DIGITAL DOMAIN HOLDINGS LIMITED
數字王國集團有限公司

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the "Directors" and the "Board" respectively) of Digital Domain Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 (the "Review Period") together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT - UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2017

		For the six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**416,457**	348,133
Cost of sales and services rendered		**(355,978)**	(285,806)
Gross profit		**60,479**	62,327
Other income and gains		**6,666**	4,630
Selling and distribution expenses		**(8,188)**	(9,542)
Administrative expenses and other net operating expenses		**(254,471)**	(203,088)
Finance costs	*3*	**(14,692)**	(27,521)
Fair value gains on investment properties	*7*	**1,100**	197
Share of losses of joint ventures		**(592)**	(626)
Loss before taxation	*4*	**(209,698)**	(173,623)
Taxation	*5*	**(412)**	3,458
Loss for the period		**(210,110)**	(170,165)
Loss attributable to:			
- Owners of the Company		**(202,756)**	(158,882)
- Non-controlling interest		**(7,354)**	(11,283)
		(210,110)	(170,165)
Loss per share:	*6*		
- Basic and diluted		**HK cent (1.045)**	HK cent (1.468)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss for the period	**(210,110)**	(170,165)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Currency translation differences	**6,113**	10,435
Share of other comprehensive income of an associate	**-**	(5)
Share of other comprehensive income of joint ventures	**(43)**	
Other comprehensive income for the period, net of tax	**6,070**	10,430
Total comprehensive income for the period	**(204,040)**	(159,735)
Total comprehensive income attributable to:		
- Owners of the Company	**(198,035)**	(150,185)
- Non-controlling interest	**(6,005)**	(9,550)
	(204,040)	(159,735)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	**Unaudited 30 June 2017 *HK$'000***	Audited 31 December 2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**94,791**	59,843
Investment properties	*7*	**211,700**	210,600
Intangible assets	*8*	**1,033,172**	1,029,722
Interests in joint ventures		**-**	6,388
		1,339,663	1,306,553
Current assets			
Inventories		**125**	637
Trade receivables, other receivables and prepayments	*9*	**222,809**	146,775
Bank deposits with original maturity over three months		**7,649**	-
Bank balances and cash		**219,566**	465,838
		450,149	613,250
Current liabilities			
Trade payables, other payables and accruals	*10*	**136,683**	101,853
Deferred revenue		**30,542**	10,856
Borrowings		**72,347**	73,162
Promissory note		**-**	34,314
Convertible notes		**-**	370,273
Tax payable		**2,258**	1,565
		241,830	592,023
Net current assets		**208,319**	21,227
Total assets less current liabilities		**1,547,982**	1,327,780
Non-current liabilities			
Borrowings		**215,302**	216,085
Deferred tax liabilities		**47,928**	46,267
		263,230	262,352
Net assets		**1,284,752**	1,065,428
Capital and reserves			
Share capital	*11*	**224,264**	126,187
Reserves		**1,023,719**	896,467
Equity attributable to owners of the Company		**1,247,983**	1,022,654
Non-controlling interest		**36,769**	42,774
Total equity		**1,284,752**	1,065,428

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Cash flows from operating activities		
Loss before taxation	**(209,698)**	(173,623)
Adjustments for:		
Depreciation of property, plant and equipment	**15,825**	10,353
Amortisation of intangible assets	**14,371**	10,164
Loss on disposal of property, plant and equipment	**1,676**	-
Equity-settled share-based payment expenses	**44,134**	44,740
Net exchange gains	**(3,335)**	(549)
Fair value gains on investment properties	**(1,100)**	(197)
Share of losses of joint ventures	**592**	626
Loss on dissolution of joint ventures	**9**	-
Impairment loss on trade receivables	**365**	-
Write-down of inventories	**159**	-
Reversal of impairment loss on amount due from joint ventures	**(3,938)**	-
Interest income	**(302)**	(118)
Finance costs	**14,692**	27,521
Operating loss before working capital changes	**(126,550)**	(81,083)
Decrease /(increase) in trading merchandise goods	**353**	(308)
Increase in trade receivables, other receivables and prepayments	**(76,487)**	(112,869)
Increase in trade payables, other payables and accruals	**35,311**	16,292
Increase/(decrease) in deferred revenue	**19,687**	(9,062)
Cash used in operations	**(147,686)**	(187,030)
Hong Kong profits tax refunded	**-**	131
Overseas tax paid	**(14)**	(35)
Interest paid	**(6,273)**	(3,372)
Net cash used in operating activities	**(153,973)**	(190,306)
Cash flows from investing activities		
Interest received	**390**	118
Purchases of property, plant and equipment	**(51,939)**	(4,044)
Proceeds from disposal of property, plant and equipment	**750**	-
Additions to intangible assets	**(9,096)**	(10,865)
Additions to investment properties	**-**	(1,203)
Advance to a joint venture	**(725)**	(914)
Increase in bank deposits with original maturity over three months	**(7,649)**	-
Proceeds from dissolution of joint ventures	**10,407**	-
Net cash flow from business combination	**-**	(4,997)
Net cash used in investing activities	**(57,862)**	(21,905)

