which its property or assets may be subject;

(v) the Listing Committee of the Stock Exchange having unconditionally granted the listing of and permission to deal in the Acquisition Consideration Shares; and

(vi) the Independent Shareholders having approved in a general meeting the transactions contemplated under the SPA as required by the Listing Rules.

Conditions (v) and (vi) above cannot be waived by Prime Focus.

License Agreement: As a condition to Completion, Reliance Lowry Digital, being a subsidiary of Prime Focus, will grant to DD Licensing a non-exclusive and non-transferable license to use Lowry Digital®, the patented film restoration technology for a fee of US$1 per annum for a term commencing from the date of the License Agreement and ending on the date of termination of the License Agreement.

Pursuant to the License Agreement, DD Licensing may use the licensed software in executable format for its own use and may sub-license the same to other members of the Group at a fee of not more than US$1 per annum.

Completion: Subject to the conditions precedent being fulfilled and/or waived (as the case may be), Completion shall take place on the Closing Date. The long stop date for satisfaction of the conditions precedent shall be 30 June 2016 or such other date as shall be agreed by the parties to the SPA.

Termination: The SPA may be terminated at any time prior to the Closing Date by:

(a) the written agreement of the parties to the SPA; or

(b) by any party, upon delivery of written notice to the non-terminating parties in the event of a material breach by a non-terminating party of any provision of the SPA, which breach has resulted in a material adverse effect and which is not cured within twenty (20) days following written notice to the non-terminating parties or which breach cannot by its nature be cured prior to Completion.

If the Purchaser terminates the SPA pursuant to (b) above as a result of material breach by Prime Focus, the Purchaser shall have the right to seek specific performance of the SPA by Prime Focus.

INFORMATION ON THE PARTIES TO THE SPA (OTHER THAN THE TARGET COMPANY)

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) media entertainment business, (ii) property investment business and (iii) trading business. The Purchaser is a company incorporated under the laws of Delaware and an indirect wholly-owned subsidiary of the Company. It is an investment holding company through which the Company holds its interest in the Target Group.

Prime Focus is a limited liability company formed in India, whose shares are listed on BSE Limited and National Stock Exchange of India Limited. Prime Focus Group engage, amongst other things, in the business of provision of post production and VFX to advertising, animation and virtual reality industry in India.

INFORMATION ON THE TARGET COMPANY AND REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Company is a limited liability company formed in the State of Delaware, U.S. and its principal business is investment holding. The Target Group is engaged in VFX productions for motion pictures studios, advertisers and video games.

The Group acquired 70% interest in the Target Company (for a consideration of HK$392 million) and related shareholder's loan (at face value) in 2013 pursuant to the 2013 Acquisition. In 2014, the Group provided VFX production services for feature films, such as "X-Men: Days of Future Past", "Maleficent" and "Night at the Museum: Secret of the Tomb"; and VFX in advertising for major brands such as Nissan, United Airlines, Kia's Super Bowl commercial, the video games "Destiny", "Assassin's Creed" and Microsoft's "Halo" and "Tomb Raider". That year saw "X-Men: Days of Future Past" Nominated for Academy of Motion Picture Arts and Sciences (Oscars) for Best Achievement in Visual Effects; and the Target Group's artists were nominated for 6 Visual Effects Society ("**VES**") awards for their VFX work on "Maleficent", "X-Men: Days of Future Past", the video game "Destiny" and Kia's Super Bowl advertisement and the Group gaining Science and Technical Awards for MOVA and Drop technologies by the Academy of Motion Pictures Arts and Sciences. Since 1 January 2015, the artists of the Target Group have provided VFX production services for feature films "Furious 7" and "Pixels"; the Starz cable channel show "Black Sails"; and marketing campaigns for major brands including Oculus Rift, Gatorade, Nike, Toyota, Cadillac and the NBC "Heroes Reborn" Super Bowl commercial. They were nominated for four VES awards for their VFX work on Nike: "The Neymar Jr. Experience" and "Black Sails".

Set out below is a summary of the audited financial information of the Target Group for the FY2014 and FY2015 extracted from the Accountant's Report:

	FY2014 (*Approximate HK$ million*)	**FY2015** (*Approximate HK$ million*)
Consolidated net loss		
before taxation	30.1	41.5
after taxation	30.8	48.2

Based on the Accountant's Report, as at 31 December 2015 the Target Group recorded net liabilities of approximately HK$44.41 million, after taking into account the net amounts due to the Group of approximately HK$114.17 million (including funding advanced by the Group to the Target Group and the shareholder's loans of approximately HK$108.5 million acquired by the Group in the 2013 Acquisition).

The net amounts due to the Group by the Target Group have to be eliminated on consolidation when preparing the Group's consolidated financial statements. In addition, the Group's consolidated financial statements also took into account the enhanced valuation ascribed to the Target Group and its assets under the 2013 Acquisition (compared with Target Group's earlier acquisition of similar assets through bankruptcy sale at a lower value) and associated depreciation/amortisation costs and deferred tax expenses/liabilities. Further information relating to the 2013 Acquisition and the Target Group's acquisition of assets through bankruptcy sale are included in the Company's circular dated 14 June 2013.

The revenue, assets and liabilities of the Target Group accounted for all of the revenue, assets and liabilities of the media entertainment segment of the Group for FY2014. The Target Group also accounted for approximately 94% of revenue and around one-third of the assets and liabilities of the media entertainment segment of the Group for FY2015. The remaining revenue, assets and liabilities of that segment for FY2015 was attributable to the Group's subsidiary, IM360 Entertainment Inc. established during FY2015, and Immersive Ventures Inc., the controlling interest in which was acquired by the Group on 30 December 2015. Based on the notes to the audited financial statements of the Group for FY2014 and FY2015, the reportable segment loss was approximately HK$36.02 million and HK$78.07 million respectively and as at 31 December 2015, the reportable segment assets and reportable segment liabilities were approximately HK$959.32 million and HK$376.52 million respectively.

While the Target Group has not yet reported profit, the Group has continued to implement cost control measures to improve the profit margins of the Target Group. The Target Group's capabilities have also enabled the Group to develop its virtual reality and virtual human offerings and also to expand through acquisitions, joint venture and other collaborations in the virtual reality, enhanced reality, immersive media and 360° imaging sectors in North America and Greater China. In addition, the Target Group has secured certain large-scale VFX production projects in the U.S. and the PRC in 2016, which are expected to bring in substantial amount of revenue to the Group in the coming years. Further as stated in its business update announcement dated 12 May 2016, the Group is developing collaborations with China's leading media, cultural and entertainment industry player, internet platform and content provider, and other independent parties for collaborations with respect to movies and television series, as well as variety shows, concerts and virtual human productions which can in due course create additional demand for the services of the Target Group.

The Group completed its acquisition of Immersive Ventures Inc. at the end of 2015 and Lucrative Skill Holdings Limited earlier this year which add to the technology capabilities available to the Group. However, the existence of a significant minority shareholder in the Target Group invariably imposes constraints on the Group's ability to deploy resources available within the Target Group and exploit synergies that can be created across the teams and technological assets controlled by the Group.

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Group and the Group will also have access to proprietary intellectual property that may be used to develop and enhance its VFX and 360° virtual reality production technology. This will enable the Group to have greater flexibility in integrating and managing its virtual reality, virtual human and immersive entertainment resources to expand the North America market and to develop the Greater China market and establish a revenue-driven model through collaboration with content owners, producers and distributors.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the SPA and the transactions contemplated thereunder and the terms of issue of the Acquisition Consideration Shares are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY AS A RESULT OF THE ACQUISITION

For illustration purpose only, set below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; and (ii) immediately after the Completion and the issue and allotment of the Acquisition Consideration Shares assuming there being no other change in the shareholding structure and share capital of the Company from the Latest Practicable Date up to the date of issue and allotment of the Acquisition Consideration Shares:

	As at the Latest Practicable Date		**Immediately after the Completion and the issue and allotment of the Acquisition Consideration Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Directors				
Peter Chou *(Note 1)*	714,401,746	6.22	714,401,746	6.01
Seah Ang *(Note 2)*	502,134,789	4.37	502,134,789	4.23
Amit Chopra *(Note 3)*	502,134,789	4.37	502,134,789	4.23
Substantial Shareholder				
Zhang Xiaoqun *(Note 4)*	1,672,035,000	14.56	1,672,035,000	14.08
Public Shareholders				
De-fi Media, a wholly-owned subsidiary of Prime Focus	–	–	390,100,671	3.28
Other public Shareholders	8,096,902,225	70.48	8,096,902,225	68.17
Total	**11,487,608,549**	**100.00**	**11,877,709,220**	**100.00**

Notes:

1. Mr. Peter Chou holds these Shares through his wholly-owned companies, Kabo Limited and Honarn Inc. Kabo Limited holds 602,561,746 Shares and Honarn Inc. holds 111,840,000 Shares.

2. Mr. Seah Ang holds these Shares through his wholly-owned company, Global Domain Investments Limited. Mr. Seah Ang also holds 100,000,000 outstanding share options granted under the Company's share option scheme.

3. Mr. Amit Chopra holds these Shares through his wholly-owned company, Redmount Ventures Limited. Mr. Amit Chopra also holds 163,000,000 outstanding share options granted under the Company's share option scheme.

4. Mr. Zhang Xiaoqun holds these Shares through his wholly-owned company, Fortune Source International Limited.

5. As at the Latest Practicable Date, the Company has in issue 11,487,608,549 Shares, options to subscribe for 1,314,990,000 Shares granted pursuant to the share option scheme of the Company, HK$392,000,000 in principal amount of convertible notes that are convertible into Shares at the conversion price of HK$0.04 per Share, subject to adjustments. An aggregate of 310,870,361 Shares are to be issued in connection with the Group's acquisition of further interest in Immersive Ventures Inc., which was the subject of the Company's announcements dated 11 December 2015 and 30 December 2015 respectively.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Acquisition, which involves the issue and allotment of the Acquisition Consideration Shares as payment of the consideration, will not result in a change of control of the Company.

The accounting treatment on an acquisition of additional interest on a subsidiary from non-controlling interest is required to follow HKFRS 10 under which any difference between the non-controlling interests and fair value of the consideration is directly accounted for as equity. Since the Group has maintained control of the Target Company before and after the Acquisition, the Company has applied paragraphs 23 and B96 of HKFRS 10 which provides: (i) in relation to paragraph 23 of HKFRS 10, *"Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners)"*; and (ii) in relation to paragraph B96 of HKFRS 10, *"When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent"*.

As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2015, the carrying amount of 30% non-controlling interest of the Target Group in debit balance as at 31 December 2015 of approximately HK$17,629,000, as extracted from the Company's annual report for the year ended 31 December 2015, would be derecognised. Meanwhile, the sum of fair value of Acquisition Consideration Shares of approximately HK$198,951,000 and the carrying amount of non-controlling interests in debit balance to be adjusted, amounting to HK$216,580,000, would be recognised in equity attributable to the owners of the Company to reflect the change of ownership interest in the Target Company.

The difference between the carrying value of 30% non-controlling interest of the Target Group in debit balance as at 31 December 2015 of HK$17,629,000, as extracted from the Company's annual report for the year ended 31 December 2015, and 30% of the net liabilities of the Target Group as at 31 December 2015 (HK$44,413,000 as shown in the Accountant's Report in Appendix II) of approximately HK$13,324,000, is mainly attributable to the equity-settled share-based payment reserve (in respect of the share options granted by the Company to a director and certain employees of the Target Group) attributable to the non-controlling interests of the Target Group amounting to approximately HK$4.9 million not being accounted for as non-controlling interests in the Group's consolidated financial statements.

Assets

According to the 2015 annual report of the Company, as at 31 December 2015, the audited consolidated total assets of the Group amounted to approximately HK$1,540,353,000. As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2015, there would have been no material impact on the assets of the Group.

Liabilities

According to the 2015 annual report of the Company, as at 31 December 2015, the audited consolidated total liabilities of the Group amounted to approximately HK$838,112,000. As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2015, the unaudited pro forma consolidated total liabilities of the Group would be approximately HK$840,777,000, representing an increase in the total liabilities by approximately HK$2,665,000, which are mainly attributable to the estimated professional fees incurred or to be incurred in relation to the Acquisition.

Earnings

According to the 2015 annual report of the Company, the Group recorded an audited consolidated loss of approximately HK$179,507,000 for the year ended 31 December 2015. As the Target Group is a 70% owned subsidiary of the Group prior to the Completion and for the year ended 31 December 2015, 100% of the financial performance contributed from the Target Group had already been consolidated to the Group's financial performance for the year ended 31 December 2015 while 30% of the financial performance contributed from the Target Group had been included in the loss attributable to non-controlling interest. Following the Completion, accounting treatment adopted by the Company on the consolidation on the financial results of the Target Group will remain unchanged while the financial performance attributable to the non-controlling interest will be taken up by the owners of the Company.

Gearing

According to note 38 to the financial statements of 2015 annual report of the Company, the Group's gearing ratio was determined as the proportion of net debt to equity. Net debt equals to the borrowings, obligations under finance leases and convertible notes minus bank balances and cash. The gearing ratio of the Group for year ended 31 December 2015 was 50%. Based on the unaudited pro forma financial information of the Group as set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2015, there would have been no material impact on the gearing ratio of the Group.

Shareholders should note that the fair value of the Company's interest in the Target Group is required to be reassessed periodically after Completion based on the fair value to be determined by a professional valuer at that time. The fair value of the Company's interest of the Target Group as at the date of such future valuation will be subject to certain factors which the Group cannot control including market conditions. Any significant decreases in the fair value may be reflected in the income statement of the Group and may materially and adversely impact on the Group's results of operations.

LISTING RULES IMPLICATIONS

Valuation - Profit Forecast

As stated in *"Acquisition of 30% Interest in the Target Company"*, the consideration for the Sale Interest was determined with reference to, amongst other things, the valuation by the Valuer.

As the Valuer has adopted discounted cash flow method under the income approach in the Valuation Report, the valuation constitutes a "profit forecast" under Rule 14.61 of the Listing Rules (the "**Profit Forecast**"). The principal assumptions, including commercial assumptions adopted by the Valuer in the valuation as stated in the Valuation Report are as follows:

1. There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;

2. There will be no major changes in the current taxation law in the areas in which the Target Group conducting its operation, including the rate of tax payable and all applicable laws and regulations remains unchanged;

3. The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;

4. The Target Group will retain the key management and personnel to maintain its ongoing operations;

5. There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

6. The Target Group will remain free from claims and litigation against the business or their customers that will have a material impact on value;

7. The Target Group is unaffected by any statutory notice and that operation of the Target Group gives, or will give, no rise to a contravention of any statutory requirements;

8. The Target Group is not subject to any unusual or onerous restrictions or encumbrances; and

9. The potential bad debt arising from the operation of the Target Group, if any, will not materially affect the business operations.

The full content of the Valuation Report, including details of the basis and methodologies of the valuation, is included Appendix V to this circular.

The Reporting Accountant is of the view that the discounted future cash flows used in the valuation do not involve the adoption of accounting policies. It has examined the arithmetical accuracy of the discounted future cash flows on which the Valuation Report is based.

The Independent Financial Adviser has reviewed the Valuation Report and discussed with the Directors and the Valuer, and confirmed that the Profit Forecast has been made by the Directors after due and careful enquiry.

The letters on the valuation from the Reporting Accountant and the Independent Financial Adviser are included as Appendix VI to this circular pursuant to Rule 14.62 of the Listing Rules.

Major and Connected Transaction

As Prime Focus indirectly owns the Sale Interest, it is a substantial shareholder of the Target Company, being a non-wholly owned subsidiary of the Company. Therefore Prime Focus is a connected person of the Company under the Listing Rules at the subsidiary level. Accordingly, the issue and allotment of the Acquisition Consideration Shares to De-fi Media, a wholly-owned subsidiary of Prime Focus, constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition (including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate) constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements.

As none of the Directors is considered to have a material interest in the transactions contemplated under the SPA, no Director was required to abstain from voting on the relevant resolution approving the SPA at the Board meeting.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Mr. Duan Xiongfei, Ms. Lau Cheong and Mr. Wong Ka Kong Adam, being all independent non-executive Directors, has been established to make recommendation to the Independent Shareholders regarding the SPA and the transactions contemplated thereunder.

Hercules Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the SPA and the transactions contemplated thereunder, including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate.

SGM

The SGM will be held at the Conference Room, Suite 7003, 70/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Wednesday, 29 June 2016 at 10:00 a.m. to consider and, if thought fit, approve the SPA and the transactions contemplated thereunder, including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate. A notice convening the SGM is set out on pages SGM-1 to SGM-2 of this circular.

As at the Latest Practicable Date, no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM.

A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event, the form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the SPA and the transactions contemplated thereunder (including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate) are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser and the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
DIGITAL DOMAIN HOLDINGS LIMITED
Seah Ang
Executive Director and Chief Executive Officer

DIGITALDOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

13 June 2016

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to the circular of the Company dated 13 June 2016 (the "**Circular**"), of which this letter forms part. The terms defined in the Circular shall have the same meanings when used in this letter, unless the context requires otherwise.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the SPA and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Hercules Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same respect.

We wish to draw your attention to the letter from the Board set out on pages 5 to 19 of the Circular and the letter of advice from the Independent Financial Adviser as set out on pages 22 to 48 of the Circular.

RECOMMENDATION

Having considered, among other matters, the principal factors and reasons considered by, and the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the SPA and the transactions contemplated thereunder, including the grant of the Specific Mandate to the Directors for the issue and allotment of the Acquisition Consideration Shares are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the SPA and the transaction contemplated thereunder, including the grant of the Specific Mandate to the Directors for the issue and allotment of the Acquisition Consideration Shares.

Yours faithfully,
For and on behalf of the Independent Board Committee of
Digital Domain Holdings Limited
DUAN Xiongfei
LAU Cheong
WONG Ka Kong Adam
Independent Non-executive Directors

The following is the text of a letter of advice from Hercules Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purposes of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition.

Hercules

Hercules Capital Limited

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

13 June 2016

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the SPA, details of which are set out in the Letter from the Board contained in the circular dated 13 June 2016 to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 27 April 2016, the Company and the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the SPA with Prime Focus and the Target Company, pursuant to which Prime Focus has conditionally agreed to procure its subsidiary that owns the Sale Interest to sell, and the Purchaser has conditionally agreed to purchase, the Sale Interest at the consideration of US$30 million (equivalent to approximately HK$232.5 million) which will be settled by the issue and allotment of the Acquisition Consideration Shares to De-fi Media, a wholly-owned subsidiary of Prime Focus, at the Issue Price of HK$0.596 per Share. Upon Completion, the Target Company will be an indirect wholly-owned subsidiary of the Company.

Prime Focus indirectly owns the Sale Interest and it is a substantial shareholder of the Target Company, being a non-wholly owned subsidiary of the Company. Therefore, Prime Focus is a connected person of the Company under the Listing Rules at the subsidiary level. Accordingly, the issue and allotment of the Acquisition Consideration Shares to De-fi Media, a wholly-owned subsidiary of Prime Focus, constitutes a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules. Moreover, as the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition (including the issue and allotment of the Acquisition Consideration Shares under the Specific Mandate) also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Acquisition is required to abstain from voting on the relevant resolution at the SGM. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors, Prime Focus and its associates did not hold any Share and none of the other Shareholders has a material interest in the Acquisition. Therefore, no Shareholders are required to abstain from voting on the relevant resolution for approving the SPA and the transactions contemplated thereunder at the SGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Lau Cheong, Mr. Duan Xiongfei and Mr. Wong Ka Kong Adam, has been established to consider the transactions contemplated under the SPA and to advise the Independent Shareholders on the fairness and reasonableness of the Acquisition. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition, in particular as to whether the terms of the SPA are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We are not associated with the Group, Prime Focus or their respective associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group, Prime Focus or their respective associates.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the SGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the SPA. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the SPA, we have considered the following principal factors and reasons:

1. Information on the Group

The Company is an investment holding company. Its subsidiaries are principally engaged in (a) media entertainment business, (b) property investment business and (c) trading business. The Purchaser is a company incorporated under the laws of Delaware and an indirect wholly-owned subsidiary of the Company. It is an investment holding company through which the Company holds its interest in the Target Group.

Media Entertainment Segment

The media entertainment business of the Group mainly comprises four business units, namely VFX Productions, Virtual Reality and 360^{o} Camera, Virtual Human Business and Film Co-production.

(i) VFX Productions

The business unit of VFX Productions mainly provides VFX production services for major motion picture studios, advertisers and games. The Group's VFX production business is mainly conducted through the Target Group, an indirect non-wholly owned subsidiary owned as to 70% by the Company. Please refer to the section headed "2. Information on the Target Group" in this letter for further details of the Group's VFX production business.

To further develop the VFX production business, the Group entered into sale and purchase agreements with Magic Well Holdings Limited and Mr. Nicholas Tse to acquire 85% equity interest in Lucrative Skill Holdings Limited ("**Lucrative Skill**"), whose subsidiaries are principally engaged in conducting post production work on advertisements, feature films, TV programmes, music videos, internet and mobile application content, and visual matters for corporate events. Lucrative Skill and its subsidiaries have set up comprehensive VFX and computer graphic production houses in Beijing and Shanghai for large budget VFX-intensive movies. The acquisition was completed in April 2016. The Company believes that the acquisition will help expanding the Group's VFX business in the PRC, and bring synergy to the Group's existing VFX business based in North America through more efficient deployment of resources and talents.

On 12 May 2016, the Company announced that it was in discussions with a wholly-owned subsidiary of Youku Tudou Inc. (youku.com) ("**Youku**"), one of the leading media, cultural and entertainment industry players and internet platform and content providers in the PRC, to finalise the collaboration for a content licensing scheme to enable the distribution and broadcast in the Greater China via Youku platform of computer graphics, VFX and 360 live streaming and pre-recorded video and virtual reality, augmented reality and immersive media contents produced and/or owned by the Group for selected content to be agreed, and the joint development, production and exploitation of 360 live streaming and pre-recorded video and virtual reality, augmented reality and immersive media contents based on the rights to use or access all Youku's contents and/or events.

(ii) Virtual Reality and 360º Camera

The Group's Virtual Reality and 360º Camera business unit is mainly engaged in the provision of virtual reality technology services using 360º digital capture technology. Further to the Group's investment in Immersive Ventures Inc. ("**Immersive**"), which is known as one of the top players in the 360º and virtual reality industry specializing in producing high-end virtual reality and 360º content, and owns certain patents, copyrights, trade secrets and intellectual property for a variety of inventions and technology which are core to the businesses in relation to the development, exploitation, production, publishing and distribution of 360º live-streaming and pre-recorded 360º video, virtual reality, augmented reality and similar immersive media content, and the formation of a joint venture company, namely IM360 Entertainment Inc. ("**IM360**"), with Immersive in February 2015, the Group made significant progress in developing its offerings in the 360º video, virtual reality and augmented reality industry. In addition to the projects in the Greater China, IM360 has rapidly developed new customers such as the New York Times, which engaged IM360 to develop, host and distribute a dynamic virtual reality application, which has become the largest virtual reality distribution outlet available in the market to date.

IM360 was also engaged by Samsung to produce live and VOD immersive experiences for soccer matches, surf competitions and concerts. Other live productions included the first-ever, fully integrated, live 360º broadcast of a major awards show, the MTV VMAs. Commercials by IM360 included an immersive virtual reality experience for Nike by combining 360º video with motion capture animation so as to position fans through international soccer star Neymar Jr.'s point of view as he played against his biggest rivals, as well as the 360º fan experience for the Syfy show "The Expanse". Meanwhile, IM360's virtual reality production of Taylor Swift's "Blank Space" music video earned an Emmy Award for Outstanding Original Interactive Programming, the first virtual reality project ever to be recognised in this way.

Furthermore, the Group teamed up with LeTV Sports Culture Development (Beijing) Company Limited, China's leading digital sports broadcaster, to broadcast the 2015 International Champions Cup (ICC) China in a record-breaking 360º virtual reality livestream and joined forces with CTi TV and Gin Star Entertainment Co., Ltd., which is owned by Mr. Wang Wei-chung, a well-known producer in Taiwan, to bring in 360º digital capture technology for the last day of shooting of "康熙來了" ("**Kangxi Lai Le**" for identification purposes), an iconic Taiwanese TV show. IM360 also produced a multi-camera live virtual reality experience of "Haye Day 2016: David 'The Haymaker' Haye vs Mark 'The Dominator' de Mori". The event was broadcast online worldwide via YouTube; on UK television on the Dave channel; and in virtual reality by IM360. This was the first ever live-streamed virtual reality boxing match and such event can be viewed using the "im360" app, laptop or desktop computer.

As virtual reality and 360º production and distribution will become the core part of the Group's business in the coming years, the Company decided that it would be strategically desirable to acquire control of Immersive and the technology that is licensed to IM360 by Immersive so that the Company will have greater flexibility and control over the development of its 360º and virtual reality business operations. Accordingly, the Group further increased its interest in the share capital of Immersive from approximately 12.74% to approximately 83.10% in December 2015.

(iii) Virtual Human Business

This business segment is mainly engaged in the creation and/or recreation of a human being in image and voice using computer-generated imagery and sound. The Group produces virtual human interactive performances and entertainment events such as concerts, albums, movies and advertisements. The Group's virtual human production is produced by the Target Group. Through the joint venture between the Group and TNT Production Limited ("**TNT**"), the Target Group produced new holograms of the Taiwanese pop diva Miss Teresa Teng and reproduced the glamour of Miss Teresa Teng on stage and, even more impressively, arranged a soulful duet with famous Taiwanese singer 費玉清先生 (Mr. Fei Yuqing). The joint venture is planning to arrange a series of Virtual Human Miss Teresa Teng Concerts in China and/or other countries in 2016.

Recently, the Group signed a cooperation agreement relating to the development of 3D virtual human images of the deceased canton pop diva Anita Mui. It is expected that a series of interactive performances and entertainment events featuring Virtual Human Anita Mui will be launched in the coming years.

(iv) Film Co-production

Through its interest in the Target Group, the Group participated in the production of the film titled "Ender's Game", which was released in the U.S. in November 2013 and continues to generate income from non-box office channels both within and outside the U.S. Please refer to the section headed "2. Information on the Target Group" for further details of the Group's film co-production business.

(v) Others

To complement its entertainment business, the Group formed a joint venture company, which is owned as to 75% by the Group and 25% by POW! Entertainment, LLC ("**POW!**"), a wholly-owned subsidiary of POW! Entertainment, Inc. whose common stock is quoted on the OTCQB Market in the U.S. and is a multimedia production and licensing company that creates and licenses animated and live-action fantasy and superhero entertainment content and merchandise, in the U.S. in 2015 for the development, production, and distribution of projects based on certain characters and other content developed by POW! or by the two parties jointly for distribution throughout the world.

Property Investment Segment

The Group owns two shops on the ground floor and ten car parking spaces in the Citicorp Centre, Causeway Bay, Hong Kong. Both shops and most of the car parking spaces were leased out during the FY2015. The investment properties portfolio of this segment continues to contribute a steady income stream for the Group.

Trading Segment

For the FY2015, the trading segment did not recognise any revenue. For the FY2014, this segment was mainly engaged in the trading of metal scraps (e.g. copper wire) in Hong Kong, Mainland China and other countries/regions.

The audited consolidated financial information of the Group for the two years ended 31 December 2015, which was extracted from the annual report of the Company, is summarized as follows:

	For the year ended 31 December	
	2015	**2014**
	HK$'000	*HK$'000*
Revenue		
– Media entertainment	521,781	524,595
– Property investment	5,560	5,650
– Trading	–	319,707
Sub-total	527,341	849,952
Cost of sales and services	(443,122)	(700,543)
Gross Profit	84,219	149,409
(Loss)/profit before taxation	(174,018)	30,551
(Loss)/profit for the year	(179,507)	33,481
(Loss)/profit attributable to owners of the Company	(156,298)	43,323

	As at 31 December	
	2015	**2014**
	HK$'000	*HK$'000*
Non-current assets	1,128,478	521,715
Current assets	411,875	229,031
Total assets	1,540,353	750,746
Non-current liabilities	658,366	396,146
Current liabilities	179,746	87,840
Total liabilities	838,112	483,986
Net current assets	232,129	141,191
Net assets	702,241	266,760
Net assets attributable to owners of the Company	673,428	267,771

For the FY2015, the revenue of the Group amounted to approximately HK$527.3 million, representing a decrease of approximately 38.0% as compared to the previous year, of which approximately 98.9% (FY2014: 61.7%) was derived from the media entertainment segment while the remaining 1.1% of the revenue for the FY2015 (FY2014: 0.7%) was derived from property investment segment. The performance of metal scraps trading is highly dependent on economic conditions and market prices and thus the Group chose to adopt conservative business strategies and no revenues from metal scraps trading segment were recorded for the FY2015. For the FY2014, the trading of metal scraps in Hong Kong, the PRC and other countries/regions contributed revenue of approximately HK$319.7 million to the Group. The gross profit of the Group amounted to approximately HK$84.2 million for the FY2015 (FY2014: HK$149.4 million). As no revenues from metal scraps trading segment were recorded, the revenue and gross profit of the Group decreased for the FY2015.

The loss for the FY2015 was approximately HK$179.5 million (FY2014: profit of HK$33.5 million). The loss for the year was mainly attributable to (a) the recognition of non-cash outflow expenses, including (i) equity-settled share-based payments of approximately HK$37.6 million (FY2014: HK$6.2 million) for the share options granted on 28 May 2014 and 6 May 2015; and (ii) deemed interest expenses for the convertible notes of approximately HK$35.2 million (FY2014: HK$35.5 million); (b) the reduction of fair value gains on investment properties (FY2015: HK$18.1 million and FY2014: HK$34.5 million); (c) the absence of gain on modification of the terms of convertible notes for the FY2015 (FY2014: HK$77.1 million); and (d) the increase in operating losses from the media entertainment segment, which had a reportable segment loss of approximately HK$78.1 million and HK$36.0 million for the FY2015 and FY2014 respectively. For the FY2015, the loss attributable to the owners of the Company amounted to approximately HK$156.3 million while a profit of HK$43.3 million was recorded for the FY2014.

As at 31 December 2015, the non-current assets of the Group amounted to approximately HK$1,128.5 million, which mainly comprised intangible assets (including goodwill, trademarks, proprietary software, participation rights, patents, license for intellectual property rights and virtual human know-how) of approximately HK$874.0 million and investment properties of approximately HK$208.6 million, while the current assets of the Group amounted to approximately HK$411.9 million, which mainly consisted of cash and bank balances of approximately HK$344.7 million and trade receivable, other receivables and prepayments of approximately HK$66.8 million.

The non-current liabilities of the Group amounted to approximately HK$658.4 million as at 31 December 2015, which mainly included convertible notes and borrowings of approximately HK$330.9 million and HK$281.6 million respectively. The current liabilities of the Group as at 31 December 2015 amounted to approximately HK$179.7 million, which mainly comprised borrowings of approximately HK$78.7 million, trade payables, other payables and accruals of approximately HK$59.0 million and deferred revenue of approximately HK$33.7 million. As at 31 December 2015, the net current assets of the Group amounted to approximately HK$232.1 million while the net assets and the net assets attributable to owners of the Company amounted to approximately HK$702.2 million and HK$673.4 million respectively. The gearing ratio, as expressed as total liabilities over total assets, of the Group was approximately 0.54 as at 31 December 2015 (2014: 0.64).

The revenue, assets and liabilities of the Target Group accounted for all of the revenue, assets and liabilities of the media entertainment segment of the Group for the FY2014. The Target Group also accounted for approximately 94% of revenue and around one-third of the assets and liabilities of the media entertainment segment of the Group for the FY2015. The remaining revenue, assets and liabilities of that segment for the FY2015 was attributable to the Group's subsidiaries, IM360, which was established during the FY2015, and Immersive, the controlling interest of which was acquired by the Group on 30 December 2015. Based on the notes to the audited financial statements of the Group for the FY2014 and the FY2015, the reportable segment loss was approximately HK$36.0 million and HK$78.1 million respectively and the reportable segment assets and reportable segment liabilities were approximately HK$959.3 million and HK$376.5 million respectively as at 31 December 2015.

2. Information on the Target Group

The Target Company is a limited liability company formed in the State of Delaware, U.S. and its principal business is investment holding. The Target Group is principally engaged in VFX productions for motion pictures studios, advertisers and video games.

In 2013, pursuant to a court-sanctioned bankruptcy sale order, the Target Group acquired from Digital Domain Media Group, Inc. ("**DDMG**") and its subsidiaries (collectively, "**DDMG Group**"), which are principally engaged in the business of digital production and animation, certain assets which include the rights in certain contracts and film projects, rights in real estate leases, fixed assets and equipment, intellectual property rights such as trademarks, internet domain names, copyrights rights in original works of authorship, software and applications, proprietary or confidential know-how, tools, patents and trade secrets, etc., intangible assets such as contractual rights of profit sharing on pre-determined percentages from the movies "Ender's Game" and "Titanic" and all related rights, accounts receivable, etc. relating to DDMG Group's business of digital production and animation.

DDMG was founded in 1993 and its shares were originally traded on the New York Stock Exchange. DDMG had previously garnered seven Academy Awards for both Best Visual Effects as well as in the Scientific and Technical categories. Receiving its first Oscar in 1997 for the ground-breaking VFX in "Titanic", it followed with a second Oscar for "What Dreams May Come" in 1998. In 2008, DDMG received its third Oscar for "The Curious Case of Benjamin Button". Its four Scientific and Technical Achievements include "Track", "NUKE", "STORM" and "FSIM Fluid Simulation System" in 1998, 2001, 2004 and 2007 respectively. In addition, DDMG also received Oscar nominations for Best Visual Effects for "Iron Man 3", "Real Steel", "Transformers: Dark of the Moon", "I, Robot", "Apollo 13" and "True Lies". DDMG had previously garnered 12 Visual Effects Society ("VES") Awards since 2002.

On 11 September 2012, DDMG filed for Chapter 11 bankruptcy protection mainly due to, among others, liquidity issues and its shares were subsequently delisted from the New York Stock Exchange. The business of the DDMG Group thereafter underwent a series of restructuring in accordance with the United States' Bankruptcy Code before those assets of the DDMG Group were acquired by the Target Group.

Although the Target Group does not have a long operating history, it has retained the major senior management, creative teams and technical teams of the DDMG Group for the VFX productions. In addition, it holds certain contracts entered into by DDMG with the major studios and acquired the major assets from DDMG including certain fixed assets, intellectual and intangible property. The Target Group has also benefited from the established track record of the DDMG Group in the movie industry. In 2013, the Group acquired 70% interest in the Target Company for a consideration of HK$392 million and the shareholder's loan at face value pursuant to the 2013 Acquisition.

Currently, the Target Group has four business segments: (i) feature films; (ii) commercial production; (iii) co-production; and (iv) virtual human business.

Feature Films

The Target Group is one of the largest VFX providers in the entertainment industry. It is fully equipped with digital film cameras, high performance computers, laptops and workstations and is capable of managing the entire process of development and production of VFX for large-scale action motion pictures. It is generally capable of handling eight to ten motion pictures per year. The Target Group is typically hired by a motion picture studio, often at the recommendation of a producer or director, to provide VFX in the development stage of a film project. The Target Group typically will be invited into a bid for VFX production. Once the Target Group wins the bid, as standard practice, the Target Group will enter into a contract with the studio. The Target Group also carries out a small amount of short-term contract works. These are typically small numbers of shots that may be required during the post-production phases of films with which the Target Group has not previously been associated. This kind of short-term contract works provides the Target Group an opportunity to smoothen its workflow between projects and utilize resources that might otherwise be idle until the next large-scale project begins. The creative and technical teams of the Target Group have over a decade of experience in VFX production for feature films. They produced VFX for some of the most visually stunning films, including "Thor", "TRON: Legacy", "the Transformers trilogy", "The Curious Case of Benjamin Button", "Apollo 13" and "Titanic". Other feature films for which the Target Group provided its VFX production include "House of Cards", "Oblivion", "Iron Man 3", "Ender's Game", "Black Sky", "Maleficent", "X-Men: Days of Future Past" and "Night at the Museum: Secret of the Tomb".

"X-Men: Days of Future Past" was nominated for Academy of Motion Picture Arts and Sciences (Oscars) for Best Achievement in Visual Effects in 2015 and the Target Group's artists were nominated for VES awards for their VFX work on "Maleficent" and "X-Men: Days of Future Past". The Target Group's exclusive VFX technologies, MOVA (a facial performance capture system) and Drop (a large-scale destruction toolkit), also honored with Scientific and Technical Achievement Awards in the 87th Academy Awards organized by the Academy of Motion Pictures Arts and Sciences. Since 1 January 2015, the artists of the Target Group have provided VFX production services for feature films "Furious 7" and "Pixels".

Commercial Production

The Target Group's commercial production aims at the advertising market, including provision of VFX and/or animation for all advertising media such as television commercials and campaigns of related commercials and online interactive advertising, and focuses on the development, creation, production and implementation of marketing solutions for brand advertisers and advertising agency clients. Its commercial production is provided across multiple media platforms, which include television, online, print, mobile and other forms of interactive media.

The Target Group's suite of creative services includes: (i) interactive brand marketing campaign planning and strategy; (ii) content development and production; (iii) creation, delivery and maintenance of both active and ongoing marketing campaigns; and (iv) development of and implementation of broad digital marketing initiatives. The Target Group is normally capable of handling around twenty commercial projects per year.

In 2015, the Target Group produced VFX in advertising for major brands such as Nissan, United Airlines, "Kia's Super Bowl" commercial, the video games "Destiny", "Assassin's Creed" and Microsoft's "Halo" and "Tomb Raider". The Target Group's artists were nominated for VES awards for their VFX work on the video game "Destiny" and "Kia's Super Bowl" advertisement. The Target Group also produced VFX for the Starz cable channel show "Black Sails" and marketing campaigns for major brands including Oculus Rift, Gatorade, Nike, Toyota, Cadillac and the NBC "Heroes Reborn" Super Bowl commercial. The artists of the Target Group were nominated for four VES awards for their VFX work on Nike: "Neymar Jr. Experience" and "Black Sails".

Co-Production

The Target Group entered into an investment and production agreement with Ender's Game Holdings LLC and Odd Lot Entertainment, LLC to provide financing and production services to co-produce the VFX action movie Ender's Game. That was the first time the Target Group has been engaged in the co-production film business.

Based on the best-selling and award winning novel, Ender's Game is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld and Viola Davis with Abigail Breslin and Ben Kingsley. The Target Group co-produced the feature as well as creating a wide range of visuals under the direction of Visual Effects Supervisor Matthew Butler. The film was released in November 2013 in the U.S. and it continues to generate income to the Target Group from non-box office channels both within and outside the U.S.

Virtual Human Business

In April 2012, by using virtual human technology, DDMG introduced a new form of entertainment when the late rap star Tupac Shakur appeared "live" at an outdoor music festival in California, U.S. and gave an original performance to 90,000 fans. The performance was created by the artists of the DDMG Group, who created a believable computer-generated likeness of Shakur. This line of business is an extension of the Target Group's capabilities in creating virtual human likenesses, which leverages two decades of know-how and proprietary technology, developed and evolved on the feature films The Curious Case of Benjamin Button, TRON: Legacy, X-Men: First Class and a number of commercial and music video productions.

In 2015, the Group and TNT formed a joint venture, which is owned as to 60% by the Group and 40% by TNT, for the production of new holograms of Miss Teresa Teng using digital 3-Dimensional technology, and the exploitation of such new holograms in the entertainment business, including but not limited to, concerts, albums, movies, advertisements etc., around the world. Making use of a virtual image reconstruction technique known as "MOVA", the Target Group reproduced the glamour of the Taiwanese pop diva Miss Teresa Teng on stage and, even more impressively, arranged a soulful duet with famous Taiwanese singer 費玉清先生 (Mr. Fei Yuqing), transcending time and space. The 20th anniversary virtual image memorial concerts for Miss Teresa Teng, on the theme of "「如果能許一個願」 If A Wish Could Be Made" were held in Taipei on 9 May 2015 and in Shanghai on 8 August 2015. The joint venture is planning to arrange a series of Virtual Human Miss Teresa Teng Concerts in the PRC and/or other countries in 2016.

Set out below is a summary of the audited consolidated financial information of the Target Group as set out in Appendix II to the Circular:

	For the year ended 31 December	
	2015	**2014**
	HK$'000	*HK$'000*
Revenue	534,897	529,298
Cost of services	(442,072)	(402,148)
Gross profit	92,825	127,150
(Loss) before taxation	(41,484)	(30,108)
(Loss) for the year	(48,152)	(30,766)

	As at 31 December	
	2015	2014
	HK$'000	*HK$'000*
Non-current assets	100,332	113,210
Current assets	76,060	87,371
Total assets	176,392	200,581
Non-current liabilities	–	9,456
Current liabilities	220,805	197,249
Total liabilities	220,805	206,705
Net current liabilities	(144,745)	(109,878)
Net liabilities	(44,413)	(6,124)

For the FY2015, the revenue of the Target Group amounted to approximately HK$534.9 million, representing an increase of approximately 1.1% as compared to the previous year. Despite an increase in revenue, the gross profit of the Target Group decreased by approximately 27.0% from approximately HK$127.2 million for the FY2014 to approximately HK$92.8 million for the FY2015 as a project with exceptionally high gross profit margin was carried out in the FY2014. With the implementation of stringent cost control measures, the Target Group successfully lowered the selling and distribution expenses and the administrative and other non-operating expenses by approximately HK$46.6 million. However, with the decrease in other revenue and gains of approximately HK$25.0 million, which was mainly due to the reduction of profit sharing from participation rights in movies, the Target Group recorded an increase in loss before taxation by approximately HK$11.4 million to approximately HK$41.5 million for the FY2015. For the FY2015, the loss of the Target Group amounted to approximately HK$48.2 million, representing an increase of approximately HK$17.4 million as compared to the FY2014.

As at 31 December 2015, the non-current assets of the Target Group amounted to approximately HK$100.3 million, which comprised property, plant and equipment of approximately HK$27.8 million and intangible assets (including goodwill, trademarks, proprietary software, participation rights and patents) of approximately HK$72.5 million, while the current assets of the Target Group amounted to approximately HK$76.1 million, which consisted of trade receivable, other receivables and prepayments of approximately HK$32.8 million, amounts due from fellow subsidiaries of approximately HK$17.3 million, amount due form a related company of approximately HK$6.5 million and bank balances and cash of approximately HK$19.5 million.

The current liabilities of the Target Group as at 31 December 2015 amounted to approximately HK$220.8 million, which mainly comprised trade payable, other payables and accruals of approximately HK$36.3 million, deferred revenue of approximately HK$32.5 million, borrowings of approximately HK$12.2 million and amount due to immediate holding company of approximately HK$131.5 million. As at 31 December 2015, the net current liabilities of the Target Group amounted to approximately HK$144.7 million while the net liabilities amounted to approximately HK$44.4 million. The gearing ratio, as expressed as total liabilities over total assets, of the Target Group was approximately 1.25 as at 31 December 2015 (31 December 2014: 1.03).

We noted that the Target Group had net current liabilities and net liabilities as at 31 December 2015. Under normal circumstances, net current liabilities and net liabilities position usually indicate that the company may have a liquidity problem. Therefore, we have discussed with the management of the Company in further details on the liquidity of the Target Group. We were given to understand that the current liabilities of the Target Group included a deferred revenue of approximately HK$32.5 million, which represents money received by the Target Group for goods or services that have not yet been delivered as at the financial year-end date and is expected not to induce any cash outflows by the Group as such goods or services have been/will be delivered to the customers subsequent to the year-end. Moreover, the current liabilities of the Target Group included an amount due to immediate holding company of approximately HK$131.5 million. Such amount mainly represents the cash injected by the Group for its investment in the Target Group. The immediate holding company of the Target Company, being a member company of the Group, has agreed not to request the Target Group to repay the amount due to it until the Target Group is in a position to repay. The directors of the Target Company have also carried out detailed review of the working capital forecast of the Target Group and considered that the Target Group would have necessary liquid funds to finance its working capital requirements in the 12 months from 31 December 2015. Based on the above, we concur with the Directors' view that the Target Group shall have sufficient working capital for its present requirements and it has no immediate threat of liquidity problem.

3. Reasons for the Acquisition

The Group is principally engaged in the businesses of media entertainment, property investment and trading while the Target Group, which was owned as to 70% by the Group as at the Latest Practicable Date, is principally engaged in VFX productions for motion pictures studios, advertisers and video games.

As set out in the Letter from the Board, the Group has completed its acquisitions of Immersive and Lucrative Skill at the end of 2015 and April 2016 respectively, which further enhanced the technology capabilities of the Group. The Company considers that the existence of a significant minority shareholder in the Target Group invariably imposes constraints on the Group's ability to deploy resources available within the Target Group and exploit synergies that can be created across the teams and technological assets controlled by the Group. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Group. The Group will have access to proprietary intellectual property that may be used to develop and enhance its VFX and 360º virtual reality production technology, which enable the Group to have greater flexibility in integrating and managing its virtual reality, virtual human and immersive entertainment resources and establish a revenue-driven model through collaboration with content owners, producers and distributors.

According to "Theatrical Market Statistics 2015" published by Motion Picture Association of America, a global organization working to protect the film (motion picture, home video and television) industry, the global box office was US$38.3 billion in 2015, representing an increase of 5.2% as compared to the previous year, among which the box office in the U.S. and Canada increased by 6.7% to US$11.1 billion while the international (excluding the U.S. and Canada) box office increased by 4.6% to US$27.2 billion. The box office in the PRC recorded a rapid growth at a rate of 49% to US$6.8 billion in 2015, surpassing the next largest international market by approximately US$4.9 billion. The number of worldwide digital 3D screens also increased from 64,788 in 2014 to 74,562 in 2015, representing an increase of 15.1%, among which the growth rate for the U.S. and Canada was 1.8% while the growth rate for Asia Pacific was 30.3%. With reference to the information released by State Administration of Press, Publication, Radio, Film and Television of the PRC, the box office in the PRC for 2015 amounted to approximately RMB44.1 billion, of which approximately 61.6% was contributed by local movies and the remaining 38.4% was contributed by imported movies. Based on the above, the Directors consider that, in the absence of any unforeseen adverse factors which may negatively impact the worldwide economy, the global movie market remains positive in the near future and they are optimistic about the future demand of VFX production. Furthermore, the Company's confidence in the prospect of the PRC's VFX market is further strengthened by the encouraging box office of certain VFX intensive movies such as The Mermaid (美人魚), Monster Hunt (捉妖記) and Mojin-the Lost Legend (尋龍訣).