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Cash flows from financing activities		
Proceeds from exercise of share options	**756**	-
Proceeds from issue of ordinary shares, net of issuing expenses	**-**	344,625
Repayment of obligations under finance leases	**-**	(2,568)
New borrowings	**5,139**	-
Repayment of borrowings	**(8,014)**	(12,227)
Repayment of promissory note	**(35,000)**	-
Decrease in amount due to a related party	**-**	(161)
Net cash (used in)/generated from financing activities	**(37,119)**	329,669
Net (decrease)/increase in cash and cash equivalents	**(248,954)**	117,458
Effect of foreign exchange rate changes	**2,682**	2,004
Cash and cash equivalents at 1 January	**465,838**	344,726
Cash and cash equivalents at 30 June	**219,566**	464,188
Represented by:		
Bank balances and cash	**219,566**	464,188

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 – "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016.

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

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

		Effective date
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	(ii)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(iv)
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)	(ii)
Amendments to HKAS 40	Transfers of Investment Property	(ii)
HKFRSs (Amendments)	Annual Improvements 2014-2016 Cycle	(i)
HKFRS 15	Revenue from Contracts with Customers	(ii)
HKFRS 9	Financial Instruments	(ii)
HKFRS 16	Leases	(iii)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	(ii)
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	(iii)

Effective date:

(i) Annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate
(ii) Annual periods beginning on or after 1 January 2018
(iii) Annual periods beginning on or after 1 January 2019
(iv) The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continues to be permitted.

2. REVENUE AND SEGMENT REPORTING

Reportable segments

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

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

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

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

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

	Media entertainment		**Property investment**		**Consolidated**	
	For the six months ended 30 June		**For the six months ended 30 June**		**For the six months ended 30 June**	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue from external customers	**412,353**	344,198	**4,104**	3,935	**416,457**	348,133
Reportable segment (loss)/profit	**(87,977)**	(44,565)	**3,585**	3,554	**(84,392)**	(41,011)
	As at 30 June 2017	As at 31December 2016	**As at 30 June 2017**	As at 31December 2016	**As at 30 June 2017**	As at 31December 2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**1,359,493**	1,304,834	**217,178**	214,932	**1,576,671**	1,519,766
Reportable segment liabilities	**378,076**	320,336	**2,647**	2,749	**380,723**	323,085

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss before taxation		
Reportable segment loss	**(84,392)**	(41,011)
Fair value gains on investment properties	**1,100**	197
Share of losses of joint ventures	**(592)**	(626)
Auditor's remuneration	**(536)**	(668)
Depreciation of unallocated property, plant and equipment	**(2,699)**	(2,771)
Professional fees	**(14,351)**	(19,159)
Finance costs	**(14,692)**	(27,521)
Equity-settle share-based payment expenses	**(44,134)**	(44,740)
Unallocated rental expenses	**(5,793)**	(4,614)
Unallocated other revenue and gains	**4,411**	326
Unallocated corporate expenses*	**(48,020)**	(33,036)
Consolidated loss before taxation	**(209,698)**	(173,623)

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

	As at	
	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**1,576,671**	1,519,766
Unallocated bank balances and cash	**145,832**	357,950
Unallocated corporate assets	**67,309**	42,087
Consolidated total assets	**1,789,812**	1,919,803