We noted that the Target Group recorded losses for the FY2015 and had net liabilities as at 31 December 2015. During the discussion with the management of the Company, we were given to understand that the Target Group secured certain large-scale VFX production projects in the U.S. and the PRC in 2016, which are expected to bring in substantial amount of revenue to the Group in the coming years. The Group's latest development on business collaborations with various media, internet platform and content providers may also initiate a great demand on VFX and commercial productions by the Target Group. Meanwhile, the Group will continue to implement cost control measures to improve the profit margins of the Target Group. In view of the labour intensive nature in VFX production, the Group plans to subcontract certain relatively low technical requirement VFX works to the PRC and India to reduce the labour cost. The Directors also expect that the acquisition of a majority stake in Lucrative Skill, whose subsidiaries have set up comprehensive VFX and computer graphic production houses in Beijing and Shanghai for large budget VFX-intensive movies, can further reduce the Group's production costs.

In view of the Target Group's order books from the U.S. and the PRC, the cost control measures, strong capabilities of the award-wining creative teams and technical teams, award-wining proprietary technologies, established track record and business network in the movie industry and the positive outlook of the movie industry, the Directors are optimistic about the future performance of the Target Group and consider that the Acquisition shall facilitate the exploitation of synergies across the teams and technological assets controlled by the Group. Based on the above, we concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Consideration for the Sale Interest

The consideration for the Sale Interest is US$30 million (equivalent to approximately HK$232.5 million), which will be settled by the issue and allotment of the Acquisition Consideration Shares to De-fi Media, a wholly-owned subsidiary of Prime Focus, at the Issue Price.

The Company agreed to the consideration for the Sale Interest after arm's length negotiations with Prime Focus and having regard to (a) the preliminary valuation by the Valuer of the fair value of 30% interest of the Target Company as at 31 March 2016 of approximately US$30 million (the finalized valuation of such 30% interest amounting to US$36.345 million based on the Valuation Report); and (b) the financial performance and prospects of the Target Group since the Company's acquisition of 70% interest in the Target Company. In this regard, the Company has noted that the consideration for the Sale Interest represents approximately 38.4% premium over the HK$392 million consideration it paid for the 70% interest in the Target Company in the 2013 Acquisition (which implied a valuation of the entire share capital of the Target Company at HK$560 million). Based on the shareholders agreement for the formation of the Target Company in anticipation of the purchase in 2013 of the assets of the Target Group, the contribution made by the holder of the Sale Interest, which is now indirectly held by Prime Focus, was US$15 million.

To assess the fairness and reasonableness of the consideration for the Sale Interest, we have considered the valuation of the fair value of the 30% interest in the Target Group as at 31 March 2016 prepared by the Valuer and performed works as required under Note 1(d) to Rule 13.80 of the Listing Rules in respect of the valuation of the Target Group, including interviewing with the Valuer as to its experiences in business valuation and its relationship with the parties to the SPA, and discussing with the Valuer regarding its terms of engagement for the valuation, in particular to its scope of work. We noted that its scope of work was appropriate for it to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

We have reviewed the Valuation Report as set out in Appendix V to the Circular and discussed with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the valuation of the Sale Interest as at 31 March 2016. We noted that the valuation of the Sale Interest was prepared in accordance with International Valuation Standards issued by the International Valuation Standards Council and income approach was adopted by the Valuer in arriving at the fair value of the Sale Interest. As set out in the Valuation Report, the Valuer has considered three generally accepted valuation approaches, namely asset-based approach, market approach and income approach, in conducting the valuation. Given that the asset-based approach does not directly incorporate information regarding the future economic benefits contributed by the subject asset and there were insufficient relevant comparable companies or market transactions available in the marketplace for adopting the market approach, the Valuer considers that income approach is the most appropriate method in valuing the Target Group as income approach focuses on the economic benefits generated by the income producing capability of an enterprise, and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits. Having considered the aforementioned limitations in applying the asset-based approach and market approach in assessing the value of the Sale Interest, we concur with the Valuer that the income approach is an appropriate method in arriving at the valuation of the Target Group.

We have reviewed, and discussed with the Directors and the Valuer, the underlying forecast of the Target Group upon which the valuation has been made (the "Forecast") and have also reviewed the underlying supporting documents including the VFX production contracts and the budgets of the production. The Directors confirmed that the Forecast has been made after their due and careful consideration with reference to the Target Group's historical performance, latest operations and development and future development plan. We consider that the Forecast has been made by the Directors after their due and careful enquiry. We have also reviewed the letter issued by the Reporting Accountant regarding the calculation of the Forecast and noted that the Reporting Accountant is of the opinion that, so far as the calculations are concern, the Forecast has been properly compiled in accordance with the bases and assumptions adopted by the Directors. The letters relating to the Forecast are set out in Appendix VI to the Circular.

We have also reviewed, and discussed with the Valuer, the basis and the underlying supporting documents, adopted by the Valuer in determining the discount rate and noted that the discount rate of approximately 16% adopted by the Valuer was determined based on the weighted average cost of capital of the Target Group, which comprises the weighted cost of equity and weighted after-tax cost of debt. The cost of equity was calculated based on the capital asset pricing model, a commonly used model adopted in discounted cash flow valuation, with reference to (i) the 10-year U.S. Treasury bond yield; (ii) the market return and equity risk premium of the S&P index; and (iii) beta, which measures systematic risk of the comparable companies in comparison to the stock market, and adjusted for unsystematic risk by adding size premium and company specific risk premium. The cost of debt was determined with reference to the actual borrowing costs of the Target Group. We have also discussed with the Valuer the selection criteria of, and reviewed, the comparable companies used for calculation of the beta and noted that all the comparable companies are listed on the major stock exchange carrying on business of VFX, digital media or films, which is similar to that of the Target Group. We consider that the selected comparable companies are reasonable and appropriate.

Since the shares of the Target Group are not publicly traded and an active market for its shares does not exist, a discount for lack of marketability of 30% was applied in the valuation to discount for lack of ability of converting shares of the Target Company into immediate cash. The Valuer considers a discount for lack of marketability of 30% is appropriate for the valuation of the Sale Interest based on its professional judgement with reference to the studies relating to the marketability discount and confirms that such rate is commonly applied to valuation of privately held company.

Based on the above, we consider that the discount rate and lack of marketability discount applied to the valuation of the Sale Interest are reasonable.

We have also reviewed the assumptions adopted by the Valuer in the valuation of the Sale Interest and noted that those assumptions are common in practice and fair and reasonable for the purposes of assessing the fair value of the Sale Interest. Given the valuation methodology applied by the Valuer is normal and usual among professional valuers and is in compliance with the International Valution Standards, we consider that the methodology and basis for determining the valuation of the Sale Interest by the Valuer is appropriate. In light of the above and the fact that no unusual matters had come to our attention that led us to believe that the valuation of the Sale Interest was not prepared on a reasonable basis, we are of the opinion that the valuation of the Sale Interest is a fair and reasonable benchmark for assessing the consideration of the Sale Interest.

However, Independent Shareholders should note that the valuation relies substantially on the Forecast, the bases and assumptions of which adopted by the Directors are primarily based on current view with respect to business, financial, economic, market and other conditions, circumstances which may develop or change in the future and affect these projections. The successful achievement of the business performance and financial results of the Target Group may be affected by a number of factors such as the economic conditions, the ability of the Target Group to maintain its existing competitive advantages and the treat of substitutes and new market entrants etc.. There are no assurances that the business plan can be successfully implemented. Should there be any material adverse change in the operating environment of the Target Group which result in its failure to implement any part of the business plan, the prospects of the Target Group may be adversely affected.

Apart from referencing to the business valuation of the Target Group performed by the Valuer, we have also tried to assess the value of the Target Group independently by using the commonly adopted approaches in evaluation of a company, namely price-to-earnings approach, net assets approach and dividends approach. However, given that no dividends were declared by the Target Company for the past three years, we consider that the dividends approach is not applicable for assessing the value of the Target Group. Meanwhile, based on the audited financial information of the Target Group as set out in Appendix II to the Circular, the Target Group recorded consolidated net losses for each of the three years ended 31 December 2015 and consolidated net liabilities attributable to equity holders of the Target Company as at 31 December 2015. Therefore, evaluation of the value of the Target Group by reference to the historical price-to-earnings ratio and the price-to-book ratio are also impracticable.

Having considered that the comparison approaches are not applicable for assessing the value of the Target Group while the fair value of the Sale Interest as at 31 March 2016 was arrived at by an independent professional valuer in compliance with the International Valuation Standards on a reasonable basis, we consider that the approach of assessing the consideration for the Sale Interest by reference to the fair value of the Sale Interest as at 31 March 2016 is fair and reasonable. As the consideration for the Sale Interest represents a discount of approximately 17.5% to the fair value of 30% interest of the Target Group as at 31 March 2016, we consider that the consideration for the Sale Interest is fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms.

5. Settlement method of the consideration

The consideration for the Sale Interest shall be settled by the issue and allotment of the Acquisition Consideration Shares.

We were advised by the management of the Company that the Company has considered other settlement alternatives for the Acquisition. However, after taking into consideration of the loss-making performance of the Group in the recent years and the cash flow and current capital structure of the Group, the Directors consider that it is beneficial to the Company to retain more cash for general working capital and future business expansion of the Group after the Acquisition. Given that the issue of Acquisition Consideration Shares shall not affect the cash flow, liquidity position and financial leverage of the Group while enlarging and strengthening the capital base of the Company and other equity financing alternatives shall also introduce dilution to the existing shareholders and may take longer time to complete, we concur with the view of the Directors that it is in the interest of the Company and its Shareholders to settle the consideration for the Sale Interest by issuing the Acquisition Consideration Shares.

6. Acquisition Consideration Shares

The Issue Price of HK$0.596 was determined after arm's length negotiations by reference to the prevailing market prices of the Shares and represents (a) a premium of approximately 16.86% over the closing price of HK$0.51 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (b) a discount of approximately 5.40% to the closing price of HK$0.63 per Share as quoted on the Stock Exchange on 27 April 2016, being the date of the SPA; (c) a discount of approximately 10.51% to the average closing price of HK$0.666 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the SPA; and (d) a discount of approximately 9.15% to the average closing price of HK$0.656 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the SPA.

For the purposes of assessing the fairness and reasonableness of the Issue Price, we have reviewed the movements in closing price of the Shares during the period from 27 October 2015, being six months immediately preceding the date of the SPA, to the Latest Practicable Date (the "Review Period"). We consider that a period of six months is adequate to illustrate the recent price movements of the Shares for conducting a reasonable comparison between the closing price of the Shares and the Issue Price.

Chart 1 – Closing prices of the Shares during the Review Period

Source: the website of the Stock Exchange

As illustrated in the above chart, the Shares were traded at or below the Issue Price for 121 trading days out of 154 trading days during the Review Period with an average closing price of approximately HK$0.504 for the period. The lowest closing price and the highest closing price of the Shares of the Review Period were HK$0.320 and HK$0.700. The Issue Price represents a premium of approximately 86.3% and 18.3% over the lowest and average closing prices of the Shares of the Review Period respectively and a discount of approximately 14.9% to the highest closing price of the Shares of the Review Period respectively.

The closing price of the Shares increased gradually from HK$0.385 on 27 October 2015, being the first day of the Review Period, to HK$0.540 on 11 December 2015, with ups and downs during the period. On 14 December 2015, the trading of the Shares was halted with effect from 9:08 a.m. pending the release of an announcement in relation to the acquisition of additional 53.88% shareholding interest in Immersive. The trading of the Shares resumed with effect from 1:00 p.m. on the same day after the publication of the announcement. The closing price remained at the same level as the previous day but dropped to HK$0.490 on 16 December 2015. After the trading hours on 16 December 2015, the Company announced that it had entered into a placing agreement with a placing agent to place 560,000,000 new Shares at a placing price of HK$0.425. The closing price of the Shares increased to HK$0.510 on the following trading day. Subsequently, after trading hours on 17 December 2015, the Company announced that a wholly-owned subsidiary of the Company signed a term sheet with Letv Sports Culture Develop

(Beijing) Co., Ltd. for establishment of a proposed joint venture to develop, produce, broadcast, publish and distribute 360 live events and related replays and virtual or enhanced reality content, using the Group's 360 virtual reality technology services. The closing price of the Shares then traded narrowly between HK$0.480 and HK$0.510 during 18 December 2015 and 31 December 2015. The closing price of the Shares picked up a bit in the following trading days and reached the short-term highest level of HK$0.550 on 6 January 2016. Since then, the closing price of the Shares decreased continuously to HK$0.355 on 21 January 2016.

After the trading hours on 22 January 2016, the Company entered into agreements to acquire 85% issued share capital of Lucrative Skill. The closing price of the Shares increased to HK$0.435 on 25 January 2016 and then plummeted to HK$0.355 on 12 February 2016. After that, the closing price of the Shares increased gradually to HK$0.520 on 30 March 2016, the day on which the Company published its annual results. Despite the announcement of a loss for the year, closing price of the Shares continued to rise to the highest level of HK$0.700 on 19 April 2016. The closing price of the Shares then decreased to HK$0.630 on 27 April 2016. After the trading hours on 27 April 2016, the Company published the announcement regarding the Acquisition. The closing price of the Shares increased to HK$0.700 on 4 May 2016 and then decreased to HK$0.58, a price lower than the Issue Price, on 13 May 2016. Since then, the closing price of the Shares fluctuated between HK$0.58 and HK$0.63 during 16 May 2016 and 2 June 2016 and decreased to HK$0.51 on the Latest Practicable Date.

We have also reviewed the historical trading volume of the Shares during the Review Period. The number of trading days, average daily trading volume of the Shares and the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period are shown as follows:

Month	Number of trading days	Average daily trading volume	% of average daily trading volume to the total number of Shares (Note 1)	% of average daily trading volume to the total number of Shares in public hands (Note 2)
2015				
October (Note 3)	4	25,105,000	0.2185%	0.3101%
November	21	97,706,502	0.8505%	1.2067%
December	22	62,473,381	0.5438%	0.7716%
2016				
January	20	41,678,195	0.3628%	0.5147%
February	18	38,159,416	0.3322%	0.4713%
March	21	40,429,540	0.3519%	0.4993%
April	20	101,254,162	0.8814%	1.2505%
May	21	56,332,708	0.4904%	0.6957%
June (Note 4)	7	43,952,851	0.3826%	0.5428%

Source: the website of the Stock Exchange

Notes:

1. Calculated based on 11,487,608,549 Shares in issue as at the Latest Practicable Date.
2. Calculated based on 8,096,902,225 Shares held in public hands as at the Latest Practicable Date.
3. Represents trading volume for the period from 27 October 2015 to 31 October 2015.
4. Represents trading volume for the period from 1 June 2016 to the Latest Practicable Date.

The above table demonstrates that during the Review Period, the average daily trading volume of the Shares was in the range of approximately 0.2185% to 0.8814% as to the total number of issued Shares as at the Latest Practicable Date and approximately 0.3101% to 1.2505% as to the total number of Shares held in public hands as at the Latest Practicable Date. The above statistics revealed that the liquidity of the Shares was relatively low.

To further evaluate the fairness and reasonableness of the Issue Price, we also considered a broad comparison of issue of consideration shares for acquisitions conducted by other companies listed on the Main Board of the Stock Exchange. Based on the information available from the Stock Exchange's website, we have reviewed, so far as we are aware of, all the issue of consideration shares for acquisitions announced by the companies listed on the Main Board of the Stock Exchange, save for the transaction with issue price of the consideration issues has not been determined up to the Latest Practicable Date, (the "**Comparables**") during the period from 27 February 2016, being 2 months immediately preceding the date of the SPA, to the Latest Practicable Date (the "**Comparison Period**") for comparison purposes. We consider that the Comparison Period is adequate for comparison purposes as it covers the prevailing market conditions and sentiments in the Hong Kong stock market and is able to illustrate the recent structure of the issues of consideration shares for acquisitions in Hong Kong and contains sufficient information to enable the Shareholders to have a general understanding on the recent transactions regarding issue of consideration shares for acquisitions being conducted in the Hong Kong stock market.

Shareholders should note that the comparison with the Comparables is for illustrative purpose only as the principal activities, market capitalization, profitability and financial position of the Comparables may be different from those of the Company. All these factors may affect the issue price of the consideration shares of the Comparables. Despite the aforementioned, since the issue price of the consideration shares of the Comparables were determined under similar market conditions and sentiments as those when the Issue Price were determined and they can provide a general reference of the transactions involving the issue of shares as consideration for acquisitions in the Hong Kong stock market, we consider the Comparables are fair and representative samples for comparison purposes and the comparison with the Comparables provides an appropriate basis for assessing the fairness and reasonableness of the Issue Price. Moreover, in forming our opinion on the Issue Price, we have considered the results of the comparison with the Comparables together with other factors stated in this letter as a whole. Details of the trading statistics of the Comparables are summarized in the following table:

Company name (stock code)	**Date of announcement (dd/mm/yyyy)**	**Premium/(discount) of issue price over/(to) the closing price on the date of the agreement/ the last trading day immediately before the date of the agreement**
Ping Shan Tea Group Limited (364)	18/03/2016	*(Note)* 117.4%
China Zenith Chemical Group Limited (362)	18/03/2016	7.0%
Rentian Technology Holdings Limited (885)	31/03/2016	(10.5)%
U-Home Group Holdings Limited (2327)	06/04/2016	(13.9)%
China First Capital Group Limited (1269)	17/04/2016	(10.0)%
NetDragon Websoft Inc. (777)	22/04/2016	(12.3)%
China Agroforestry Lo-Carbon Holdings Limited (1069)	22/04/2016	(22.4)%

Company name (stock code)	**Date of announcement (dd/mm/yyyy)**	**Premium/(discount) of issue price over/(to) the closing price on the date of the agreement/ the last trading day immediately before the date of the agreement**
Fullshare Holdings Limited (607)	27/04/2016	(19.8)%
Vitop Group Limited (1178)	03/05/2016	15.4%
Universal Health International Group Holding Limited (2211)	09/05/2016	6.6%
New Silkroad Culturaltainment Limited (472)	10/05/2016	(0.3)%
Kingbo Strike Limited (1421)	11/05/2016	4.8%
China All Access (Holdings) Limited (633)	12/05/2016	2.0%
Century Sage Scientific Holdings Limited (1450)	13/05/2016	42.9%
Jin Bao Bao Holdings Limited (1239)	13/05/2016	34.5%
Green Energy Group Limited (979)	23/05/2016	(5.1)%
O Luxe Holdings Limited (860)	25/05/2016	0.0%
Digital China Holdings Limited (861)	01/06/2016	(20.6)%
Tech Pro Technology Development Limited (3823)	03/06/2016	0.4%
Minimum		(22.4)%
Maximum		42.9%
Average		(0.1)%
the Company (547)	**27/04/2016**	**(5.4)%**

Source: the website of the Stock Exchange

Note: Given the premium of the issue price over the closing price of this company is extremely large as compared to other Comparables, this company was considered as outlier and was excluded for the purpose of comparison.

As illustrated in the above table, the issue prices of the Comparables were set in a range from a discount of approximately 22.4% to a premium of approximately 42.9%, with an average discount of approximately 0.1%, to their respective closing prices as quoted on the date of the agreement or the last trading day immediately prior to the date of the agreement.

The discount of approximately 5.4% of the Issue Price to the closing price of the Shares on the date of the SPA falls within the range of the discount/premium of the Comparables and is higher than the average discount of the Comparables.

Based on the above analysis and the facts that (i) the Issue Price is higher than the closing price of the Shares during most of the time of the Review Period; (ii) the liquidity in trading of the Shares was thin during the Review Period; and (iii) the discount of the Issue Price to the closing price of the Shares on the date of the SPA falls within the range of the Comparables, we are of the view that the Issue Price is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

7. Potential dilution effect on the shareholding interests

The following table sets out, for illustrative purpose only, the effect of the Acquisition on the shareholding structure of the Company immediately after the Completion and the issue and allotment of the Acquisition Consideration Shares assuming there being no other changes in the shareholding structure and share capital of the Company from the Latest Practicable Date to the date of issue and allotment of the Acquisition Consideration Shares:

	As at the Latest Practicable Date		**Immediately after Completion and the issue and allotment of the Acquisition Consideration Shares**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Directors				
Peter Chou *(Note 1)*	714,401,746	6.2	714,401,746	6.0
Seah Ang *(Note 2)*	502,134,789	4.4	502,134,789	4.2
Amit Chopra *(Note 3)*	502,134,789	4.4	502,134,789	4.2
Substantial Shareholder				
Zhang Xiaoqun *(Note 4)*	1,672,035,000	14.6	1,672,035,000	14.1
Public Shareholders				
De-fi Media	–	–	390,100,671	3.3
Other public Shareholders	8,096,902,225	70.5	8,096,902,225	68.2
	11,487,608,549	100.0	11,877,709,220	100.0

Notes:

1. Mr. Peter Chou held these Shares through his wholly-owned companies, Kabo Limited and Honarn Inc. Kabo Limited held 602,561,746 Shares and Honarn Inc. held 111,840,000 Shares.

2. Mr. Seah Ang held these Shares through his wholly-owned company, Global Domain Investments Limited. Mr. Seah Ang also held 100,000,000 outstanding share options granted under the Company's share option scheme.

3. Mr. Amit Chopra held these Shares through his wholly-owned company, Redmount Ventures Limited. Mr. Amit Chopra also held 163,000,000 outstanding share options granted under the Company's share option scheme.

4. Mr. Zhang Xiaoqun held these Shares through his wholly-owned company, Fortune Source International Limited.

5. As at the Latest Practicable Date, the Company had in issue 11,487,608,549 Shares, options to subscribe for 1,314,990,000 Shares granted pursuant to the share option scheme of the Company, HK$392.0 million in principal amount of convertible notes that are convertible into Shares at the conversion price of HK$0.04 per Share, subject to adjustments. An aggregate of 310,870,361 Shares were to be issued in connection with the Group's acquisition of further interest in Immersive, which was the subject of the Company's announcements dated 11 December 2015 and 30 December 2015 respectively.

6. The aggregate of the percentage figures in the above table may not add up to 100% due to rounding of the percentage figures to one decimal place.

As set out in the table above, for illustrative purpose only, the shareholding of the public Shareholders shall be diluted from 70.5% to 68.2% immediately after the Completion and the issue and allotment of the Acquisition Consideration Shares.

Given the fairness of the consideration for the Sale Interest and the Issue Price and the potential benefits of acquiring the Target Company in the absence of any cash outlay for the Acquisition, we consider that the dilution effect on the shareholding interests of the existing Shareholders is justifiable.

8. Financial effects of the Acquisition

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. The financial effects of the Acquisition on the Group's earnings, cashflow, net asset value and gearing are set out below. However, it should be noted that the analysis below is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon Completion.

Earnings

As the Target Company was a non-wholly-owned subsidiary of the Company and its results had already been consolidated into the consolidated financial statements of the Company, the earnings of the Group would not be affected upon Completion. However, given that the Target Group recorded a consolidated loss for FY2015, the net loss of the Group attributable to the owners of the Company would have increased had the Acquisition been completed on 1 January 2015.

Cashflow

As the consideration for the Sale Interest will be fully satisfied by the issue of the Acquisition Consideration Shares, the Acquisition shall not have any material direct impact on the cashflow of the Group.

Net Asset Value

Based on the unaudited pro forma financial information of the Group upon Completion as set out in Appendix IV to the Circular, had the Acquisition been completed on 31 December 2015, the net assets value of the Company would have decreased from approximately HK$702.2 million to approximately HK$699.6 million. The decrease in net assets value was solely attributable to the transaction costs of the Acquisition.

Gearing

With reference to the unaudited pro forma financial information of the Group upon Completion as set out in Appendix IV to the Circular, had the Acquisition been completed on 31 December 2015, the total assets of the Group would not be changed while the total liabilities of the Group would have increased by approximately HK$2.7 million, being the estimated expenses directly attributable to the Acquisition, to approximately HK$840.8 million. As such, the gearing of the Group, as expressed in ratio of total liabilities to total assets, would have increased slightly from approximately 0.54 to approximately 0.55. The increase in gearing was solely attributable to the transaction costs of the Acquisition.

Based on the above analysis, the Acquisition would have negative effects on the Group's earnings, net asset value and gearing. However, having considered the reasons and benefits of the Acquisition, the prospect of the Target Group and the fact that the negative impacts on the Group's net assets value and gearing were solely attributable to the transaction costs of the Acquisition which are non-recurring in nature, we are of the view that the negative financial impacts of the Acquisition are commercially justifiable and the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the terms of the SPA are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution to be proposed at the SGM to approve the SPA and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

Notes:

1. Mr. Louis Koo is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 20 years of experience in investment banking and corporate finance.

2. Ms. Amilia Tsang is a licensed person under the SFO to engage in Type 6 (advising on corporate finance) regulated activities and has over 15 years of experience in corporate finance, investment and corporate management.

1. FINANCIAL SUMMARY

The financial information of the Group for (i) the year ended 31 December 2015 is disclosed in the annual report of the Company for the year ended 31 December 2015 from pages 63 to 146; (ii) the year ended 31 December 2014 is disclosed in the annual report of the Company for the year ended 31 December 2014 from pages 43 to 126; and (iii) the year ended 31 December 2013 is disclosed in the annual report of the Company for the year ended 31 December 2013 from pages 36 to 110, all of which have been published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.ddhl.com).

2. FINANCIAL AND TRADING PROSPECTS

Media Entertainment Segment

For the year ended 31 December 2015, Media Entertainment segment recorded revenue of approximately HK$521,781,000 (2014: HK$524,595,000). The revenue from this segment accounted for approximately 99% of the Group's revenue for the year. This segment incurred a loss of approximately HK$78,067,000 (2014: HK$36,019,000). The loss was primarily due to operating losses (including the amortisation expenses of an intangible asset: participation rights in the film "Ender's Game").

The Group will continue to ride on the Group's track record and substantial experience in the VFX industry and be proactive in seeking new projects and business opportunities, although its markets remain highly competitive. The Group has already adopted cost control measures (including outsourcing where appropriate discreet parts of its VFX work to external vendors and minimising the number of under-utilised production employees, etc.) to improve the profit margins of the VFX business. The effectiveness of the improvements made will be reflected in the coming years.

Building on the acquisition of Immersive Ventures Inc. and the formation of IM360 Entertainment Inc., the Group is looking to the future by tirelessly pursuing new opportunities in the areas of virtual reality ("**VR**"), virtual humans and immersive entertainment. The Group is well positioned to significantly expand the VR business in the media and entertainment sector.

Through the acquisition of Lucrative Skill Holdings Limited (including Post Production Office Limited and its subsidiaries), the Group is proactively exploring and seeking opportunities to develop its Greater China market in the VFX, VR, computer graphic, virtual human and immersive entertainment business. In addition to this acquisition, the Group will continue to explore opportunities to collaborate with more content owners, producers and distributors for the purpose of expanding its market share and influence in the Greater China region.

In this regard, as announced by the Company on 12 May 2016, the Group is in discussions with a wholly owned subsidiary of Youku Tudou Inc. (youku.com) ("**Youku**"), China's leading media, cultural and entertainment industry player, internet platform and content provider, to finalise contract documents for a content licensing scheme to enable the distribution and broadcast in Greater China via Youku platform of CG, VFX and 360 live streaming and pre-recorded video and VR, augmented reality and immersive media contents produced and/or owned by the Group for select content to be agreed, and the joint development, production and exploitation of 360 live streaming and pre-recorded video and VR, augmented reality, and immersive media content based on the rights to use or access all Youku's contents and/or events. The Group may also pursue discussions for the formation of a joint venture or similar collaboration with Youku for the development and operation of virtual human business, and the possibility of an equity investment by Youku in the Company.

In addition, the Group signed a cooperation agreement relating to the development of 3D virtual human images of the deceased canton pop diva Anita Mui and a cooperation agreement for the 360 VR audio and visual content production of a great Chinese classic novel. The Group is also in discussions with other independent third parties on collaborations with respect to movies and TV series as well as variety shows, concerts and virtual human productions.

Property Investment Segment

For the year ended 31 December 2015, the revenue of Property Investment segment decreased by approximately 2% to HK$5,560,000 (2014: HK$5,650,000). The profit from this segment decreased during the year ended 31 December 2015, amounting to HK$4,261,000 (2014: HK$4,519,000). The decrease of revenue and profit was caused by a short vacant period due to a change of tenant. Driven by the stable rental income, the Company expects that revenue and profit from the property investment segment will grow steadily and produced a stable income stream for the Group. The Group will review the existing investment properties portfolio constantly and continue to explore potential profitable investments in the Greater China region.

General

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

3. INDEBTEDNESS OF THE GROUP

Borrowings

As at the close of business on 30 April 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK$869,430,000, comprising secured bank loans of approximately HK$77,352,000, unsecured other loans of approximately HK$108,601,000, secured note payable of approximately HK$176,508,000, obligations under finance leases of approximately HK$1,581,000, convertible notes of approximately HK$440,140,000, and promissory note of approximately HK$65,000,000 and amount due to a related party of approximately HK$248,000. Except for (i) bank loans with an aggregate amount of HK$22,859,000, (ii) obligations under finance leases of HK$1,581,000, (iii) secured note payable of approximately HK$58,836,000, (iv) promissory note of approximately HK$65,000,000 and (v) amount due to a related party of approximately HK$248,000 which are repayable on demand or within 1 year, the remaining borrowings of the Group of HK$720,906,000 are not repayable within 1 year from 30 April 2016.

As at 30 April 2016, The Group's secured borrowings consisted of the following:

(a) mortgage bank loans which are secured by the investment properties of the Group locate in Hong Kong and assignment of rental proceeds duly executed in respect of the pledged investment properties.

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

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

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

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

As at 30 April 2016, the carrying amounts of the SME loan and the related accrued interest payable were approximately HK$4,854,000 and HK$3,512,000 respectively. The related accrued interest payable was calculated in accordance with the loan agreement of the SME loan and the Claim. In the opinion of the directors of the Company, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision had been made as at 30 April 2016.

As of 30 April 2016, the SME loan and the related accrued interest payable have not been settled by the Group nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the directors of the Company are of the opinion that adequate provisions and disclosures have been made, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

(c) a bank loan with carrying amount of approximately HK$12,177,000 is secured by an assignment of all proceeds of a subsidiary from its income on its participation right on a movie, the entire equity interests and all assets and property of two subsidiaries of the Company and guarantees granted by the two subsidiaries of the Company to the bank. In addition, a subsidiary of the Company has agreed to subordinate all of its rights, title and interests in any assets in favour of the bank as collateral for the bank facilities granted to the Group.

(d) a bank loan of approximately HK$2,999,000 is secured, carries interest at prevailing market rates and has fixed repayment term but contains a repayment on demand clause.

(e) a secured note payable in the principal amount of approximately HK$176,508,000 is secured by all personal properties of each of DDVR, Inc. and Immersive Ventures Inc., both of which are subsidiaries of the Company, and their entire issued share capital. The secured note payable bears fixed interest rate at 4% per annum and repayable by three equal installments respectively on the first, second and third anniversaries of 30 December 2015.

(f) obligations under finance leases of approximately HK$1,581,000 are for certain software and computer equipment of the Group. The obligations are secured by the lessor's charge over the leased assets.

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables arising in the ordinary course of business, the Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 April 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

4. WORKING CAPITAL SUFFICIENCY OF THE GROUP

Taking into account the effect of the transactions contemplated under the SPA and the financial resources available to the Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is, for at least next 12 months from the date of this circular.

A. ACCOUNTANT'S REPORT

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the Reporting Accountant.

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13 June 2016

The Board of Directors
Digital Domain Holdings Limited

Dear Sirs,

We set out below our report on the financial information of Digital Domain–Reliance, LLC (the "**Target Company**") and its subsidiaries (collectively the "**Target Group**"), namely Digital Domain 3.0, Inc., Digital Domain Productions 3.0 (BC), Ltd. and Mothership Media, Inc. which comprises the Target Group's consolidated statements of financial position and the Target Company's statements of financial position as at 31 December 2013, 2014 and 2015, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the three years ended 31 December 2013, 2014 and 2015 (the "**Relevant Periods**") and a summary of significant accounting policies and other explanatory information (the "**Financial Information**"), prepared on the basis set out in Note 2 of Section C below, for inclusion in the circular of Digital Domain Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") dated 13 June 2016 (the "**Circular**") in connection with the Group's proposed acquisition of 30% equity interest in the Target Company (the "**Acquisition**") pursuant to the acquisition agreement dated 27 April 2016.

The Target Company was incorporated as a limited liability company in State of Delaware, the United States of America ("**USA**") on 17 September 2012. Its registered office is at 1679 S. DuPont Highway, Suite 100, City of Dover, County of Kent 19901, State of Delaware, USA.

As the date of this report, the Target Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Legal form, date and place of incorporation and operation	Paid-up capital	Percentage of equity attributable to the Target Company as at 31 December 2013, 2014 and 2015		Principal activities
			Direct	Indirect	
Digital Domain 3.0, Inc.	Incorporation 25 September 2012 USA	US$50	100%	–	Visual effects production
Digital Domain Productions 3.0 (BC), Ltd.	Limited liability company 25 September 2012 Canada	CAD1	–	100%	Visual effects production
Mothership Media, Inc.	Incorporation 25 September 2012 USA	US$0.01	–	100%	Visual effects production

All companies comprising the Target Group have adopted 31 December as their financial year end date. As at the date of this report, no audited financial statements have been prepared for the Target Company and other companies comprising the Target Group since their incorporation because there is no statutory requirement for the Target Company and other companies comprising the Target Group to prepare audited financial statements under the relevant rules and regulations in the respective jurisdiction of incorporation.

For the purpose of this report, the directors of the Target Company have prepared the Financial Information in accordance with the basis of preparation set out in Note 2 of Section C below and significant accounting policies set out in Note 4 of Section C below which conform with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (collectively the "**Underlying Financial Statements**").

The Financial Information has been prepared by the directors of the Target Company based on the Underlying Financial Statements with no adjustment made thereon and in accordance with the basis of preparation set out in Note 2 of Section C below.

The directors of the Target Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the basis of preparation set out in Note 2 of Section C below and the significant accounting policies set out in Note 4 of Section C below, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error. The directors of the Company are responsible for the contents of the Circular in which this report is included.

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

In our opinion, for the purpose of this report, the Financial Information prepared on the basis set out in Note 2 of Section C below gives a true and fair view of the states of affairs of the Target Group and the Target Company as at 31 December 2013, 2014 and 2015, and of the results and cash flows of the Target Group for the Relevant Periods.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 of Section C below which indicates that the Target Group incurred losses of approximately HK$307,693,000, HK$30,766,000 and HK$48,152,000 for the years ended 31 December 2013, 2014 and 2015 respectively; as at 31 December 2013, 2014 and 2015, the Target Group's current liabilities exceeded the current assets by approximately HK$132,224,000, HK$109,878,000 and HK$144,745,000 respectively; and as at 31 December 2014 and 2015, the Target Group had a deficiency in shareholders' fund of approximately HK$6,124,000 and HK$44,413,000 respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Target Group's ability to continue as a going concern.

B. FINANCIAL INFORMATION

The following is the financial information of the Target Group and the Target Company as at 31 December 2013, 2014 and 2015, and the financial information of the Target Group for each of the three years ended 31 December 2013, 2014 and 2015 prepared by the directors of the Company:

Consolidated Statements of Comprehensive Income

		Year ended 31 December		
		2013	**2014**	**2015**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	6	571,375	529,298	534,897
Cost of services		(511,960)	(402,148)	(442,072)
Gross profit		59,415	127,150	92,825
Other revenue and gains	7	2,417	38,999	13,987
Selling and distribution expenses		(11,502)	(20,430)	(7,176)
Administrative expenses and other net operating expenses		(231,890)	(172,927)	(139,554)
Finance costs	9	(1,080)	(2,900)	(1,566)
Impairment loss on intangible assets	15	(115,068)	–	–
Loss before taxation	8	(297,708)	(30,108)	(41,484)
Taxation	11	(9,985)	(658)	(6,668)
Loss for the year		**(307,693)**	**(30,766)**	**(48,152)**
Other comprehensive income				
Item that may be reclassified subsequently to profit or loss				
Currency translation differences		(304)	(675)	(3,089)
Total comprehensive income for the year		**(307,997)**	**(31,441)**	**(51,241)**

Consolidated Statements of Financial Position

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	14	38,895	36,256	27,827
Intangible assets	15	124,237	76,954	72,505
		163,132	**113,210**	**100,332**
Current assets				
Trade receivables, other receivables and prepayments	16	15,140	28,001	32,762
Amounts due from fellow subsidiaries	24	–	4,704	17,305
Amount due from a related company	24	–	–	6,451
Bank balances and cash		49,332	54,666	19,542
		64,472	**87,371**	**76,060**
Current liabilities				
Trade payables, other payables and accruals	17	44,691	31,395	36,285
Deferred revenue		33,566	29,612	32,506
Borrowings	18	–	–	12,167
Obligations under finance leases	19	4,783	7,725	3,096
Amount due to immediate holding company	24	108,549	124,548	131,478
Amount due to a related company	24	1,824	–	–
Tax payable		3,283	3,969	5,273
		196,696	**197,249**	**220,805**
Net current liabilities		**(132,224)**	**(109,878)**	**(144,745)**
Total assets less current liabilities		**30,908**	**3,332**	**(44,413)**
Non-current liabilities				
Borrowings	18	–	6,354	–
Obligations under finance leases	19	8,582	3,098	–
Deferred tax liabilities	11(b)	377	4	–
		8,959	**9,456**	**–**
NET ASSETS/(LIABILITIES)		**21,949**	**(6,124)**	**(44,413)**
Capital and reserves				
Share capital	20	387,504	387,504	387,504
Reserves		(365,555)	(393,628)	(431,917)
TOTAL EQUITY/(DEFICIENCY IN SHAREHOLDERS' FUND)		**21,949**	**(6,124)**	**(44,413)**

Statements of Financial Position of the Target Company

		As at 31 December		
		2013	**2014**	**2015**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investments in subsidiaries	23	387,707	391,167	325,529
Current asset				
Amount due from a subsidiary	24	108,564	127,934	130,401
Current liability				
Amount due to immediate holding company	24	108,564	127,934	130,401
Net current assets		–	–	–
NET ASSETS		**387,707**	**391,167**	**325,529**
Capital and reserves				
Share capital	20	387,504	387,504	387,504
Reserves	21	203	3,663	(61,975)
TOTAL EQUITY		**387,707**	**391,167**	**325,529**

Consolidated Statements of Changes in Equity

	Share capital *HK$'000* *(Note 20)*	Additional paid-in capital *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity/ (deficiency in shareholders' fund) *HK$'000*
As at 1 January 2013	**387,504**	**–**	**465**	**(58,023)**	**329,946**
Loss for the year	–	–	–	(307,693)	(307,693)
Currency translation differences	–	–	(304)	–	(304)
Total comprehensive income for the year	–	–	(304)	(307,693)	(307,997)
As at 31 December 2013 and 1 January 2014	**387,504**	**–**	**161**	**(365,716)**	**21,949**
Recognition of equity-settled share-based payment *(Note 22)*	–	3,368	–	–	3,368
Loss for the year	–	–	–	(30,766)	(30,766)
Currency translation differences	–	–	(675)	–	(675)
Total comprehensive income for the year	–	–	(675)	(30,766)	(31,441)
As at 31 December 2014 and 1 January 2015	**387,504**	**3,368**	**(514)**	**(396,482)**	**(6,124)**
Recognition of equity-settled share-based payment *(Note 22)*	–	12,952	–	–	12,952
Loss for the year	–	–	–	(48,152)	(48,152)
Currency translation differences	–	–	(3,089)	–	(3,089)
Total comprehensive income for the year	–	–	(3,089)	(48,152)	(51,241)
As at 31 December 2015	**387,504**	**16,320**	**(3,603)**	**(444,634)**	**(44,413)**

Consolidated Statements of Cash Flows

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Loss before taxation	(297,708)	(30,108)	(41,484)
Adjustments for:			
Depreciation of property, plant and equipment	29,175	20,668	23,174
Amortisation of intangible assets	89,240	60,255	19,373
Loss/(gain) on disposals of property, plant and equipment	9,339	(1,603)	–
Equity-settled share-based payment expenses	–	3,368	12,952
Net exchange losses	1,991	3,233	4,001
Impairment loss on intangible assets	115,068	–	–
Interest income	(50)	(1)	(1)
Finance costs	1,080	2,900	1,566
Operating (loss)/profit before working capital changes	(51,865)	58,712	19,581
Decrease/(increase) in trade receivables, other receivables and prepayments	33,207	(12,861)	(4,761)
(Decrease)/increase in trade payables, other payables and accruals	(24,246)	(13,296)	4,890
Increase in amounts due from fellow subsidiaries	–	(4,704)	(12,601)
Increase in amount due from a related company	–	–	(6,451)
Increase/(decrease) in amount due to a related company	1,824	(1,824)	–
Increase/(decrease) in deferred revenue	24,264	(3,954)	2,894
Cash (used in)/generated from operations	(16,816)	22,073	3,552
Income tax paid	(20)	(12)	(4,544)
Interest paid	(1,080)	(2,900)	(1,566)
Net cash (used in)/generated from operating activities	(17,916)	19,161	(2,558)
Cash flows from investing activities			
Interest income	50	1	1
Purchases of property, plant and equipment	(18,250)	(19,700)	(17,732)
Proceeds from sale of property, plant and equipment	–	1,815	–
Additions to intangible assets	(51,100)	(13,250)	(15,991)
Net cash used in investing activities	(69,300)	(31,134)	(33,722)

	Year ended 31 December		
	2013	2014	2015
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from financing activities			
New obligations under finance leases	15,500	4,318	–
Repayment of obligations under finance leases	(7,525)	(6,863)	(7,721)
New borrowings	–	34,891	19,375
Repayment of borrowings	–	(28,544)	(13,561)
Net advance from immediate holding company	49	15,999	6,930
Net cash generated from financing activities	8,024	19,801	5,023
Net (decrease)/increase in cash and cash equivalents	(79,192)	7,828	(31,257)
Effect of foreign exchange rate changes	(714)	(2,494)	(3,867)
Cash and cash equivalents at beginning of year	129,238	49,332	54,666
Cash and cash equivalents at end of year	**49,332**	**54,666**	**19,542**
Represented by:			
Bank balances and cash	**49,332**	**54,666**	**19,542**

C. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target Company was incorporated as a limited liability company in State of Delaware, USA on 17 September 2012. Its registered office is at 1679 S. DuPont Highway, Suite 100, City of Dover, County of Kent 19901, State of Delaware, USA. During the Relevant Periods and up to the date of this report, the principal activity of the Target Company was investment holding. The principal activities of the Target Company's subsidiaries are visual effects productions.

The functional currency of the Target Company is United States dollars ("**US$**") while the Financial Information is presented in Hong Kong dollars ("**HK$**") as the directors of the Target Company considered it is more beneficial to the users of the Financial Information. All values are rounded to the nearest thousand ("**HK$'000**") except when otherwise indicated.

2. BASIS OF PREPARATION

The Financial Information has been prepared in accordance with all HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRS**") issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Information includes applicable disclosures required by the Listing Rules. All HKFRS effective for accounting period commencing 1 January 2015, together with the relevant transition provision, have been early adopted by the Target Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost basis.

For the years ended 31 December 2013, 2014 and 2015, the Target Group incurred losses of approximately HK$307,693,000, HK$30,766,000 and HK$48,152,000 respectively; as at 31 December 2013, 2014 and 2015, the Target Group's current liabilities exceeded the current assets by approximately HK$132,224,000, HK$109,878,000 and HK$144,745,000 respectively; and as at 31 December 2014 and 2015, the Target Group had a deficiency in shareholders' fund of approximately HK$6,124,000 and HK$44,413,000 respectively. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Target Group's ability to continue as a going concern, and therefore the Target Group may not be able to realise assets and discharge liabilities in the normal course of business. The directors of the Target Company consider that it is appropriate to prepare the Financial Information on a going concern basis with due regard to the following factors:

(i) Deferred revenue of approximately HK$33,566,000, HK$29,612,000 and HK$32,506,000 as at 31 December 2013, 2014 and 2015 respectively was included in the current liabilities but no cash outflow was expected;

(ii) The Company has agreed to provide sufficient financial resources to the Target Group so as to enable the Target Group to meet its liabilities as they fall due, and the immediate holding company of the Target Company has agreed not to request the Target Group to repay the amount due until the Target Group is in a position to repay, in order to maintain the Target Group as a going concern; and

(iii) The directors of the Target Company carried out a detailed review of the working capital forecast of the Target Group. In order to attain profitable and positive cash flows operations, the Target Group is implementing tighter cost control measures, including minimising the number of under-utilised employees, and will also be proactive in seeking more new projects and business opportunities for featured films, commercials as well as other visual effects production services.

  Based on working capital forecast of the Target Group, the directors of the Target Company considered that the Target Group would have necessary liquid funds to finance its working capital requirements in the twelve months from the end of each of the three years ended 31 December 2013, 2014 and 2015.

Notwithstanding the above, material uncertainties exist regarding the Target Group's ability to successfully implement the above measures for generating adequate operating cash inflows from its operations and therefore the achievability of its working capital forecast.

Should the Target Group be unable to continue in business as a going concern, adjustments would have to be made in the Financial Information to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not yet been reflected in the Financial Information.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has adopted all HKFRSs issued by the HKICPA which are effective for the financial year beginning on 1 January 2015 and consistently applied throughout the Relevant Periods.

As at the date of this report, the following new and amendments to HKFRSs, potentially relevant to the Financial Information, have been issued, but are not yet effective and have not been early adopted by the Target Group.