	As at	
	30 June	31 December
	2017	2016
	HK$'000	*HK$'000*
Liabilities		
Reportable segment liabilities	**380,723**	323,085
Tax payable	**2,258**	1,565
Deferred tax liabilities	**47,928**	46,267
Convertible notes	**-**	370,273
Unallocated borrowings	**58,876**	94,659
Unallocated corporate liabilities	**15,275**	18,526
Consolidated total liabilities	**505,060**	854,375

(c) Geographic information

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong (place of domicile)	**4,104**	3,935
Mainland China	**38,693**	13,517
The United States of America	**221,510**	127,614
Canada	**143,331**	133,162
United Kingdom	**2,962**	61,480
Europe	**514**	-
Other countries	**5,343**	8,425
	416,457	348,133

3. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Imputed interest on:		
Convertible notes	**8,214**	19,151
Promissory note	**686**	918
Interests on:		
Bank and other loans	**3,432**	3,764
Secured note	**2,360**	3,538
Finance leases	**-**	150
	14,692	27,521

4. LOSS BEFORE TAXATION

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
This is arrived at after crediting/charging:		
Crediting:		
Interest income	**302**	118
Charging:		
Staff costs (including directors' remuneration)	**421,218**	355,377
Depreciation of property, plant and equipment	**15,825**	10,353
Amortisation of intangible assets	**14,371**	10,164

5. TAXATION

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current taxation – Hong Kong profits tax	**-**	-
Current taxation – Overseas tax		
- provision for the period	**690**	28
- over-provision in respect of prior years	**-**	(2,589)
Deferred taxation	**(278)**	(897)
	412	(3,458)

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

6. LOSS PER SHARE

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share	**(202,756)**	(158,882)

	Number of shares	
	2017	2016
Weighted average number of ordinary shares for the purpose of basic loss per share	**19,408,659,303**	10,820,777,680

Diluted loss per share

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

7. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
As at 1 January 2017	210,600
Fair value gains	1,100
As at 30 June 2017	211,700

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK$4,104,000 (2016: HK$3,935,000). Direct operating expenses arising from the investment properties during the period amounted to HK$538,000 (2016: HK$326,000).

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

The fair value of the Group's investment properties as at 30 June 2017 have been arrived at on market value basis carried out by DTZ Cushman & Wakefield Limited, an independent firm of professionally qualified valuers, whose staff are qualified members of Hong Kong Institute of Surveyors with recent experience in the locations and category of properties being valued. Based on this valuation, it gave rise to fair value gains of HK$1,100,000 during the period (2016: HK$197,000).

8. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Licenses for intellectual property rights	Virtual human know-how	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
As at 1 January 2017	689,937	148,177	107,977	259,027	103,753	26,082	31,446	1,366,399
Additions	-	-	9,096	-	-	-	-	9,096
Exchange realignment	(165)	5,552	1,294	1,690	2,540	-	-	10,911
As at 30 June 2017	689,772	153,729	118,367	260,717	106,293	26,082	31,446	1,386,406
ACCUMULATED AMORTISATION								
As at 1 January 2017	-	-	69,762	253,693	5,213	4,416	3,593	336,677
Amortisation for the period	-	-	7,203	1,194	2,637	1,698	1,639	14,371
Exchange realignment	-	-	663	1,660	(137)	-	-	2,186
As at 30 June 2017	-	-	77,628	256,547	7,713	6,114	5,232	353,234
CARRYING AMOUNT								
As at 30 June 2017	689,772	153,729	40,739	4,170	98,580	19,968	26,214	1,033,172
As at 31 December 2016	689,937	148,177	38,215	5,334	98,540	21,666	27,853	1,029,722

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

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

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Trade receivables by ageing		
Current	**19,091**	4,980
1 to 30 days	**14,993**	28,218
31 to 60 days	**4,038**	2,844
61 to 90 days	**2,978**	2,027
Over 90 days	**15,792**	18,750
Total trade receivables	**56,892**	56,819
Accrued income	**-**	25,779
Other receivables	**36,187**	13,782
Deposits	**31,667**	27,149
Prepayments	**98,063**	23,246
	222,809	146,775

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Trade payables by ageing		
Current	**4,117**	6,117
1 to 30 days	**6,314**	3,030
31 to 60 days	**2,121**	2,666
61 to 90 days	**5,117**	4,298
Over 90 days	**9,375**	4,147
Total trade payables	**27,044**	20,258
Other payables	**35,547**	36,438
Accruals	**74,092**	45,157
	136,683	101,853

11. SHARE CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
As at 31 December 2016 and 30 June 2017	75,000,000,000	750,000
Issued and fully paid:		
As at 31 December 2016	12,618,695,716	126,187
Issue of shares on exercise of share options	7,710,000	77
Issue of shares on conversion of convertible notes	9,800,000,000	98,000
As at 30 June 2017	22,426,405,716	224,264

12. SHARE-BASED PAYMENT TRANSACTIONS

On 13 February 2017, 300,000,000 share options ("Options") were conditionally granted to an employee of the Group (the "Grantee"), subject to the approval by the shareholders of the Company. The Options have immediately vested on 13 February 2017, and will be exercisable from 13 February 2017 until 12 February 2027. The exercise price of the Options is HK$0.469, being the average closing price of the Company's ordinary shares for the five business days immediately before 13 February 2017. The Options conditionally granted to the Grantee were approved by the shareholders of the Company at the annual general meeting held on 1 June 2017.

During the six months ended 30 June 2016, 479,500,000 share options were granted to one director and certain employees and advisors of the Group (the "Grantee"). Under the share option scheme of the Company, the Grantee paid the Company HK$1 as consideration for the grant of the share options. Each option gives the holder the right to subscribe for ordinary shares of the Company at an exercise price of HK$0.413 to HK$0.495 per share.

During the six months ended 30 June 2017, 11,133,328 (2016: 20,720,000) share options were forfeited and 7,710,000 (2016: Nil) share options were exercised.

As at 30 June 2017, the average exercise price of share options outstanding is HK$0.32 (As at 31 December 2016: HK$0.29) and their average remaining contractual life is 7.96 years (As at 31 December 2016: 8.10 years).

The fair value of services received in return for the grant on shareholders' approval date is measured by reference to the fair value of share options granted. The fair value of the share options is determined based on binomial option pricing model. The weighted average fair value of each option granted during the six months ended 30 June 2017 was HK$0.068. The key valuation parameters are as follows:

Share price at grant date	HK$0.315
Exercise price	HK$0.469
Expected volatility	40%
Life of the share options	10 years
Expected dividend yield	0%
Risk-free rate	1.24%
Forfeiture rate	5 %
Suboptimal exercise behaviour multiple	1.40

Expected volatility is determined by considering the historical share price movement of the Company. Expected dividend yield is determined from the Company's historical payment of dividends. Risk-free rate is obtained from Hong Kong Exchange Fund Notes as at 1 June 2017. Forfeiture rate is determined from the Group's historical employee share options exit rate. Suboptimal exercise behaviour multiple is based on the Company's historical employee share options early exercise multiples.

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

Under this share option scheme, the Group has recognised an equity-settled share-based payment expenses of HK$40,937,000 (2016: HK$41,542,000) during the six months ended 30 June 2017.

In addition, in connection with the acquisition of subsidiaries during the year ended 31 December 2015, 79,930,442 shares of the Company will be issued in 3 annual instalments by 31 December 2018 to the former option holders of share options of a subsidiary for replacement of the options. Since three years of post-combination services are required for certain former option holders, the acquisition completion date fair value of the options attributable to these post-combination services amounting to approximately HK$19,186,000 will be recognised as remuneration costs in profit or loss over the three-year period after the acquisition completion date. Accordingly, for the six months ended 30 June 2017 an amount of approximately HK$3,197,000 (2016: HK$3,198,000) was recognised as remuneration costs in profit or loss.

In aggregate, the Group has recognised an equity-settled shared-based payment expenses of HK$44,134,000 (2016: HK$44,740,000) during the six months ended 30 June 2017.

13. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2017, the Group had the following material related party transaction:

		For the six months ended 30 June	
		2017	2016
Related party relationship	**Type of transaction**	***HK$'000***	*HK$'000*
Related companies of the non-controlling interest	Production costs	-	22

14. CAPITAL COMMITMENT

The Group did not have any significant capital commitment as at 30 June 2017 and 31 December 2016.

INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group achieved a revenue of HK$416,457,000 (2016: HK$348,133,000), showing a modest growth of approximately 20% compared to that of the previous corresponding period. The increase in turnover was mainly attributable to the (i) post-production business that the Group acquired in April 2016 and (ii) visual effects and virtual reality businesses. The gross profit of the Group amounted to HK$60,479,000 (2016: HK$62,327,000) during the Review Period. As at 30 June 2017, the total assets of the Group amounted to HK$1,789,812,000 (as at 31 December 2016: HK$1,919,803,000). The loss attributable to owners of the Company was HK$202,756,000 (2016: HK$158,882,000). The loss for the Review Period was approximately HK$210,110,000 (2016: HK$170,165,000). The loss for the Review Period was mainly caused by:

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

(a) equity-settled share-based payments for the share options granted in 2014 to 2017 respectively to the value of HK$40,937,000 (2016: HK$41,542,000);

(b) amortisation and depreciation expenses to the value of HK$30,196,000 (2016: HK$20,517,000); and

(c) imputed interest expenses for the convertible notes and a promissory note to the value of HK$8,900,000 (2016: HK$20,069,000).

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

(iii) operating losses from the media entertainment segment.

Media Entertainment Segment

During the Review Period, this segment recorded a revenue of approximately HK$412,353,000 (2016: HK$344,198,000). The revenue from this segment accounted for approximately 99% of the Group's revenue for the Review Period. This segment incurred a loss of approximately HK$87,977,000 (2016: HK$44,565,000). The loss was primarily due to operating losses (including amortisation and depreciation expenses). The adjusted segment loss, taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK$60,481,000 (2016: HK$26,819,000).

A. Virtual Reality ("VR") and 360º Video Production

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

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

Between January and August, 2017, Digital Domain's VR and 360º camera team executed several livestream broadcasts, including:

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

- **2017 Presidential Inauguration:** This curated livestream of the 58th presidential inauguration of the United States of America ("US") was the first-ever immersive 360º broadcasts of this globally significant event.

- **Grammy Award Red Carpet:** Giving audiences the opportunity to see their favorite music stars at the red carpet entrance to the acclaimed music industry awards.

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

- **2017 Met Gala:** In a partnership between Digital Domain, The Met Gala, Facebook, Moet and Vogue, this was the Met Gala's first 360º broadcast.

- **Ultimate Fighting Championship (UFC) 212 Aldo vs. Holloway:** Samsung Gear VR owners watch its next pay-per-view headline event -- UFC 212 -- as a 360º audio-visual live stream, along with a pre- and post-match show.

- **X Games Minneapolis 2017:** For the first in the history of the event, ESPN, alongside Samsung and Digital Domain, will offer live productions of select events in virtual reality. Three X Games disciplines – Skateboard Vert, BMX Street and Skateboard Street Amateurs – will be streamed live exclusively to 48 countries on Samsung Gear VR through the Samsung VR app.

- **2017 Miss Teen USA:** 360º livestream of the 2017 competition.

- **Samsung Unpacked:** 360º livestream of Samsung's global Galaxy launch.

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

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

Between January and August 2017, Digital Domain's VR teams created original content including:

- **Skydance Interactive "*Archangel*":** Realtime 3D interactive VR game on Sony PlayStation®VR. The game won best VR experience of E3.

- **Digital Domain's *"Monkey King"*:** An action-packed cinematic virtual reality series born from 16th Century Chinese mythology and explored through 21st Century technology.

- **Hong Kong International Film and Television Exhibition 2017 (FILMART 2017):** The Company released the trailer of its latest VR creation, Micro Giants. Depicting real-world insect behaviours and jungle conditions, *Micro Giants* offers a unique sensory experience while sharing in story form the laws of the insect kingdom.

<u>In addition to the Flagship Digital Domain App, Digital Domain also created several Apps for partners, including:</u>

- **The National Basketball Association, USA (NBA):** Digital Domain created a new series called "*House of Legends*" for NBA VR app within the Google Daydream VR platform.

- **Modern Times Group, Sweden (MTG):** Digital Domain created and launched Viareal, a VR app that offers viewers in the Nordic region immersive and interactive experiences.

- **Sky TV, UK (Sky):** Digital Domain created and launched their new VR app that puts viewers at the heart of the action like never before. The app allows viewers to enjoy fully immersive VR content that would make viewers feel like they are actually there.