		Effective date
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle	(i)
Amendments to HKAS 1	Disclosure Initiative	(i)
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	(i)
HKFRS 9 (2014)	Financial Instruments	(ii)
HKFRS 15	Revenue from Contracts with Customers	(ii)
HKFRS 16	Leases	(iii)

Effective date:

(i) Annual periods beginning on or after 1 January 2016
(ii) Annual periods beginning on or after 1 January 2018
(iii) Annual periods beginning on or after 1 January 2019

HKFRS 16 – Leases

For lessee accounting, HKFRS 16 introduces a single accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Target Group is in the process of making an assessment of the potential impact of these pronouncements. The Target Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Target Group's accounting policies and financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The Financial Information comprises the financial statements of the Target Group made up to 31 December each year.

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

All inter-company transactions and balances within the Target Group are eliminated in full on consolidation.

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

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

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

(b) Subsidiary

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

Interests in subsidiaries are included in the Target Company's statement of financial position at cost less any accumulated impairment losses. The results of subsidiaries are accounted for by the Target Company on the basis of dividends received and receivable.

(c) Property, plant and equipment

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

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

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

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

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

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

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

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

(d) Impairment of non-financial assets

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

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

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

(e) Intangible assets

(i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interest over the fair value of identifiable assets, liabilities and contingent liabilities acquired. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

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

For goodwill arising on an acquisition in a financial period, the CGU to which allocated goodwill is tested for impairment before the end of that financial period. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent period.

(ii) Acquired intangible assets

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

Proprietary software	3 years
Participation rights	5 years or unit of production method
Patents	10 to 15 years

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

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

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

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

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

(f) Financial assets

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment

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

– significant financial difficulty of the debtors;
– a breach of contract, such as a default or delinquency in interest or principal payments;
– granting concession to a debtor because of debtor's financial difficulty; and
– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

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

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

(iii) Effective interest method

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

(iv) Derecognition of financial assets

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

(g) Financial liabilities

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

(i) Other financial liabilities

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

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

(ii) Effective interest method

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

(iii) Derecognition of financial liabilities

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

(h) Cash and cash equivalents

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

(i) Leases

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

The Target Group as lessee

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

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

(j) Provisions and contingent liabilities

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

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

(k) Taxation

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

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

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

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

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

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

(l) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Target Company is US$.

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

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

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

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

(m) Employee benefits

(i) Short term benefits

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

(ii) Retirement benefit scheme

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

(iii) Termination benefits

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

(iv) Share-based payments

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

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

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

(n) Related parties

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

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

(ii) has significant influence over the Target Group; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(o) Revenue recognition

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

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Estimates and judgements

In the application of the Target Group's accounting policies, which are described in Note 4, the directors of the Target Group are required to make judgement, estimation and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment of non-financial assets

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

(ii) Deferred tax

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

(iii) Estimated impairment of trade and other receivables

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

(iv) Useful lives of property, plant and equipment and intangible assets

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

As at 31 December 2013, 2014 and 2015, the carrying amount of property, plant and equipment was HK$38,895,000, HK$36,256,000 and HK$27,827,000, respectively.

6. REVENUE AND SEGMENT REPORTING

Revenue represented the aggregate of proceeds received and receivable from provision of services of visual effects production.

No segment reporting information on business segment is shown as the Target Group is only engaged in provision of services of visual effects production.

(a) Geographic information

The following tables provide an analysis of the Target Group's revenue from external customers and non-current assets.

(i) Revenue from external customers

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
USA	354,124	360,563	315,524
Canada	209,870	167,046	193,912
Other countries	7,381	1,689	25,461
	571,375	**529,298**	**534,897**

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

(ii) Non-current assets

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
USA	150,085	105,785	84,085
Canada	13,047	7,425	16,247
	163,132	**113,210**	**100,332**

(b) Major customers

The Target Group's customer base is diversified and there were 4 and 3 customers for the years ended 31 December 2013 and 2014 with whom transactions have exceeded 10% of the Target Group's revenues. For the year ended 31 December 2015, there was one customer with whom transactions have exceeded 10% of the Target Group's revenues.

For the year ended 31 December 2013, revenues from the 4 customers amounted to approximately HK$85,159,000, HK$81,854,000, HK$71,427,000 and HK$62,015,000, respectively. For the year ended 31 December 2014, revenues from the 3 customers amounted to approximately HK$88,921,000, HK$67,653,000 and HK$55,600,000, respectively. For the year ended 31 December 2015, revenues from one customer amounted to approximately HK$60,882,000.

7. OTHER REVENUE AND GAINS

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Profit sharing from participation rights in movies	1,151	36,958	10,992
Gain on disposal of property, plant and equipment	–	1,603	–
Royalty income	697	55	318
Interest income	50	1	1
Others	519	382	2,676
	2,417	**38,999**	**13,987**

8. LOSS BEFORE TAXATION

This is arrived at after charging/(crediting):

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Cost of services rendered *(Note)*	511,960	402,148	442,072
Loss/(gain) on disposal of property, plant and equipment	9,339	(1,603)	–
Exchange differences, net	726	(2,033)	(2,627)
Auditor's remuneration	–	–	–
Depreciation of property, plant and equipment *(Note)*	29,175	20,668	23,174
Amortisation of intangible assets *(Note)*	89,240	60,255	19,373
Research and development	6,299	31	–
Operating lease rentals in respect of:			
– rented premises	28,795	16,440	17,829
– rented equipment	16,501	13,865	13,203
Staff costs *(Note)*:			
– Directors' remuneration *(Note 10)*	–	–	1,094
– Other staff costs:			
Salaries, wages and other benefits	487,560	380,269	395,215
Retirement benefit scheme contributions	–	–	–
Equity-settled share-based payment expenses	–	3,368	12,527
Total staff costs	487,560	383,637	408,836

Note:

For the years ended 31 December 2013, 2014 and 2015, cost of services rendered include approximately HK$449,458,000, HK$346,327,000 and HK$367,389,000, respectively, relating to staff costs, depreciation of property, plant and equipment and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

9. FINANCE COSTS

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Interests on:			
Borrowings	49	782	434
Finance leases	1,031	2,118	1,132
	1,080	**2,900**	**1,566**

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The directors' remuneration is analysed as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Directors' fee	–	–	–
Other emoluments:			
Salaries and other benefits	–	–	669
Equity-settled share-based payment expenses	–	–	425
	–	**–**	**1,094**

No directors waived any remuneration in respect of the each of the Relevant Periods.

Details of directors' remuneration are as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Seah Ang (appointed as a director on 21 February 2013, resigned as a director on 3 July 2013, and re-appointed as a director on 1 October 2015)			
– Salaries and other benefits	–	–	269
– Equity-settled share-based payment expenses	–	–	298
	–	**–**	**567**
Amit Chopra (appointed as a director on 1 October 2015)			
– Salaries and other benefits	–	–	400
– Equity-settled share-based payment expenses	–	–	127
	–	**–**	**527**

Other than as disclosed above, no remuneration was paid or payable to any directors of the Target Company during the Relevant Periods.

Five highest paid employees

The five highest paid individuals of the Target Group were not directors of the Target Company during the Relevant Periods. The remuneration of the highest paid employees for each of the Relevant Periods, other than directors of the Target Company is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and bonus	14,628	14,002	15,100
Equity-settled share-based payment expenses	–	741	3,624
Retirement benefit scheme contributions	–	201	–
	14,628	**14,944**	**18,724**

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

	Year ended 31 December		
	2013	**2014**	**2015**
HK$2,000,001 to HK$2,500,000	2	2	1
HK$2,500,001 to HK$3,000,000	1	1	1
HK$3,000,001 to HK$3,500,000	1	–	1
HK$3,500,001 to HK$4,000,000	1	2	1
HK$6,500,001 to HK$7,000,000	–	–	1
	5	**5**	**5**

11. TAXATION

(a) Taxation charged/(credited) to the consolidated statements of comprehensive income represents:

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Current taxation – Overseas tax			
– provision for the year	3,382	1,018	6,453
– under-provision in respect of prior years	–	–	218
Deferred taxation	6,603	(360)	(3)
	9,985	**658**	**6,668**

(i) No Hong Kong profits tax has been provided as the Target Group has no estimated assessable profits arising in Hong Kong for each of the Relevant Periods.

(ii) Taxation on overseas profits has been calculated on the estimated assessable profits for each of the Relevant Periods at the rates of taxation prevailing in the countries in which the Target Group operates.

Taxation for each of the Relevant Periods can be reconciled to accounting loss as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Loss before taxation	**(297,708)**	**(30,108)**	**(41,484)**
Taxation calculated at Hong Kong profits tax rate of 16.5%	(49,122)	(4,968)	(6,845)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(5,293)	(8,416)	(13,620)
Tax effect of expenses not deductible for tax purposes	210	564	1,010
Tax effect of non-taxable income	(11)	(67)	(16)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(3,472)	–	–
Tax effect of unrecognised tax losses and temporary differences	67,673	13,545	25,921
Under-provision in respect of prior years	–	–	218
Taxation for the year	**9,985**	**658**	**6,668**

(b) Deferred taxation

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

	Provisions	Fair value adjustments arising from business combination	Total
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2013	**7,313**	**(1,159)**	**6,154**
(Charged)/credited to profit or loss for the year *(Note 11(a))*	(7,319)	716	(6,603)
Exchange realignment	6	66	72
As at 31 December 2013 and 1 January 2014	**–**	**(377)**	**(377)**
Credited to profit or loss for the year *(Note 11(a))*	–	360	360
Exchange realignment	–	13	13
As at 31 December 2014 and 1 January 2015	**–**	**(4)**	**(4)**
Credited to profit or loss for the year *(Note 11(a))*	–	3	3
Exchange realignment	–	1	1
As at 31 December 2015	–	–	–

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

	Year ended 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax liabilities	(377)	(4)	–
Deferred tax assets	–	–	–
	(377)	**(4)**	**–**

As at 31 December 2013, 2014 and 2015, the Target Group had unused tax losses of HK$198,556,000, HK$261,396,000 and HK$399,580,000 respectively available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams, and such losses will expire in 20 years from the respective dates of incurrence.

12. DIVIDEND

No dividend was declared and paid during the Relevant Periods.

13. LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE TARGET COMPANY

The consolidated loss attributable to owners of the Target Company for the Relevant Periods includes no profits or losses which have been dealt with in the financial statements of the Target Company.

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Machineries HK$'000	Construction in progress HK$'000	Total HK$'000
COST				
As at 1 January 2013	59,789	11,962	–	71,751
Additions	4,865	–	13,385	18,250
Disposals	(5,706)	(8,660)	–	(14,366)
Exchange realignment	(3,000)	76	(1)	(2,925)
As at 31 December 2013 and 1 January 2014	**55,948**	**3,378**	**13,384**	**72,710**
Transfer	13,385	–	(13,385)	–
Additions	19,490	210	–	19,700
Disposals	(4,084)	–	–	(4,084)
Exchange realignment	(2,079)	(112)	1	(2,190)
As at 31 December 2014 and 1 January 2015	**82,660**	**3,476**	**–**	**86,136**
Additions	17,732	–	–	17,732
Exchange realignment	(4,908)	(202)	–	(5,110)
As at 31 December 2015	**95,484**	**3,274**	**–**	**98,758**
ACCUMULATED DEPRECIATION				
As at 1 January 2013	9,183	1,769	–	10,952
Depreciation charge for the year	26,636	2,539	–	29,175
Disposals	(2,827)	(2,200)	–	(5,027)
Exchange realignment	(1,116)	(169)	–	(1,285)
As at 31 December 2013 and 1 January 2014	**31,876**	**1,939**	**–**	**33,815**
Depreciation charge for the year	19,725	943	–	20,668
Disposals	(3,872)	–	–	(3,872)
Exchange realignment	(563)	(168)	–	(731)
As at 31 December 2014 and 1 January 2015	**47,166**	**2,714**	**–**	**49,880**
Depreciation charge for the year	22,642	532	–	23,174
Exchange realignment	(1,964)	(159)	–	(2,123)
As at 31 December 2015	**67,844**	**3,087**	**–**	**70,931**
CARRYING AMOUNT				
As at 31 December 2015	**27,640**	**187**	**–**	**27,827**
As at 31 December 2014	**35,494**	**762**	**–**	**36,256**
As at 31 December 2013	**24,072**	**1,439**	**13,384**	**38,895**

As at 31 December 2013, 2014 and 2015, property, plant and equipment with carrying amount of approximately HK$2,642,000, HK$4,962,000 and HK$563,000 respectively were held under finance leases. None of the leases includes contingent rentals.

15. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (a)*	*Note (b)*	*Note (c)*		
COST						
As at 1 January 2013	7,151	25,575	43,696	204,600	–	281,022
Additions	–	–	28,450	22,650	–	51,100
Exchange realignment	4	14	(124)	94	–	(12)
As at 31 December 2013 and 1 January 2014	7,155	25,589	72,022	227,344	–	332,110
Additions	–	–	13,250	–	–	13,250
Exchange realignment	2	5	(319)	54	–	(258)
As at 31 December 2014 and 1 January 2015	7,157	25,594	84,953	227,398	–	345,102
Additions	–	–	15,216	–	775	15,991
Exchange realignment	(5)	(17)	(1,232)	(153)	–	(1,407)
As at 31 December 2015	7,152	25,577	98,937	227,245	775	359,686
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS						
As at 1 January 2013	–	–	3,359	232	–	3,591
Amortisation for the year	–	–	24,098	65,142	–	89,240
Impairment loss	–	6,204	–	108,864	–	115,068
Exchange realignment	–	–	(17)	(9)	–	(26)
As at 31 December 2013 and 1 January 2014	–	6,204	27,440	174,229	–	207,873
Amortisation for the year	–	–	16,830	43,425	–	60,255
Exchange realignment	–	–	(28)	48	–	20
As at 31 December 2014 and 1 January 2015	–	6,204	44,242	217,702	–	268,148
Amortisation for the year	–	–	17,335	1,922	116	19,373
Exchange realignment	–	(4)	(190)	(146)	–	(340)
As at 31 December 2015	–	6,200	61,387	219,478	116	287,181
CARRYING AMOUNT						
As at 31 December 2015	**7,152**	**19,377**	**37,550**	**7,767**	**659**	**72,505**
As at 31 December 2014	**7,157**	**19,390**	**40,711**	**9,696**	**–**	**76,954**
As at 31 December 2013	**7,155**	**19,385**	**44,582**	**53,115**	**–**	**124,237**

Notes:

(a) The Target Group's goodwill and trademarks arose from the business combination on 24 September 2012.

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

On 4 July 2013, the Group completed the acquisition of 70% equity interest in Upfield Sky Limited, of which the Target Group is the wholly-owned subsidiaries. The trademarks being part of the identifiable assets acquired were remeasured at its fair value of HK$19,385,000, which fell below the carrying value before impairment by the amount of HK$6,204,000 and therefore an impairment loss in the same amount was recognised in profit or loss for the year ended 31 December 2013.

The fair value of the trademarks has been determined by the directors of the Target Company on the basis of a fair-value-less-costs-of-disposal calculation using discounted cash flow method with reference to a professional valuation report issued by BMI Appraisals Limited ("**BMI**"), an independent firm of professionally qualified valuers. The recoverable amount is based on certain key assumptions. The fair-value-less-costs-of-disposal calculation uses cash flow projections based on the latest estimation approved by the Target Group's management covering a period of 5 years and at a post-tax discount rate of 19%. Cash flow projections are based on the normal pattern of cash flow stream from the industry and the Target Group management's expectation. The fair-value-less-costs-of-disposal calculation of the trademarks is classified as a level 3 measurement.

The goodwill and trademarks are allocated to the Target Group's visual effects production business CGU for the purpose of impairment testing.

The recoverable amount of the visual effects production CGU has been determined by the directors of the Target Company on the basis of a value-in-use calculation with reference to a professional valuation report issued by BMI. The recoverable amount is based on certain key assumptions. The value-in-use calculation used cash flow projections based on latest financial budgets approved by the Target Group's management covering a period of 5 years. The key assumptions for the calculations are the growth rates and discount rates as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
Pre-tax discount rate	23%	24%	22%
Average growth rate within the five-year period	12%	24%	22%

The cash flow projections beyond the 5-year period are extrapolated using a growth rate of 2%. Cash flow projections during the budget period are based on the expected gross margins during the budget period. Budget gross margins have been determined based on past performance and the Target Group management's expectations for the market development and future performance of the visual effects production business.

(b) Proprietary software mainly represented internally developed software to produce various visual effects.

As at 31 December 2013, 2014 and 2015, net carrying amount of proprietary software of HK$6,097,000, HK$3,286,000 and HK$469,000 respectively was held under finance lease. The lease does not include contingent rental.

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

(c) Participation rights represented the contractual rights of profit-sharing on pre-determined percentages from movies.

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

During the year ended 31 December 2013, the underlying movie of one of the Target Group's participation rights was released in the regions where the Target Group is eligible to share the profits under contractual right. The box office revenue and other related revenue of the movie were below expectation of the Target Group which was an impairment indicator of that related participation right. Therefore, the directors of the Target Company conducted an impairment assessment of the related participation right as follows:

The recoverable amount of the related participation right had been determined by the directors of the Target Company on the basis of a fair-value-less-costs-of-disposal calculation using discounted cash flow method with reference to a professional valuation report issued by BMI. The recoverable amount was based on certain key assumptions. The fair-value-less-costs-of-disposal calculation used cash flow projections of the movie based on the latest estimation approved by the Target Group's management covering a period of 5 years and at a post-tax discount rate of 20%. Cash flow projections are based on the normal pattern of cash flow stream from a movie in the industry and the Target Group management's expectation.

The recoverable amount of the related participation right was HK$49,626,000, which fell below the carrying value before impairment by the amount of HK$108,864,000 and therefore an impairment loss in the same amount was recognised in profit or loss for the year ended 31 December 2013. The fair-value-less-costs-of-disposal calculation of participation right is classified as a level 3 measurement.

16. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	7,932	4,546	12,214
Accrued income	–	12,635	9,903
Other receivables and prepayments	7,208	10,820	10,645
	15,140	**28,001**	**32,762**

(i) The directors of the Target Company consider that the carrying amounts of trade receivables, other receivables and prepayments approximate their fair values as at the end of each of the Relevant Periods.

No interest is charged on trade and other receivables.

(ii) The Target Group normally allows an average credit period of 30 days to trade customers. The ageing analysis of the Target Group's trade receivables based on the due date as of the end of each of the Relevant Periods is as follows:

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Current	1,595	59	1,122
1 to 30 days	3,172	1,590	6,602
31 to 60 days	1,873	235	2,763
61 to 90 days	1,292	2,662	1,727
	7,932	**4,546**	**12,214**

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

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Less than 1 month past due	3,172	1,590	6,602
1 to 3 months past due	3,165	2,897	4,490
	6,337	**4,487**	**11,092**

Receivables that were past due but not impaired relate to a wide range of debtors for whom there was no recent history of default.

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

(iv) The Target Group has not recognised any impairment losses on trade and other receivables during the Relevant Periods.

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

17. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	2,499	3,917	9,904
Other payables and accruals	42,192	27,478	26,381
	44,691	**31,395**	**36,285**

The directors of the Target Company consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at the end of each of the Relevant Periods.

The ageing analysis of the Target Group's trade payables based on due date as of the end of each of the Relevant Periods is as follows:

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Current	782	1,494	5,154
1 to 30 days	357	30	3,517
31 to 60 days	697	–	854
61 to 90 days	135	2,355	19
Over 90 days	528	38	360
	2,499	**3,917**	**9,904**

18. BORROWINGS

The borrowings were due for repayment as follows:

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Bank loans – secured:			
Within one year	–	–	12,167
After one year but within two years	–	6,354	–
	–	**6,354**	**12,167**
Current portion	–	–	12,167
Non-current portion	–	6,354	–
	–	**6,354**	**12,167**

As at 31 December 2014 and 2015, the bank loans, which are denominated in US$, bear floating interest rates at effective rates of 3.5% and 3.75% per annum respectively.

The directors of the Target Company consider that the carrying amounts of the Target Group's bank borrowings approximate their fair values as at the end of each of the Relevant Periods.

Further details of the Target Group's management of liquidity risk are set out in Note 30(b).

19. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December					
	2013		**2014**		**2015**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:						
Within one year	6,620	4,783	8,857	7,725	3,246	3,096
In the second year	9,742	8,582	3,248	3,098	–	–
Total minimum finance lease payments	16,362		12,105		3,246	
Less: Future finance charges	(2,997)		(1,282)		(150)	
Total net finance lease payables	**13,365**		**10,823**		**3,096**	
Less: Amount due within one year	(4,783)		(7,725)		(3,096)	
Amount due after one year	**8,582**		**3,098**		**–**	

The Target Group leased certain software and computer equipment under finance leases. The average lease term is three years. As at 31 December 2013, 2014 and 2015, interest rates underlying the obligations under finance leases are fixed at respective contract dates and the average effective borrowing rates are 16.45%, 17.52% and 17.03% per annum respectively. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

20. SHARE CAPITAL

	Number of shares	Amount
Authorised ordinary shares		
As at 31 December 2013, 2014 and 2015 of US$1 each	50,000,000	US$50,000,000
Issued and fully paid ordinary shares		
As at 31 December 2013, 2014 and 2015 of HK$7.75 each	50,000,000	HK$387,504,000

21. RESERVES

Target Company	Additional paid-in capital *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
As at 1 January 2013	–	–	–	–
Loss and total comprehensive income for the year	–	203	–	203
As at 31 December 2013 and 1 January 2014	**–**	**203**	**–**	**203**
Recognition of equity-settled share-based payment *(Note 22)*	3,368	–	–	3,368
Loss and total comprehensive income for the year	–	92	–	92
As at 31 December 2014 and 1 January 2015	**3,368**	**295**	**–**	**3,663**
Recognition of equity-settled share-based payment *(Note 22)*	12,952	–	–	12,952
Loss and total comprehensive income for the year	–	(260)	(78,330)	(78,590)
As at 31 December 2015	**16,320**	**35**	**(78,330)**	**(61,975)**

22. SHARE-BASED PAYMENT TRANSACTIONS

The Company, which is the ultimate holding company of the Target Company, adopted a share option scheme on 16 May 2002 (the "**2002 Share Option Scheme**") which expired on 15 May 2012. On 27 April 2012, the Company terminated the 2002 Share Option Scheme, and a new 10-year share option scheme was adopted on the same date and amended on 3 April 2014 (the "**New Option Scheme**"). Pursuant to the New Option Scheme, the Company's board is authorised to grant options to any directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards.

During the year ended 31 December 2013, no share option was granted by the Company.

During the years ended 31 December 2014 and 2015, 528,539,450 and 25,071,429 share options respectively were granted to a director of the Target Company and certain employees of the Target Group (collectively the "**Grantees**") for their services provided to the Target Group. Under the Company's Option Scheme, each of the Grantees remitted the Company HK$1 as consideration for the grant of the share options. Each option granted during the years ended 31 December 2014 and 2015 gives the holder the right to subscribe for ordinary shares of the Company at an exercise price of HK$0.098 and HK$1.32 per share respectively.

During the year ended 31 December 2014, 4,820,000 share options were forfeited while no share option was exercised. During the year ended 31 December 2015, 64,160,000 share options were forfeited and 10,000 share options were exercised.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2015 was HK$1.32 per share. As at 31 December 2014 and 2015, the average remaining contractual life is 9.42 and 8.49 years respectively.

The fair value of services received by the Target Group in return for share options granted by the Company on the respective grant dates is measured by reference to the fair value of share options granted. The fair value is determined based on binomial option pricing model. The weighted average fair value of each option granted during the years ended 31 December 2014 and 2015 is HK$0.048 and HK$0.198 respectively. The key valuation parameters are as follows:

	As at 31 December	
	2014	**2015**
Share price at grant date	HK$0.094 to HK$0.127	HK$1.32
Exercise price	HK$0.098	HK$1.32
Expected volatility	33.59% to 47.00%	55%
Life of the share options	10 years	10 years
Expected dividend yield	0%	0%
Risk-free rate	1.91% to 1.93%	1.42%
Forfeiture rate	10%	12.9%
Suboptimal exercise behaviour multiple	2.1	1.4

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

There was no market vesting condition associated with the share options granted.

On 6 May 2015, 25,071,429 share options were granted to certain employees (one of them was appointed as a director of the Target Company on 1 October 2015) of the Target Group for their services provided to the Target Group at a consideration of HK$1 per each grantee under the Company's share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. One third of share options have immediately vested on the grant date of 6 May 2015, while one third of share options will vest on 5 May 2016 and the remaining one third of such options will vest on 5 May 2017. All these share options will be exercisable from their respective vesting date until 5 May 2025. The exercise price is HK$1.32, being the average closing price of the Company's ordinary shares for the five business days immediately before the date of grant.

During the years ended 31 December 2014 and 2015, the Target Group recognised equity-settled share-based payment expenses of approximately HK$3,368,000 and HK$12,952,000 respectively, and recognised a corresponding increase in equity as additional paid-in capital.

The following table discloses movements in the share options granted by the Company to the directors and employees of the Target Group for their services provided to the Target Group during the years ended 31 December 2013, 2014 and 2015.

Name or category of participants	As at 1 January 2013, 31 December 2013 and 1 January 2014	Granted during the year ended 31 December 2014	Forfeited/ lapsed during the year	As at 31 December 2014	Date of grant	Exercise period	Exercise price per share *HK$*
Director							
Seah Ang ^	–	57,339,450	–	57,339,450	23 July 2014 *	28 May 2017 to 27 May 2024	0.098
Amit Chopra #	–	48,000,000	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
Employees							
Others, in aggregate	–	423,200,000	(4,820,000)	418,380,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	–	528,539,450	(4,820,000)	523,719,450			
Weighted average exercise price	n/a	HK$0.098	HK$0.098	HK$0.098			

Name or category of participants	As at 1 January 2015	Granted during the year ended 31 December 2015	Exercised during the year	Forfeited/ lapsed during the year	As at 31 December 2015	Date of grant	Exercise period	Exercise price per share
								HK$
Director								
Seah Ang ^	57,339,450	–	–	–	57,339,450	23 July 2014 *	28 May 2017 to 27 May 2024	0.098
Amit Chopra #	48,000,000	–	–	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	–	1,071,429	–	–	1,071,429	6 May 2015	6 May 2015 to 5 May 2025	1.32
Employees								
Others, in aggregate								
– 2014	418,380,000	–	–	(64,160,000)	354,220,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
– 2015	–	8,000,000	(10,000)	–	7,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.32
	–	8,000,000	–	–	8,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.32
	–	8,000,000	–	–	8,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.32
	523,719,450	25,071,429	(10,000)	(64,160,000)	484,620,879			
Weighted average exercise price	HK$0.098	HK$1.32	HK$1.32	HK$0.098	HK$0.161			

^ Seah Ang was appointed as a director on 21 February 2013, resigned as a director on 3 July 2013, and re-appointed as a director on 1 October 2015.

Amit Chopra was appointed as a director on 1 October 2015.

* The share options conditionally granted to Mr. Seah Ang on 28 May 2014 were approved by the shareholders of the Company at the special general meeting held on 23 July 2014.

23. INVESTMENTS IN SUBSIDAIRIES

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	387,707	391,167	403,859
Less: Impairment *(Note)*	–	–	(78,330)
	387,707	391,167	325,529

Note: For the year ended 31 December 2015, the Target Company evaluated its investments in subsidiaries and provided an impairment loss of approximately HK$78,330,000 because its recoverable amount falls below the carrying value by that amount.

24. AMOUNTS DUE FROM/(TO) SUBSIDIARY/FELLOW SUBSIDIARIES/A RELATED COMPANY/IMMEDIATE HOLDING COMPANY

Amounts due are unsecured, interest-free and repayable on demand.

25. OPERATING LEASE COMMITMENTS

As at the end of each of the Relevant Periods, the Target Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

Land and buildings

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	11,396	15,448	14,850
Later than one year and not later than five years	17,268	5,644	79,478
Later than five years	–	–	93,920
	28,664	**21,092**	**188,248**

Leases for land and buildings are negotiated for an average term of three years at fixed rental.

Equipment

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	529	611	521
Later than one year and not later than five years	21	–	22
	550	**611**	**543**

Leases for equipment are negotiated for an average term of four years at fixed rental.

26. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

As at 31 December 2013, the Target Group did not have any assets pledged nor guarantee for any credit facilities. As at 31 December 2014 and 2015, the Target Group had utilised banking facilities of HK$6,354,000 and HK$12,167,000 respectively from a bank. The banking facilities are secured by an assignment of all proceeds of a subsidiary from its income on its participation right on a movie, the entire equity interests and all assets and property of two subsidiaries of the Target Company and guarantees granted by the two subsidiaries of the Target Company to the bank. In addition, a subsidiary of the Company has agreed to subordinate all of its rights, title and interests in any assets in favour of the bank as collateral for the bank facilities granted to the Target Group.

27. CAPITAL COMMITMENTS

Other than those disclosed elsewhere in these Financial Information, the Target Group did not have any significant capital commitment as at the end of each of the Relevant Periods.

28. RELATED PARTY TRANSACTIONS

Transactions between the Target Company and its subsidiaries, which are related parties of the Target Company, have been eliminated on consolidation and are not disclosed in this note.

(i) Details of transaction between the Target Group and other related party, save as disclosed elsewhere in the Financial Information, are as follows:

		Year ended 31 December		
		2013	**2014**	**2015**
Related party relationship	**Type of transaction**	*HK$'000*	*HK$'000*	*HK$'000*
Related companies of a shareholder of the Target Company	Production costs	5,858	4,793	3,520
Joint venture of the ultimate holding company	Production income	–	–	6,452
Fellow subsidiary	Production costs	–	–	781
Fellow subsidiary	Sales related costs	–	–	559
Fellow subsidiaries	Production income	–	4,703	42,429

(ii) Members of key management personnel during the year comprised only of the executive directors whose remuneration is set out in Note 10.

29. CAPITAL RISK MANAGEMENT

The Target Group's objectives of managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Target Group consists of net debt (including the borrowings disclosed in Note 18, obligations under finance leases disclosed in Note 19, less bank balances and cash) and total equity as follows:

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Debts	13,365	17,177	15,263
Bank balances and cash	(49,332)	(54,666)	(19,542)
Net debt	(35,967)	(37,489)	(4,279)
Total equity	21,949	(6,124)	(44,413)

The Target Group's risk management reviews the capital structure on a semi-annual basis. The Target Group will consider both debt financing and equity financing for its capital requirements. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

30. FINANCIAL RISK MANAGEMENT

The main risks arising from the Target Group's financial instruments in the normal course of the Target Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

(a) Credit risk

The Target Group's credit risk is primarily attributable to its trade and other receivables.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Target Group does not obtain collateral from customers.

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

As at 31 December 2013, 2014 and 2015, the Target Group has a concentration of credit risk as 31% and 80%, 69% and 95%, and 40% and 70% of the total gross trade receivables were due from the Target Group's largest customer and the five largest customers respectively.

The credit risk of the Target Group's financial assets, which comprise gross trade receivables, other receivables and bank balances and cash, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative disclosures in respect of the Target Group's exposure to credit risk arising from trade and other receivables are set out in Note 16.

The credit risk for bank balances is limited became the counter-parties are bank, with high credit rating.

(b) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of each of the Relevant Periods of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of each of the Relevant Periods) and the earliest date the Target Group can be required to pay.

	Carrying amount	**Total contractual undiscounted cash flows**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2013					
Trade payables, other payables and accruals	44,225	44,225	44,225	–	–
Amount due to immediate holding company	108,549	108,549	108,549	–	–
Amount due to a related company	1,824	1,824	1,824	–	–
Obligations under finance leases	13,365	16,362	6,620	9,742	–
	167,963	**170,960**	**161,218**	**9,742**	**–**
As at 31 December 2014					
Bank loans	6,354	6,372	–	6,372	–
Trade payables, other payables and accruals	29,307	29,307	29,307	–	–
Amount due to immediate holding company	124,548	124,548	124,548	–	–
Obligations under finance leases	10,823	12,105	8,857	3,248	–
	171,032	**172,332**	**162,712**	**9,620**	**–**
As at 31 December 2015					
Bank loans	12,167	12,350	12,350	–	–
Trade payables, other payables and accruals	35,480	35,480	35,480	–	–
Amount due to immediate holding company	131,478	131,478	131,478	–	–
Obligations under finance leases	3,096	3,246	3,246	–	–
	182,221	**182,554**	**182,554**	**–**	**–**

(c) Interest rate risk

The Target Group's interest rate risk arises primarily from bank loans. All bank borrowings were issued at variable rates which expose the Target Group to cash flow interest rate risk. The Target Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Target Group's net borrowings at the end of each of the Relevant Periods:

	As at 31 December					
	2013		2014		2015	
	Effective interest rate		Effective interest rate		Effective interest rate	
	%	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*
Variable-rate borrowings						
Bank loans	–	–	3.5	6,354	3.75	12,167

The interest rates and terms of repayment of the Target Group's borrowings are disclosed in Note 18.

Sensitivity analysis

As at 31 December 2013, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Target Group's loss after taxation and increase/decrease the accumulated losses by HK$50,000/HK$493,000. As at 31 December 2014 and 2015, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variable held constant, would decrease the Target Group's loss after taxation and decrease the accumulated losses by HK$62,000/HK$483,000 and HK$122,000/HK$74,000 respectively. Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

(d) Currency risk

Currency risk to the Target Group is minimal as most of the Target Group's transactions are carried out in the respective functional currencies of the group entities.

31. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Target Group's financial assets and financial liabilities as recognised as at 31 December 2013, 2014 and 2015 may be categorised as follows:

	As at 31 December		
	2013	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets:			
Loans and receivables (including cash and cash equivalents) at amortised cost	57,516	69,522	60,152
Financial liabilities:			
Financial liabilities measured at amortised cost	167,963	171,032	182,221

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of the any period subsequent to 31 December 2015 and up to the date of this report. No dividend or other distribution has been declared, made or paid by the Target Company in respect of any period subsequent to 31 December 2015.

Yours faithfully
For and on behalf of
BDO Limited
Certified Public Accountants
Hong Kong

Pak Tak Lun
Practising Certificate number: P06170

For the year ended 31 December 2015

Business and Financial Review

During the year ended 31 December 2015, the Target Group recorded revenue of approximately HK$534,897,000 (2014: HK$529,298,000). The Target Group incurred a loss of approximately HK$48,152,000 (2014: HK$30,766,000). The loss was primarily due to operating losses (including the amortisation expenses of an intangible asset: participation rights in the film "Ender's Game"). The adjusted loss of the Target Group, taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK$5,605,000 (2014: profit of HK$50,157,000).

The Target Group mainly provided VFX production services for major motion picture studios, advertisers and video games. Since 1 January 2015, the artists of Digital Domain 3.0, Inc. ("**DD3I**", a wholly owned subsidiary of the Target Company) have provided VFX production services for feature films "Furious 7" and "Pixels"; the Starz cable channel show "Black Sails"; and marketing campaigns for major brands including Oculus Rift, Gatorade, Nike, Toyota, Cadillac and the NBC "Heroes Reborn" Super Bowl commercial. This year, DD3I's artists were nominated for four VES awards for their VFX work on Nike: "The Neymar Jr. Experience" and "Black Sails".

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

The Target Group sought to continue to ride on its track record and substantial experience in the VFX industry and to be proactive in seeking new projects and business opportunities, although its markets remain highly competitive. The Target Group has adopted cost control measures (including outsourcing where appropriate discreet parts of its VFX work to external vendors and minimising the number of under-utilised production employees, etc.) to improve the profit margins of the VFX business. The effectiveness of the improvements made will be reflected in the coming years.

Capital structure

Non-current assets

As at 31 December 2015, the Target Group had non-current assets of approximately HK$100,332,000, of which property, plant and equipment were approximately HK$27,827,000 and intangible assets were approximately HK$72,505,000. The major component of property, plant and equipment was equipment, furniture and fixtures of approximately HK$27,640,000 and machineries of approximately HK$187,000. The intangible assets consisted of goodwill of HK$7,152,000, trademarks of approximately HK$19,377,000, proprietary software of HK$37,550,000 and participation rights of approximately HK$7,767,000.

Current assets

As at 31 December 2015, the Target Group had current assets of approximately HK$76,060,000, of which trade receivable, other receivables and prepayments were approximately HK$32,762,000 and bank balances were approximately HK$19,542,000. The trade receivable, other receivables and prepayments consisted of trade receivables of approximately HK$12,214,000 and other receivables and prepayments of approximately HK$10,645,000. The Target Group normally allowed its trade customers on average a credit period of 30 days.

Current liabilities

As at 31 December 2015, the Target Group had current liabilities of approximately HK$220,805,000, of which trade payables, other payables and accruals were approximately HK$36,285,000, deferred revenue was approximately HK$32,506,000, borrowings were approximately HK$12,167,000, current portion of obligations under finance leases were approximately HK$3,096,000 and amount due to immediate holding company of approximately HK$131,478,000. Included in the trade payables, other payables and accruals were trade payables of approximately HK$9,904,000. Borrowings represented a working capital loan secured by (a) future receipts from participation rights in the film Ender's Game and (b) equity interests in two indirect wholly owned subsidiaries of the Target Company. The obligations under finance lease were for certain items of computer equipment and software. The average lease term was 3 years. Interest rates underlying all obligations under finance lease were fixed at respective contract dates. All leases were on a fixed repayment basis and no arrangement had been entered into for contingent rental payments. The amount due to an immediate holding company represented cash invested by the Group at the Target Company. The immediate holding company of the Target Group agreed that it would not request the Target Group to repay such sum of amount due to it until the Target Group is in a position to repay. The amount due to immediate holding company have to be eliminated on consolidation when preparing the Group's consolidated financial statements.

Non-current liabilities

As at 31 December 2015, the Target Group did not have non-current liabilities.

Gearing ratio

The gearing ratio is determined as the proportion of net debt to equity. Net debt equals to the total borrowings and obligations under finance leases minus bank balances. As at 31 December 2015, the net debt is a negative figure, so the gearing ratio was not applicable.

Capital commitments

‘

As at 31 December 2015, the Target Group had no capital commitments.

Contingent liabilities

As at 31 December 2015, the Target Group did not have any contingent liabilities.

Hedging

As at 31 December 2015, no financial instruments were used for hedging.

Acquisition and disposal of subsidiaries and associated companies

As at 31 December 2015, the Target Group did not acquire or dispose any subsidiaries and associated companies.

Segmental information

No segment reporting information on business segment was shown as the Target Group only engaged in provision of services of VFX production. For geographic information, most of the Target Group's revenue was generated from external customers in the U.S. and Canada. Also, there were non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets of the Target Group located in the U.S. and Canada.

Future plans for material investments or capital assets

As at 31 December 2015, the Target Group had no future plans for material investment or capital assets.

Charges on assets

As at 31 December 2015, (a) future receipts from participation rights in the film Ender's Game and (b) equity interests in two indirect wholly owned subsidiaries of the Target Company were charged for a working capital loan provided by a bank. The obligations under finance lease were for certain items of computer equipment and software (leased assets) and were secured by the lessor's charge over the leased assets.

Treasury policy

The Target Group had diverse sources of financing, including internal funds generated from the Target Group's business operations, general banking facilities on a secured basis and non-regular contributions from a shareholder. The Target Group continued to adopt conservative funding and treasury policies.

Exposure to foreign exchange fluctuations

The Target Group's revenue, cost, assets and liabilities were denominated in US$ and Canadian dollars ("**CDN$**"). As some financial statements of subsidiaries of the Target Group were reported in CDN$, if the CDN$ were to depreciate relative to the HK$, the reported earnings for the Canadian portion would decrease. For the year ended 31 December 2015, the Target Group did not have any hedging measures for the foreign exchange risk. While Hong Kong dollar had been pegged with US$, the currency risk on such aspect was expected to be minimal.

Employment and remuneration

As at 31 December 2015, there were approximately 584 employees in the Target Group. The Target Group remunerated its employees based on the job nature, individual performance, working experiences, professional qualification and market trends.

For the year ended 31 December 2014

Business and Financial Review

During the year ended 31 December 2014, the Target Group recorded a revenue of approximately HK$529,298,000 (2013: HK$571,375,000). The Target Group incurred loss of approximately HK$30,766,000 (2013: HK$307,693,000). The loss was reduced significantly as the margins have improved, the amortisation expense of an intangible asset, participation right in the film "Ender's Game", was reduced significantly and also no more impairment loss provided for this intangible asset. The adjusted profit before deduction of (a) depreciation of property, plant and equipment and amortisation of intangible assets and (b) impairment loss on intangible assets was HK$50,157,000 (2013: loss of HK$74,210,000).

The Target Group mainly provided VFX production services for major motion picture studios, advertisers and video games. The Group had provided VFX production services for feature films, such as "X-Men: Days of Future Past", "Maleficent" and "Night at the Museum: Secret of the Tomb". In addition, it produced VFX in advertising for major brands such as Nissan, United Airlines, Kia's Super Bowl commercial, the video games "Destiny", "Assassin's Creed" and Microsoft's "Halo" and "Tomb Raider". The following list of recent awards and nominations has been a recognition for the Target Group's VFX technology:

1. "X-Men: Days of Future Past" Nominated for Academy of Motion Picture Arts and Sciences (Oscars) for Best Achievement in Visual Effects.

2. Academy of Motion Pictures Arts and Sciences, Science and Technical Awards for MOVA and Drop technologies.

3. The Target Group's artists nominated for 6 VES awards for their VFX work on "Maleficent", "X-Men: Days of Future Past", the video game "Destiny" and Kia's Super Bowl advertisement.

For the co-production film, "Ender's Game", the first theatrical release took place in November 2013 in the U.S. The film continued to generate income from non-box office channels both within and outside the U.S. "Ender's Game" is based on the best-selling, award winning novel. "Ender's Game" is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, with Abigail Breslin and Ben Kingsley. It was distributed by Summit Entertainment in association with OddLot Entertainment and is a Chartoff Productions/Taleswapper/OddLot Entertainment/K/O Paper Products/ DD3I production. DD3I is a wholly owned subsidiary of the Target Company. The profit sharing from the Target Group's participation rights in "Ender's Game" was recognised in "Other revenue and gains" in the Target Group's consolidated statements of comprehensive income.

The Target Group sought to continue to ride on its track record and substantial experience in the VFX industry and to be proactive in seeking new projects and business opportunities, although its markets remain highly competitive. The Target Group adopted cost control measures (including outsourcing, where appropriate, discreet parts of its VFX work to external vendors and minimize the number of unutilised production employees, etc.) and improved the profit margins of the VFX business. The effectiveness of financial and operational improvements will be reflected in the results of the Target Group in the coming years.

Capital structure

Non-current assets

As at 31 December 2014, the Target Group had non-current assets of approximately HK$113,210,000, of which property, plant and equipment were approximately HK$36,256,000 and intangible assets were approximately HK$76,954,000. The major component of property, plant and equipment was equipment, furniture and fixtures of approximately HK$35,494,000 and machineries of approximately HK$762,000. The intangible assets consisted of goodwill of HK$7,157,000, trademarks of approximately HK$19,390,000, proprietary software of HK$40,711,000 and participation rights of approximately HK$9,696,000.

Current assets

As at 31 December 2014, the Target Group had current assets of approximately HK$87,371,000, of which trade receivable, other receivables and prepayments were approximately HK$28,001,000 and bank balances were approximately HK$54,666,000. The trade receivable, other receivables and prepayments consisted of trade receivables of approximately HK$4,546,000 and other receivables and prepayments of approximately HK$10,820,000. The Target Group normally allowed its trade customers on average a credit period of 30 days.

Current liabilities

As at 31 December 2014, the Target Group had current liabilities of approximately HK$197,249,000, of which trade payables, other payables and accruals were approximately HK$31,395,000, deferred revenue was approximately HK$29,612,000, current portion of obligations under finance leases were approximately HK$7,725,000 and amount due to immediate holding company of approximately HK$124,548,000. Included in the trade payables, other payables and accruals were trade payables of approximately HK$3,917,000. The obligations under finance lease were for certain items of computer equipment and software. The average lease term was 3 years. Interest rates underlying all obligations under finance lease were fixed at respective contract dates. All leases were on a fixed repayment basis and no arrangement had been entered into for contingent rental payments. The amount due to an immediate holding company represented cash invested by the Group at the Target Company. The immediate holding company of the Target Group agreed that it would not request the Target Group to repay such sum of amount due to it until the Target Group is in a position to repay. The amount due to immediate holding company have to be eliminated on consolidation when preparing the Group's consolidated financial statements.

Non-current liabilities

As at 31 December 2014, the Target Group had non-current liabilities of approximately HK$9,456,000, of which borrowings were approximately HK$6,354,000, non-current portion of obligations under finance leases were approximately HK$3,098,000 and deferred tax liabilities were approximately HK$4,000.

Gearing ratio

The gearing ratio is determined as the proportion of net debt to equity. Net debt equals to the total borrowings (if any) and obligations under finance leases minus bank balances. As at 31 December 2014, the net debt is a negative figure, so the gearing ratio was not applicable.

Capital commitments

As at 31 December 2014, the Target Group had no capital commitments.

Contingent liabilities

As at 31 December 2014, the Target Group did not have any contingent liabilities.

Hedging

As at 31 December 2014, no financial instruments were used for hedging.

Acquisition and disposal of subsidiaries and associated companies

As at 31 December 2014, the Target Group did not acquire or dispose any subsidiaries and associated companies.

Segmental information

No segment reporting information on business segment was shown as the Target Group only engaged in provision of services of VFX production. For geographic information, most of the Target Group's revenue was generated from external customers in the U.S. and Canada. Also, there were non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets of the Target Group located in the U.S. and Canada.

Future plans for material investments or capital assets

As at 31 December 2014, the Target Group had no future plans for material investment or capital assets.

Charges on assets

As at 31 December 2014, the obligations under finance lease were for certain items of computer equipment and software (leased assets) and were secured by the lessor's charge over the leased assets.

Treasury policy

The Target Group had diverse sources of financing, including internal funds generated from the Target Group's business operations, general banking facilities on a secured basis and non-regular contributions from a shareholder. The Target Group continued to adopt conservative funding and treasury policies.