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

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

B. Visual Effects ("VFX") Productions
This segment also provides VFX production services for major motion picture studios, advertisers and games. Since 1 January 2017, the artists of the Group have completed VFX production services for feature films "*Beauty and the Beast*", "*Fast and Furious 8*" and "*SpiderMan: Homecoming*", Saban's "*Power Rangers*", Spike's "*The Mist*", and marketing campaigns for major brands including NBA, BMW, Dell, Electronic Arts, and Budweiser Bud Light. The Digital Domain Motion Capture studio was also utilized for Sucker Punch (video game), The Mummy and Archangel.

A wholly-owned subsidiary of the Company based in the United States ("US Subsidiary") has used a combination of physical equipment and intellectual property to record images of human faces ("Disputed IP"). Disputed IP is one of several different technologies available to capture elements of a human face prior to visual effects enhancements that create the final image. US Subsidiary's use of Disputed IP had been under a 2013 license from an unaffiliated company based in China ("Original Owner").[1]

In 2014, a dispute over ownership of Disputed IP between the Original Owner and another company based in the United States ("Claimant") resulted in the filing of a lawsuit (the "Lawsuit") in the United States District Court, Northern District of California. Neither Original Owner nor Claimant is a member company of the Group. On 11 August 2017, the court issued a statement of decision which concluded that Claimant owned Disputed IP. US Subsidiary had already used alternate technologies.

Recently, Claimant filed four separate lawsuits against certain clients of US Subsidiary relating to the use of Disputed IP in certain visual effects projects that US Subsidiary had completed ("Other Lawsuits"). In its production services agreements for these projects, US Subsidiary had agreed to indemnify these clients for claims arising from allegations that technology that it used was not properly licensed or acquired. As a result, these clients have requested or will request that US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits.

The US Subsidiary is in the course of seeking legal advice in respect of the request for indemnity by US Company's clients. The Group is not yet in a position to state whether the above lawsuits will result in substantial adverse impact to the operations of the Group.

C. Post-Production Work Business

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

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

In 2017, DDPO continued to provide post-production services for various high-profile commercials profiling leading brands like McDonald's, Apple, Loreal, Huawei, Mercedes-Benz, Coca-Cola, Bvlgari, Amazon, Disney, Air China, Hermes, etc. There was a VR type commercial for Porsche Panamera.

Featured films projects included star-studded *"Wolf Warrior 2"*, *"Cook up a storm", "Journey to the West: The Demons Strike Back"*, *"The Wasted Times"* and "*Our Shining Days*", etc.

During the period under review, this business unit has expanded into VR/360º production for commercials, MTV, concerts, and feature film trailers for online media broadcast. The key projects it conducted in 2017 include: "*Spring Festival Gala*", "*The Hammer Live*", "*China's Youth Day*", etc.

[1] Another subsidiary of the Company has agreed in 2015 to purchase the Disputed IP, the completion of the transfer of such Disputed IP is subject to the favourable outcome of the Lawsuit.

D. Virtual Human Business

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

In May 2017, the Digital Domain Group unveiled Teresa Teng Magical Musical in 5D with "Virtual Human Miss Teresa Teng" appearance through collaboration with Syntrend Creative Park. The show was presented from 6 to 10 May 2017 at the Syntrend Clapper Studio in Taipei. This show showcased the results of the long-term collaboration between Digital Domain and Syntrend Creative Park in expanding the use of "virtual humans" in cultural and entertainment industries through the use of new technology. Certain Virtual Human Miss Teresa Teng concerts has been planned in 2017. Making use of a virtual image reconstruction technique, the Group reproduced the glamour of the Taiwanese pop diva on stage.

Corporate Event

The Company held its 2017 strategy conference in Hong Kong. During the event, the Company announced new industry leaders joining its ranks, and shared Digital Domain's global business updates, particularly its Greater China development strategies. Digital Domain also showcased its latest capabilities on VFX, VR and applications of virtual human Teresa Teng. At the conference, Digital Avatar, a technology researched and developed by Digital Domain, was unveiled to the world.

The newly appointed Board members of Digital Domain presented at the strategy conference including:

(a) Mr. PU Jian, Non-executive Director, who is the Executive Director, vice president and, member of the executive committee of CITIC Limited ("CITIC");

(b) Dr. Alan SONG, Non-executive Director, who is the managing partner of SB China Venture Capital ("Softbank China"); and

(c) Mr. WEI Ming, Executive Director, Vice Chairman of the Board and CEO of Greater China of the Company.