Exposure to foreign exchange fluctuations

The Target Group's revenue, cost, assets and liabilities were denominated in US$ and CDN$. As some financial statements of subsidiaries of the Target Group were reported in CDN$, if the CDN$ were to depreciate relative to the HK$, the reported earnings for the Canadian portion would decrease. For the year ended 31 December 2014, the Target Group did not have any hedging measures for the foreign exchange risk. While Hong Kong dollar had been pegged with US$, the currency risk on such aspect was expected to be minimal.

Employment and remuneration

As at 31 December 2014, there were approximately 502 employees in the Target Group. The Target Group remunerated its employees based on the job nature, individual performance, working experiences, professional qualification and market trends.

For the year ended 31 December 2013

Business and Financial Review

During the year ended 31 December 2013, the Target Group recorded a revenue of approximately HK$571,375,000 and incurred a loss of approximately HK$307,693,000. The loss was primarily due to the operating loss and the impairment loss on an intangible asset (participation right in the film Ender's Game). The adjusted loss of the Target Group by adjusting (a) depreciation of property, plant and equipment and amortisation of intangible assets and (b) impairment loss on intangible assets was HK$74,210,000.

The Target Group mainly provided VFX production services for major motion picture studios, advertisers and video games. The Group had provided VFX production services for feature films, such as "Iron Man 3". In addition, it produced VFX in advertising for major brands such as Toyota, Nike, etc. The following list of recent awards and nominations has been a recognition for the Target Group's VFX technology:

1. 2013 CLIO Awards – Grand, Content and Contact: "Virtual Tupac at Coachella".

2. 2013 CLIO Awards – Silver, Film Crafts – Visual Effects: "Nike – Biomorph".

3. 2013 CLIO Awards – Bronze, Film Craft – Animations: "Toyota – The Real Deal".

4. 2013 VES Awards – Outstanding Visual Effects in a Commercial: "Nike – Biomorph".

5. 86th (2014) Academy Awards (Oscars) – nominee for Best Visual Effects: "Iron Man 3".

For the co-production film, "Ender's Game", the first theatrical release took place in November 2013 in the U.S. The film continued to generate income from non-box office channels both within and outside the U.S. "Ender's Game" is based on the best-selling, award winning novel. "Ender's Game" is an epic adventure starring Harrison Ford, Asa Butterfield, Hailee Steinfeld, Viola Davis, with Abigail Breslin and Ben Kingsley. It was distributed by Summit Entertainment in association with OddLot Entertainment and is a Chartoff Productions/Taleswapper/OddLot Entertainment/K/O Paper Products/ DD3I production. DD3I is a wholly owned subsidiary of the Target Company. The profit sharing from the Target Group's participation rights in "Ender's Game" was recognised in "Other revenue and gains" in the Target Group's consolidated statements of comprehensive income.

The participation right in the film Ender's Game was acquired by the Target Group in September 2012. At that time, the film was still under production and box office revenue from the film could not reliably be estimated. Accordingly, the value of the participation right initially recognised in the Target Group's financial statements was determined by an independent valuer using the "replacement cost method" under the cost approach of valuation which took into account primarily the amount of investments made to produce the film as at the valuation date.

With the first theatrical release of Ender's Game in November of 2013, the discounted cash flow method of valuation was determined by an independent valuer to be the most appropriate for determining the fair value of the participation right as at 31 December 2013. Cash flow projection on revenues that can be derived from the film (from theatrical releases and other forms, such as DVDs in different markets) were prepared by reference to the box office revenues of the film in the U.S. The various rates (e.g. yield rate, market premium, size premium, cost of debt, weight of debt and the resultant weighted average cost of capital (WACC)) and the risk premium used in different valuation dates were determined using a consistent basis and the changes in the rates were not material between different valuation dates. The impairment arose from the difference in the resultant valuation when compared with the value of the participation right initially recognised by the Target Group, after amortisation in accordance with the accounting policies of the Target Group and Hong Kong Accounting Standards. The Target Group expected that the main factor that may affect the future value of the participation right would be the revenues that are in fact generated from the exploitation of the film right.

The Target Group had provided VFX production services for feature films, including some of the most recognizable and successful ones, such as Iron Man 3 which has been nominated for Best Visual Effects in 2014 Academy Awards (Oscars). At the same time, the Group sought to continue to ride on the Group's track record and substantial experience in the VFX industry and to be proactive in seeking new projects and opportunities, although its markets remain highly competitive. The Target Group continued to adopt cost control measures (including outsourcing, where appropriate, discreet parts of its VFX work to external vendors and minimize the number of unutilised production employees, etc.) with the aim of improving the profit margins of the VFX business. As with other project based business, the performance of the VFX business depended on the projects that the Target Group was able to secure and their production schedule, in addition to the effectiveness of financial and operational improvements which may take time to be reflected in our results.

Capital structure

Non-current assets

As at 31 December 2013, the Target Group had non-current assets of approximately HK$163,132,000, of which property, plant and equipment were approximately HK$38,895,000 and intangible assets were approximately HK$124,237,000. The major component of property, plant and equipment was equipment, furniture and fixtures of approximately HK$24,072,000, machineries of approximately HK$1,439,000 and construction in progress of approximately HK$13,384,000. The intangible assets consisted of goodwill of HK$7,155,000, trademarks of approximately HK$19,385,000, proprietary software of HK$44,582,000 and participation rights of approximately HK$53,115,000.

Current assets

As at 31 December 2013, the Target Group had current assets of approximately HK$64,472,000, of which trade receivable, other receivables and prepayments and other receivables were approximately HK$15,140,000 and bank balances were approximately HK$49,332,000. The trade receivable, other receivables and prepayments consisted of trade receivables of approximately HK$7,932,000 and other receivables and prepayments of approximately HK$7,208,000. The Target Group normally allowed its trade customers on average a credit period of 30 days.

Current liabilities

As at 31 December 2013, the Target Group had current liabilities of approximately HK$196,696,000, of which trade payables, other payables and accruals were approximately HK$44,691,000, deferred revenue was approximately HK$33,566,000, current portion of obligations under finance leases were approximately HK$4,783,000, amount due to a related company were approximately HK$1,824,000 and amount due to immediate holding company of approximately HK$108,549,000. Included in the trade payables, other payables and accruals were trade payables of approximately HK$2,499,000. The obligations under finance lease were for certain items of computer equipment and software. The average lease term was 3 years. Interest rates underlying all obligations under finance lease were fixed at respective contract dates. All leases were on a fixed repayment basis and no arrangement had been entered into for contingent rental payments. Amounts due to a related company represented trade payables for production costs of approximately HK$1,824,000, which were payable within 30 days and represented similar credit terms to those offered by the related companies to their major customers. The amount due to an immediate holding company represented cash invested by the Group at the Target Company. The immediate holding company of the Target Group agreed that it would not request the Target Group to repay such sum of amount due to it until the Target Group is in a position to repay. The amount due to immediate holding company have to be eliminated on consolidation when preparing the Group's consolidated financial statements.

Non-current liabilities

As at 31 December 2013, the Target Group had non-current liabilities of approximately HK$8,959,000, of which non-current portion of obligations under finance leases were approximately HK$8,582,000 and deferred tax liabilities were approximately HK$377,000.

Gearing ratio

The gearing ratio is determined as the proportion of net debt to equity. Net debt equals to the total borrowings (if any) and obligations under finance leases minus bank balances. As at 31 December 2013, the net debt is a negative figure, so the gearing ratio was not applicable.

Capital commitments

As at 31 December 2013, the Target Group had no capital commitments.

Contingent liabilities

As at 31 December 2013, the Target Group did not have any contingent liabilities.

Hedging

As at 31 December 2013, no financial instruments were used for hedging.

Acquisition and disposal of subsidiaries and associated companies

As at 31 December 2013, the Target Group did not acquire or dispose any subsidiaries and associated companies.

Segmental information

No segment reporting information on business segment was shown as the Target Group only engaged in provision of services of VFX production. For geographic information, most of the Target Group's revenue was generated from external customers in the U.S. and Canada. Also, there were non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets of the Target Group located in the U.S. and Canada.

Future plans for material investments or capital assets

As at 31 December 2013, the Target Group had no future plans for material investment or capital assets.

Charges on assets

As at 31 December 2013, the obligations under finance lease were for certain items of computer equipment and software (leased assets) and were secured by the lessor's charge over the leased assets.

Treasury policy

The Target Group had diverse sources of financing, including internal funds generated from the Target Group's business operations and non-regular contributions from a shareholder. The Target Group continued to adopt conservative funding and treasury policies.

Exposure to foreign exchange fluctuations

The Target Group's revenue, cost, assets and liabilities were denominated in US$ and CDN$. As some financial statements of subsidiaries of the Target Group were reported in CDN$, if the CDN$ were to depreciate relative to the HK$, the reported earnings for the Canadian portion would decrease. For the year ended 31 December 2013, the Target Group did not have any hedging measures for the foreign exchange risk. While Hong Kong dollar had been pegged with US$, the currency risk on such aspect was expected to be minimal.

Employment and remuneration

As at 31 December 2013, there were approximately 458 employees in the Target Group. The Target Group remunerated its employees based on the job nature, individual performance, working experiences, professional qualification and market trends.

A. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP UPON COMPLETION AS AT 31 DECEMBER 2015

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the Reporting Accountant.

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13 June 2016

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Digital Domain Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Digital Domain Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2015 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-4 to IV-7 in Appendix IV of the circular dated 13 June 2016 (the "Circular") issued by the Company in connection with the Group's proposed acquisition (the "Acquisition") of 30% equity interest in Digital Domain-Reliance, LLC (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group"). The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are set out on pages IV-4 to IV-7 in Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2015 as if the Acquisition was completed on 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's annual report for the year ended 31 December 2015, on which an auditor's report was published on 30 March 2016.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

– the related pro forma adjustments give appropriate effect to those criteria; and

– the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants

Hong Kong

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP UPON COMPLETION AS AT 31 DECEMBER 2015

Introduction

The following is the illustrative and Unaudited Pro Forma Financial Information of Digital Domain Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**"), comprising the unaudited pro forma consolidated statement of financial position as at 31 December 2015, prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effects of (i) the acquisition of 30% equity interest in Digital Domain-Reliance, LLC (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") as if it was completed on 31 December 2015.

The Unaudited Pro Forma Financial Information as at 31 December 2015 has been prepared based on (i) the consolidated statement of financial position of the Group as at 31 December 2015, as set out in the Company's published annual report for the year ended 31 December 2015; and (ii) the pro forma adjustments prepared to reflect the effects of the transactions as explained in the notes set out below that are directly attributable to the transactions, and do not relate to future events or decisions, and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Group had the transactions been completed on 31 December 2015 or any future dates.

Unaudited pro forma consolidated statement of financial position of the Group upon Completion as at 31 December 2015

	Audited consolidated statement of financial position of the Group as at 31 December 2015	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Group upon Completion as at 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	
Non-current assets				
Property, plant and equipment	33,330			33,330
Investment properties	208,600			208,600
Intangible assets	873,972			873,972
Interests in joint ventures	12,576			12,576
	1,128,478			1,128,478
Current assets				
Inventories	329			329
Trade receivables, other receivables and prepayments	66,820			66,820
Bank balances and cash	344,726			344,726
	411,875			411,875
Current liabilities				
Trade payables, other payables and accruals	58,979		2,665	61,644
Deferred revenue	33,735			33,735
Borrowings	78,657			78,657
Obligation under finance lease	3,096			3,096
Tax payable	5,279			5,279
	179,746			182,411
Net current assets	232,129			229,464
Total assets less current liabilities	1,360,607			1,357,942

	Audited consolidated statement of financial position of the Group as at 31 December 2015	Unaudited pro forma adjustments		Unaudited pro forma consolidated statement of financial position of the Group upon Completion as at 31 December 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	
Non-current liabilities				
Borrowings	281,559			281,559
Deferred tax liabilities	45,944			45,944
Convertible notes	330,863			330,863
	658,366			658,366
NET ASSETS	**702,241**			**699,576**
Capital and reserves				
Share capital	107,006	3,901		110,907
Reserves	566,422	195,050 (216,580)	(2,665)	542,227
Equity attributable to owners of the Company	673,428			653,134
Non-controlling interest	28,813	17,629		46,442
TOTAL EQUITY	**702,241**			**699,576**

Notes to the Unaudited Pro Forma Financial Information:

Note 1: The audited consolidated statement of financial position of the Group as at 31 December 2015 is extracted from the Company's published annual report for the year ended 31 December 2015.

Note 2: The adjustment represents:

(i) the consideration of US$30 million (equivalent to approximately HK$232,500,000) to be satisfied by the issue and allotment of 390,100,671 shares of the Company (the "**Acquisition Consideration Shares**") at an issue price of HK$0.596 per share.

The pro forma fair value of the Acquisition Consideration Shares is assumed to be approximately HK$198,951,000 as at 31 December 2015. The pro forma fair value of the Acquisition Consideration Shares is determined by reference to the published closing market price of HK$0.51 per share at 31 December 2015 as if the Acquisition was completed on 31 December 2015 and is subject to changes using the market price as at the actual date of completion of the Acquisition.

Upon the issuance of the 390,100,671 Acquisition Consideration Shares at value of HK$198,951,000 by the Company in connection with the Acquisition, the share capital and the reserves of the Company are increased by approximately HK$3,901,000 and HK$195,050,000 respectively;

(ii) the derecognition of the carrying value of respective non-controlling interest of the Target Group as at 31 December 2015; and

(iii) the amount below is recognised in equity since the Target Group are subsidiaries of the Company before and after the completion of the Acquisition.

	HK$'000
Pro forma fair value of the Acquisition Consideration Shares as at 31 December 2015	198,951
Add: Carrying value of 30% non-controlling interest of the Target Group as at 31 December 2015 in debit balance	17,629
Amount to be recognised in the equity attributable to the shareholders of the Company upon completion of the Acquisition	216,580

The carrying value of 30% non-controlling interest of the Target Group as at 31 December 2015 is extracted from the Company's published annual report for the year ended 31 December 2015. Since the carrying value of 30% non-controlling interest of the Target Group upon completion of the Acquisition may be different from this Unaudited Pro Forma Financial Information, the final amount to be recognised in the equity may be different from the amount presented above.

Note 3: The adjustment reflects the estimated legal and professional expenses of approximately HK$2,665,000 that are directly attributable to the Acquisition which is recognised in the profit or loss of the Group and the payable amount is included in trade payables, other payables and accruals.

This adjustment will not have continuing profit or loss effect to the Group upon completion of the Acquisition on 31 December 2015.

Note 4: For the purpose of this Unaudited Pro Forma Financial Information, the translation of US$ to HK$ was made at a rate of US$1 to HK$7.75.

Note 5: The unaudited pro forma financial information presented above does not take into account of any trading or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information (i.e. 31 December 2015).

The following is the text of a valuation report prepared for the purpose of incorporation in this circular from the Valuer, in connection with its valuation as at 31 March 2016 of the 30% interest of Digital Domain-Reliance, LLC and its subsidiaries.

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The Directors
Digital Domain Holdings Limited
Suite 7003, 70th Floor
Two International Finance Centre
8 Finance Street
Central Hong Kong

13 June 2016

Dear Sirs,

Valuation of 30% Equity Interest in Digital Domain – Reliance, LLC

In accordance with your instructions, we have undertaken a valuation on behalf of Digital Domain Holdings Limited ("**Digital Domain**" or the "**Client**") to determine the fair value of 30% equity interest of Digital Domain-Reliance, LLC and its subsidiaries (together referred to as "**DD-R Group**" or the "**Companies**") as of 31 March 2016 (the "**Valuation Date**").

The valuation will be used as reference on the circular dated 13 June 2016 (the "**Circular**") in regards to an acquisition. The valuation and findings in this report will be used for the abovementioned purpose only.

Basis of Valuation

Our valuation analysis was carried out on a fair value basis which, according to Hong Kong Financial Reporting Standard, is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price)."

We have conducted our valuation in accordance with International Valuation Standards issued by the International Valuation Standards Council. Our valuation was performed so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, independent, and unbiased.

Sources of Information

Our valuation analysis is based on our discussion with the management of the Client during the course of our engagement and we have considered, reviewed and relied on the information provided and the publicly available sources. Major sources of information include the following:

- Company announcement relating to the acquisition of 30% interest in Digital Domain-Reliance, LLC dated 27 April 2016;
- Projected cash flow forecast of DD-R Group for the financial years from 2016 to 2020;
- Membership Interest Purchase Agreement entered between DD Holdings US, LLC, Digital Domain, Digital Domain-Reliance, LLC and Prime Focus Limited dated 27 April 2016;
- Consolidated financial statements of Digital Domain 3.0, Inc. for the year ended 31 December 2012, 31 December 2013, 31 December 2014 and 31 December 2015;
- Corporate structure of the DD-R Group; and
- Bloomberg database.

Company Background

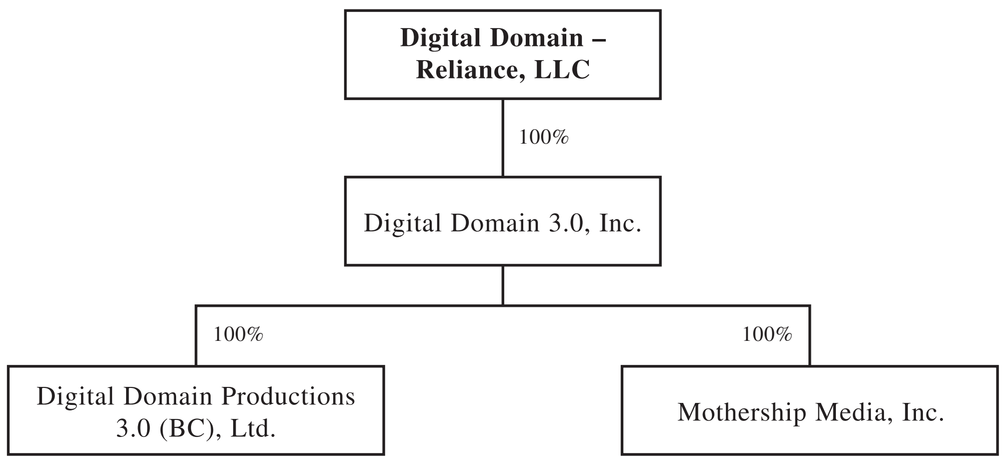
Digital Domain-Reliance, LLC is a limited liability company formed in the State of Delaware, U.S. in 2012 and its principal business is investment holding. As at the Valuation Date, its principal asset is the entire issued share capital of Digital Domain 3.0, Inc. ("**DD3.0**"), which in turn owns the entire issued share capital in each of Digital Domain Productions 3.0 (BC), Ltd. and Mothership Media, Inc.

The DD-R Group is mainly engaged in visual effects ("**VFX**") productions for motion pictures studios, advertisers and video games and is one of the biggest VFX service providers in the US media industry.

As at the Valuation Date, Digital Domain indirectly owns 70% interest of the DD-R Group through its acquisition of the entire issued capital of Upfield Sky Limited in 2013.

Digital Domain, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, is a diversified investment holding company with its operating and investment businesses spanning Hong Kong, US, Canada, Mainland China and others, which embrace such businesses as media entertainment, VFX production, co-production of movies, property investment and trading, etc.

The following chart sets out the company structure of the DD-R Group:



Digital Domain Productions 3.0 (BC), Ltd. is a company incorporated in the province of British Columbia, Canada on 25 September 2012. It is principally engaged in the VFX production for feature films and commercial production.

Mothership Media, Inc. is a corporation incorporated in the State of Delaware, U.S. on 25 September 2012. It is principally engaged in the commercial production.

Valuation Approaches

The value of an asset, business or business interest can be conducted by one or more of the three generally accepted valuation approaches: asset-based approach, market approach and income approach.

Asset-based Approach

A general way of estimating the value of a business and/or equity interest using methods based on the market value of individual business assets less liabilities. It is founded on the principle of substitution, i.e. an asset is worth no more than it would cost to replace all of its constituent parts.

Market Approach

A general way of estimating a value indication of an asset, the Market Approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised asset relative to market comparables. For the Market Approach to be used, a sufficient number of comparable companies to make comparisons must be available, with the industry composition must be such that meaningful comparisons can be made.

Income Approach

This approach focuses on the economic benefits generated by the income producing capability of an enterprise. The underlying theory of this approach is that the value of an enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Among the three approaches, we consider that the Income Approach is more appropriate for valuing the Companies. The Asset-based Approach does not directly incorporate information about the future economic benefits contributed by the subject asset. Market Approach is also inappropriate since there are insufficient relevant comparable companies or market transactions available in the marketplace. In this regard, we rely on the Income Approach in calculating the fair value of the Companies.

General Assumptions

Notwithstanding the incorporation of foreseeable changes in our valuation, a number of assumptions have been made in our valuation analysis and in the preparation of the reported assessed figures. The assumptions are:

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;

- There will be no major changes in the current taxation law in the areas in which the DD-R Group conducting its operation, including the rate of tax payable and all applicable laws and regulations remains unchanged;

- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;

- DD-R Group will retain the key management and personnel to maintain its ongoing operations;

- There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

- DD-R Group will remain free from claims and litigation against the business or their customers that will have a material impact on value;

- DD-R Group is unaffected by any statutory notice and that operation of DD-R Group gives, or will give, no rise to a contravention of any statutory requirements;

- DD-R Group is not subject to any unusual or onerous restrictions or encumbrances; and

- The potential bad debt arising from the operation of DD-R Group, if any, will not materially affect the business operations.

Valuation Methodologies

In determining the equity interest of the Companies, we adopted the discounted cash flow ("**DCF**") method under the income approach as we consider the inherent value of the Companies are most likely derived from the ability to generate economic benefits in the forthcoming future. Under the DCF method, the value of the Companies are determined as the sum of its future economic benefits discounted at a rate of return that reflects the riskiness of the operation of the business. The basic formula for the valuation is as follows:

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \frac{E_3}{(1+k)^3} + \cdots + \frac{E_n}{(1+k)^n}$$

where:

PV is the sum of the present value of the expected economic benefits of the Companies
E_i is the expected economic benefits in time t_1 to t_n
k is the discount rate

The financial projection of the DD-R Group from 2016 to 2020 was provided by the management of the Client and the Companies.

Revenue

The revenue streams of DD-R Group are classified into the following five segments: (i) VFX production services for feature films; (ii) VFX production services for commercials; (iii) production of virtual human contents; (iv) production of virtual reality contents and (v) original content development.

Feature Films

The Companies are one of the largest and most influential VFX studios in the world. With over two decades of industry experiences, DD-R Group has delivered some of the most memorable moments and innovative visuals for hundreds of movies including "Titanic", "Maleficent", "X-Men: Days of Future Past", "Iron Man 3", and "TRON: Legacy". Its artists have earned multiple Academy Awards®.

The revenue of the feature films segment was projected by considering the existing contracts, contracts that are currently bidding and future VFX production projects. The feature film segment contributed more than half of the total revenue over the projection period.

Commercials

Commercials segment refer to the provision of VFX production services for advertising, video games, and music videos. This segment had a strong rebound in years 2014 and 2015 after its coming out of bankruptcy in 2013 by awarding an unprecedented big motion capture project "Jungle Book" that lapsed into year 2015. Based on the momentum and market recognition, commercials revenue is expected to have sharp rebound starting year 2016 and continues to thrive.

Two new commercial sales offices are planned to set up in New York and Europe and is expected to further contribute to this segment starting from 2017. The commercials segment contributed slightly more than 20% of the total revenue over the projection period.

Virtual Human

DD-R Group owns a new holographic technology which can produce and perform 3D holographic display without using 3D glasses and create a three-dimensional, life-size illusion that moves and interacts within a live stage setting. The Companies have successfully performed a show in 2012 which used the holographic projection to revivify Tupac Shakur, a rapper who was killed in 1996. In 2013, the Companies brought Teresa Teng, a Taiwanese pop singer who died in 1995, to alive on stage to perform with Jay Chou at his concert in Taipei.

The contribution of virtual human segment is projected to range from 5-7% of the total revenue over the projection period.

Virtual Reality

The Companies strive to partner with well-known adventurous directors and producers with their new experience in making virtual reality contents. In late 2014, the Companies teamed up with Chris Milk's production company and produced a photo-realistic artsy virtual reality ("**VR**") short film "Evolution of Verse" which was featured at the Sundance Film Festival. With its new affiliate Immersive Ventures Inc. acquired in late 2015 for an essential technology of the 360 degree camera in the virtual reality emerging business, the Companies will be able to synergize its core strength in creating photo-realistic content with this new development, not only in producing VR contents for established branded intellectual properties ("**IP**"), but also in creating new VR content for its own IP.

The contribution of VR segment is projected to range from 5-6% of the total revenue over the projection period.

Original Content Development

As mentioned above, the Companies are capable of creating its own IP with its technology. Starting 2014, the Companies started to develop its own IP for VFX feature films. Digital Domain has worked with Stan Lee, a famous comic writer and formed a joint venture (DD-POW US, LLC) with his company Pow! Entertainment, LLC to launch efforts in creating, developing and distributing projects based on certain characters and other content developed by DD-POW US, LLC or by the two parties jointly.

The contribution of original content development division is projected to range from 10-12% of the total revenue over the projection period.

The total projected revenue over the projection period is summarized as follows:

US$'000	**2016**	**2017**	**2018**	**2019**	**2020**
Total revenue	96,689	125,921	159,687	195,387	230,254
Annual growth	41.7%	30.2%	26.8%	22.4%	17.8%

Cost of Sales

Cost of sales are projected as percentage of revenue for each product line as mentioned above. The average gross profit margin of the Companies over the past three years was around 27%. The Companies had adopted an outsourcing strategy to outsource its low-tech level of job to other VFX vendors and as the implementation of the plan continues to mature and stabilize, gross margin is expected to grow gradually from 29% in 2016 to 32% in 2020.

Operating Expenses

Operating expenses mainly comprise production overheads and corporate overheads such as staff costs, sales and marketing, production, research & development and general administrative expenses. These are fixed costs which are not materially affected by the scale of revenue. With the adoption of stringent cost reduction plan, we assume a moderate annual growth rate of 5% starting from 2017 to 2020.

Tax Expenses

An effective tax rate of 40% was adopted in the valuation.

Investment in Capital Expenditure

Capital expenditure refers to the purchase of equipment mainly includes computers, workstations, as well as acquisition of new and upgrade of special effects and animation software. According to the management of the Companies, there is no planning on any large capital expenditure over the projection period.

Investment in Working Capital

Investment in working capital, including accounts receivable and accounts payable were assumed based on historical financial information of the Companies.

Terminal value

The terminal value captures the value of the Companies beyond the projection period in the DCF analysis and is the present value of all subsequent cash flows. We assume that the Companies will continue its historic business and generate the free cash flow at a steady rate forever. We made reference to the US historical inflation rate as the perpetual growth rate and assumed an annual growth rate of 2% for the cash flows after the projection period.

Determination of Discount Rate

In assessing the value of the Companies by using the income approach, we need to determine the appropriate discount rate as of the Valuation Date which is based on the weighted average cost of capital ("**WACC**"). The WACC comprises the expected required rate of return on equity and after-tax cost of debt, weighted by the relative percentages of equity and debt in the designated capital structure with reference to comparable public companies in the industry of similar business nature. The general formula for calculating the WACC is denoted by:

$$WACC = K_e \times W_e + K_d \times (1 - T) \times W_d$$

where K_e = cost of equity
K_d = cost of debt
W_e = percentage of equity in the capital structure
W_d = percentage of debt in the capital structure
T = tax rate

The cost of equity is determined by using the capital asset pricing model ("**CAPM**"). The equation for the cost of equity is denoted by:

$$K_{eg} = R_f + \beta_{eg} \times (R_m - R_f)$$

where K_{eg} = return of geared equity (cost of equity)
R_f = risk free rate of return
R_m = market rate of return
β_{eg} = geared equity beta

Beta

Beta measures systematic risk of a security or an investment in comparison to the market as a whole. In determining the levered beta, we have carried out the following steps:

- Obtain proxy companies' levered equity beta from public data source
- Un-lever the proxy equity betas to remove proxy company financial risk and give asset betas
- Re-lever the average asset beta to reflect the subject project's financial risk

The selected comparable companies with similar businesses for the valuation are set out as follows:

Company Name	Unleverd Beta	Re-Levered Beta
Technicolor SA	0.698	0.930
DHX Media Ltd.	0.542	0.723
Lions Gate Entertainment Corporation	0.804	1.071
Imagica Robot Holdings Inc.	1.079	1.438
Entertainment One Ltd.	0.497	0.663
Average		**0.965**

Risk-free Rate

The risk free rate is the return that is expected by investors with certainty. We made reference to the US Treasury bond yields as the risk-free rate. The indicated yield of the 10-year US Treasury yield as at the Valuation Date was 1.825%.

Equity risk premium

The equity risk premium measures the additional return that would be demanded by investors over the risk free rate of return. We made reference to the market return of the S&P index and the indicated market return and equity risk premium for the US market was 9.626% and 7.801% respectively.

Referring to the above, the cost of equity calculated based on the CAPM is as follows:

Risk free rate	1.825%
Equity risk premium	7.801%
Beta	0.965
Cost of equity	**9.353%**

The CAPM measures the systematic risk component, however, disregards the unsystematic risk component. To compensate for the unsystematic risk of the investment, we have added a size premium to the cost of equity to reflect the smaller size of the DD-R Group. The indicated size premium adopted was 6.01%, which is obtained from 2014 Ibbotson SBBI Market Report. In addition, in view of the relatively unstable historical operating records, a short period of operating history since its coming out of bankruptcy in 2013 and the uncertainty in the revenue projection arising from the management's depth and execution of day-to-day operations, we have added an additional risk premium to the cost of equity to capture the specific risk inherent in the Companies. The indicated company specific risk premium adopted was 8% which we consider is sufficient to capture such risks.

Cost of debt

In determining the cost of debt, we have made reference to the historical borrowing costs of the Companies and a before-tax cost of debt of 3.75% was adopted in the valuation.

Capital structure

In determining the capital structure of the DD-R Group, we made reference to the capital structure of the comparable companies and management's view. Based on management's view, the desired percentage of the proportion of debt and equity is 35.62% and 64.38%, respectively.

Taking account of the above, the weighted average cost of capital is calculated as 15.843%.

WACC = Debt proportion x after-tax cost of debt + Equity proportion x cost of equity

	Weights	**Costs**
After-tax cost of debt	35.62%	2.250%
Cost of equity	64.38%	23.363%
Weighted Average Cost of Capital		**15.843%**

Discount for Lack of Marketability (DLOM)

Discount for lack of marketability reflects the ability of converting shares into immediate cash and is normally applied to valuation of privately held company. Compared to publicly listed companies, private companies do not have a known market price and is not readily marketable. Therefore, a privately held company is theoretically worth less than a public company with the same business, given other things being the same.

In determining the discount for lack of marketability for the Companies, we have taken into account the business nature and the convertibility of the controlling interest of the Companies. In view of the above, we adopted a DLOM of 30% in the valuation of the DD-R Group.

Limiting Conditions

- The conclusion of value arrived at herein is valid only for the stated purpose as of the date of the valuation.

- As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, client representation, project documentation and other pertinent data concerning the project made available to us during the course of our valuation. We have assumed the accuracy of, and have relied on the information and client representations provided in arriving at our opinion of value.

- We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial statements give a true and fair view and have been prepared in accordance with the relevant companies' ordinance.

- We shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.

- No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.

- Our conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

- We assume that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the date of this report.

- This valuation report has been prepared solely as reference on the Circular only.

- This report is confidential to the client for the specific purpose to which it refers. In accordance with our standard practice, we must state that this valuation report is only for the purpose of the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

Opinion of Value

Based on our analysis, it is our opinion that as of the Valuation Date, we are of the option that the fair value of 30% equity interest of DD-R Group is reasonably represented in the amount of UNITED STATE DOLLARS THIRTY SIX MILLION THREE HUNDRED FORTY FIVE THOUSAND ONLY (USD36,345,000).

Yours faithfully
For and on behalf of
Knight Frank Asset Appraisal Limited

Clement W M Leung
MFin MCIREA MHKIS MRICS RPS(GP)
Executive Director
Head of China Valuation

Andrew C L Chan
CFA FRM MBA
Associate Director

Notes:

1. Clement W M Leung *MFin MCIREA MHKIS MRICS RPS(GP)*, is a qualified valuer and has about 22 years' experience in the valuation of properties in Hong Kong, Macau and Asia Pacific region and has 20 years' experience in the valuation of properties in the People's Republic of China.

2. Andrew C L Chan *CFA FRM MBA* has over 20 years' experience in corporate valuation, investment and financial analysis and has been participating in various valuation projects in the People's Republic of China, Hong Kong and Singapore.

The following is the text of a report received from the Reporting Accountant for inclusion in this circular.

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INDEPENDENT ASSURANCE REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE TARGET GROUP

To the Board of Directors of Digital Domain Holdings Limited

We refer to the discounted future cash flows on which the valuation ("Valuation") dated 13 June 2016 prepared by Knight Frank Asset Appraisal Limited with respect to the valuation of the fair market value of 30% equity interest in Digital Domain-Reliance, LLC and its subsidiaries (collectively referred to as the "Target Group") as at 31 March 2016 is based. The Valuation is prepared based in part on discounted future cash flows and is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

Directors' Responsibility for the Discounted Future Cash Flows

The directors of Digital Domain Holdings Limited (the "Directors") are solely responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors and set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

It is our responsibility to report, as required by Rules 14.62(2) and 29(2) of Appendix 1B of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

We conducted our work in accordance with the terms of our engagement and Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical accuracy and compilation of the discounted future cash flows in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Conclusion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other Matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Group or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under Rules 14.62(2) and 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully

BDO Limited
Certified Public Accountants
Hong Kong, 13 June 2016

The following is the text of a letter, prepared for the purpose of inclusion in this circular, received from the Independent Financial Adviser.

Hercules

Hercules Capital Limited

13 June 2016

Digital Domain Holdings Limited
Suite 7003, 70/F
Two International Financial Centre
8 Finance Street
Central, Hong Kong
Attn.: The Board of Directors

Dear Sirs,

We refer to the valuation of the fair value of 30% interest of Digital Domain-Reliance, LLC and its subsidiaries as at 31 March 2016 (the "Valuation") prepared by Knight Frank Asset Appraisal Limited as set out in Appendix V to the circular of Digital Domain Holdings Limited dated 13 June 2016 (the "Circular"), of which this letter forms part. Capitalized terms used in this letter have the same meanings as those defined elsewhere in the Circular unless the context requires otherwise.

As stated in the Valuation Report, the Valuation has been arrived at based on income approach, which takes into account the future cash flow forecast of the Target Group (the "Forecast"). As such, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. We have reviewed the Forecast, for which you as the Directors are solely responsible for, and have discussed with you and the Valuer the basis and assumptions adopted for the Forecast. We have also considered the letter issued by the Reporting Accountant dated 13 June 2016 addressed to you regarding the calculations upon which the Forecast has been made. On the basis of the foregoing, we are satisfied that the Forecast, for which you as the Directors are solely responsible for, has been made after due and careful enquiry. However, we express no opinions on whether the actual cash flows would eventually be achieved in correspondence with the Forecast. We accept no responsibilities to any other person in respect of, arising out of or in connection with our work. Our work in connection with the Forecast has been undertaken solely for the strict compliance with Rule 14.62 of the Listing Rules and for no other purposes.

Yours faithfully,
For and on behalf of
Hercules Capital Limited

Louis Koo
Managing Director

Amilia Tsang
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules were as follows:

Interests and short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of shares held	Number of underlying shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,570,011,442	–	2,570,011,442 (Long position)	22.37%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	5.25%
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)	22.27%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	4.37%

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
Amit Chopra	Interest of controlled corporation and beneficial owner *(Notes 5 and 6)*	2,458,171,442	163,000,000	2,621,171,442 (Long position)	22.82%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	4.37%

Notes:

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

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

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

4. Mr. Seah Ang holds 100,000,000 share options granted under the Company's 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 share options granted under the Company's share option scheme.

Save as disclosed above, as at the Latest Practicable Date, 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.

3. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this circular and are, or may be, material:

(a) the conditional placing agreement dated 30 May 2016 entered into the Company and Head & Shoulders Securities Limited in relation to the placing of 700,000,000 placing shares at the placing price of HK$0.50 per share, details of which were set out in the announcements of the Company dated 30 May 2016 and 10 June 2016.

(b) the SPA;

(c) the sale and purchase agreement dated 22 January 2016 entered into among Magic Well Holdings Limited, DDPO (BVI) Company Limited (an indirect wholly-owned subsidiary of the Company), See Corporation Limited and the Company in relation to the acquisition of 60 shares of Lucrative Skill Holdings Limited for a consideration of HK$95 million, details of which were set out in the announcements of the Company dated 22 January 2016 and 14 April 2016;

(d) the sale and purchase agreement dated 22 January 2016 entered into among Mr. Nicholas Tse, DDPO (BVI) Company Limited (an indirect wholly-owned subsidiary of the Company) and Mr. Yeung Man Kit Dennis in relation to the acquisition of 25 shares of Lucrative Skill Holdings Limited for a consideration of HK$40 million, details of which were set out in the announcements of the Company dated 22 January 2016 and 14 April 2016;

(e) the shareholders' agreement dated 14 April 2016 entered into between Mr. Nicholas Tse, DDPO (BVI) Company Limited (an indirect wholly-owned subsidiary of the Company) and Lucrative Skill Holdings Limited in relation to regulating of their relationship as shareholders of Lucrative Skill Holdings Limited, details of which were set out in the announcements of the Company dated 22 January 2016 and 14 April 2016;

(f) the conditional placing agreement dated 16 December 2015 entered into the Company and Head & Shoulders Securities Limited in relation to the placing of 560,000,000 placing shares at the placing price of HK$0.425 per share, details of which were set out in the announcements of the Company dated 16 December 2015 and 28 December 2015;

(g) the sale and purchase agreement (the "**IMV SPA**") dated 11 December 2015 entered into among Mr. Myles McGovern, Mr. Myles McGovern as trustee of the 4M Family Trust, Mr. Thomas McGovern, Mr. Ben Siroshton, Mr. Scott Lance Van Nostrand, DDVR, Inc. (an indirect wholly-owned subsidiary of the Company) and the Company (together with 27 joinder agreements dated between 15 December 2015 to 29 December 2015 executed and delivered by 27 then shareholders of Immersive Ventures Inc. ("**IMV**") to accept and agree to be bound as a vendor of the IMV SPA) in relation to the acquisition of 18,402,624 class A common shares in the share capital of IMV in aggregate for a consideration of approximately HK$477.49 million in aggregate, details of which were set out in the announcements of the Company dated 11 December 2015, 30 December 2015 and 31 December 2015;

(h) the share purchase agreement dated 26 December 2015 entered into between the DDVR, Inc. (an indirect wholly-owned subsidiary of the Company) and Mr. Jeffry Canin, a then holder of class A common shares in the share capital of IMV in relation to acquisition of 6,562 class A common shares of IMV for a consideration of US$4,199.68, details of which were set out in the announcements of the Company dated 11 December 2015, 30 December 2015 and 31 December 2015;

(i) the placing and subscription agreement dated 25 June 2015 entered into among Wise Sun Holdings Limited, the Company and Head & Shoulders Securities Limited in relation to the placing of 210,000,000 placing shares at the placing price of HK$0.471 per share and the subscription of 210,000,000 shares at the subscription price of HK$0.471 per share, details of which were set out in the announcements of the Company dated 25 June 2015 and 8 July 2015;

(j) the subscription agreement dated 17 February 2015 (U.S. time) entered into between DDVR, Inc. (an indirect wholly-owned subsidiary of the Company) and IMV in relation to the subscription of 3,333,333 common shares of IMV for a subscription price of US$3,000,000, details of which were set out in the announcement of the Company dated 18 February 2015;

(k) the shareholders' agreement dated 17 February 2015 (U.S. time) entered into between DDVR, Inc. (an indirect wholly-owned subsidiary of the Company), the single largest shareholder of IMV and IMV in relation to the governance of their relationship as shareholders of IMV, details of which were set out in the announcement of the Company dated 18 February 2015;

(l) the shareholders' agreement dated 17 February 2015 (U.S. time) entered into between DDVR, Inc. (an indirect wholly-owned subsidiary of the Company), IMV and X Media Entertainment Inc. in relation to the governance of rights and obligations of DDVR, Inc. and IMV as shareholders of X Media Entertainment Inc., details of which were set out in the announcement of the Company dated 18 February 2015;

(m) the loan and security agreement dated 17 February 2015 (U.S. time) entered into between DDVR, Inc. (an indirect wholly-owned subsidiary of the Company) and X Media Entertainment Inc. in respect of a three-year revolving line of credit in the maximum principal amount of US$3,000,000 to be provided by DDVR, Inc. to X Media Entertainment Inc., details of which were set out in the announcement of the Company dated 18 February 2015;

(n) the non-recourse guaranty and pledge agreement dated 17 February 2015 (U.S. time) entered into between IMV and DDVR, Inc. (an indirect wholly-owned subsidiary of the Company) in respect of the non-recourse guaranty in respect of the payment obligations of X Media Entertainment Inc. under the Loan and Security Agreement, details of which were set out in the announcement of the Company dated 18 February 2015;

(o) the technology license agreement dated 17 February 2015 (U.S. time) entered into between IMV, Immersive Licensing, Inc., Immersive Media Company and X Media Entertainment Inc. in respect of the grant to X Media Entertainment Inc. of certain exclusive and non-exclusive license rights in relation to 360 interactive video technology with respect to video stitching, color correction, content integration and digital players for a payment of US$1,000,000 (inclusive of applicable taxes), details of which were set out in the announcement of the Company dated 18 February 2015;

(p) the sale and purchase agreement dated 30 December 2014 entered into among Classic Beauty Investments Limited (now known as DD Licensing, an indirect wholly-owned subsidiary of the Company), Virtue State Investments Limited and the sole shareholder and director of Virtue State Investments Limited in relation to the acquisition of the entire issued share capital of Yibong Limited for a consideration of HK$312.5 million, details of which were set out in the announcements of the Company dated 30 December 2014, 29 April 2015 and 30 July 2015;

(q) the amendment deed dated 27 November 2014 executed by the Company in relation to the extension of the maturity date of the zero coupon convertible notes in the aggregate principal amount of HK$392 million issued by the Company, details of which were set out in the announcement of the Company dated 27 November 2014; and

(r) the co-operation joint venture framework agreement dated 20 October 2014 entered into between Digital Domain Media (HK) Limited (an indirect wholly-owned subsidiary of the Company) and TNT Production Limited in relation to the formation of a joint venture company, details of which were set out in the announcements of the Company dated 20 October 2014, 19 January 2015 and 29 January 2015.

4. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN ASSETS AND COMPETING INTERESTS

None of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2015, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any members of the Group, or are proposed to be acquired or disposed of by, or leased to any members of the Group.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, since 31 December 2015, being the date of the latest published accounts of the Company, none of the Directors and their respective close associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

6. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangement entered into by any members of the Group which is subsisting at the date of this circular and which is significant in relation to the business of the Group.

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, the date to which the latest published audited financial statements of the Group have been made up.

8. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

9. EXPERTS

The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	Qualification
BDO Limited (as the Reporting Accountant)	Certified Public Accountants
Hercules Capital Limited (as the Independent Financial Adviser)	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Knight Frank Asset Appraisal Limited (as the Valuer)	Valuer for the Sale Interest

As at the Latest Practicable Date, each of the Reporting Accountant, the Independent Financial Adviser and the Valuer was not interested, directly or indirectly, in any assets which had since 31 December 2015 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, each of the Reporting Accountant, the Independent Financial Adviser and the Valuer had no beneficial shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the Reporting Accountant, the Independent Financial Adviser and the Valuer has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which it is included.

10. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business in Hong Kong is at Suite 7003, 70/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(b) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(c) The company secretary of the Company is Ms. Fok Lai Yan, who is an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

(d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Suite 7003, 70/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours on any business day (i.e. a day (excluding Saturday and Sunday) on which banks are generally open for business in Hong Kong) from the date of this circular up to and including the date of the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for each of the financial years ended 31 December 2014 and 2015 (each of which contains the audited financial statements of the Group for the respective year);

(c) the Accountant's Report, the text of which is set out in Appendix II to this circular;

(d) the assurance report prepared by the Reporting Accountant on the compilation of unaudited pro forma financial information, the text of which is set out in Appendix IV to this circular;

(e) the Valuation Report, the text of which is set out in Appendix V to this circular;

(f) the letters on the valuation from the Reporting Accountant and the Independent Financial Adviser, the texts of which are set out in Appendix VI to this circular;

(g) the letters of consent from each of the Reporting Accountant, the Independent Financial Adviser and the Valuer;

(h) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and

(i) this circular.

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

DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Digital Domain Holdings Limited (the "**Company**") will be held at the Conference Room, Suite 7003, 70/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Wednesday, 29 June 2016 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the transactions contemplated under the membership interest purchase agreement dated 27 April 2016 entered into between the Company, DD Holdings US, LLC (the "**Purchaser**", a wholly-owned subsidiary of the Company), Prime Focus Limited ("**Prime Focus**") and Digital Domain-Reliance, LLC (the "**Target Company**") (the "**SPA**", a copy of which has been tabled at the meeting marked "A" and initialled by the chairman of the meeting for the purpose of identification) in relation to the acquisition by the Purchaser of 30% interest in the Target Company (the "**Sale Interest**") from a subsidiary of Prime Focus that owns the Sale Interest, including the issue and allotment of 390,100,671 new shares of the Company credited as fully paid at an issue price of HK$0.596 per share pursuant to the terms of the SPA, be and is hereby approved."

By Order of the Board
DIGITAL DOMAIN HOLDINGS LIMITED
Seah Ang
Executive Director and Chief Executive Officer

Hong Kong, 13 June 2016

Notes:

(1) Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting. A proxy need not be a member of the Company.

(2) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

(3) The form of proxy and (if required by the Board) the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.

(4) Where there are joint holders of any share any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(5) A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

(6) The resolution is to be voted by way of poll.

(7) A form of proxy is enclosed.