Mr. John LAGERLING, another newly appointed Independent Non-executive Director, former vice president of business development for mobile and product partnerships, Facebook, Inc. participated the event by giving a speech via a video.

The Digital Avatar technology unveiled at the event is actually an adaption for the consumer of motion capturing technology first used in professional movies and game productions. It is a technological breakthrough in that it allows for the first time to capture and transfer expressions in real time. Thanks to Digital Domain's proprietary technology, consumers can create their own avatars in the virtual world by using just a consumer-grade lens. Using the lowest cost, the highest efficiency and the best effects, what was technology originally existing only in B2B has been upgraded for use in B2C. Digital Avatar holds the hope of ushering in change to so many application areas, such as e-commerce applications and virtual social interactions.

Property Investment Segment

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

During the Review Period, the revenue of this segment increased by approximately 4% to HK$4,104,000 (2016: HK$3,935,000). The revenue accounted for approximately 1% of the Group's overall revenue during the Review Period. The profit of this segment increased during the Review Period, amounting to HK$3,585,000 (2016: HK$3,554,000).

INTERESTS IN JOINT VENTURES

Joint venture with Tencent

During the year under review, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 700)) was HK$9,000. The co-operation started in September 2013. The joint venture has not conducted any material business activity since its incorporation. Both parties agreed to use new business model to enhance the co-operation between two parties, e.g. the 360º livestream of the Faye's Moments Live 2016 concert. Therefore, both parties agreed to dissolve the joint venture and the dissolution of joint venture was completed in the first half of 2017.

CAPITAL

Shares

As at 30 June 2017, the total number of shares of the Company of HK$0.01 each in issue was 22,426,405,716 shares.

Share Options

On 28 May 2014, a total of 980,060,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new shares at an exercise price of HK$0.098 per share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the Review Period and since the grant-date (28 May 2014), 7,710,000 share options were exercised. No share options were cancelled or lapsed during the Review Period and 140,760,000 share options were cancelled or lapsed since the grant-date (28 May 2014).

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

On 29 January 2016, a total of 379,500,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 379,500,000 new shares at an exercise price of HK$0.413 per share. For details, please refer to the Company's announcements dated 29 January 2016 and 7 June 2016, and the circular dated 30 April 2016. During the Review Period, no share options were exercised and 1,999,999 share options were cancelled or lapsed. No share options were exercised and 21,999,999 share options were cancelled or lapsed since the grant-date (29 January 2016).

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

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new shares at an exercise price of HK$0.566 per share. For details, please refer to the Company's announcement dated 29 July 2016. During the Review Period, no share options were exercised and 9,133,329 share options were cancelled or lapsed. No share options were exercised and 9,266,661 share options were cancelled or lapsed since the grant-date (29 July 2016).

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

Convertible Notes

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

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

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

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

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

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

As at 30 June 2017, the Group had banking facilities in the form of instalment loans for a principal amount of approximately HK$53,967,000. These banking facilities were secured by the Group's investment properties with the aggregate net book value of HK$211,700,000 as at 30 June 2017. The Group also had a working capital loan facility in amount of HK$15,433,000 and HK$5,139,000 was drawn down during the Review Period. It was secured by time deposit amounted to HK$7,649,000. During the Review Period, the Group had a working capital loan for a principal amount of approximately HK$6,544,000 and this working capital loan was fully repaid in the Review Period. This working capital loan was secured by (a) future receipts from participation rights in the film Ender's Game and (b) equity interests in two indirect wholly-owned subsidiaries in the media entertainment segment (VFX production).

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

The Group had other loans of approximately HK$105,124,000 as at 30 June 2017. Other loans include a loan in amount of approximately HK$27,065,000 which is denominated in United States dollars, is unsecured, interest-free and is not repayable within 13 months from June 2017. An indirect wholly-owned subsidiary also had a term loan facility of US$10 million, with a guarantee provided by the Company. The subsidiary drew down the facility in December 2015 and the outstanding balance of this shareholder's loan as at 30 June 2017 was US$10 million. This loan was denominated in United States dollars, is unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 36 months of the draw down date (i.e. 36 months from December 2015).

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive Ventures, Inc. ("Immersive"). As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. ("DDVR"). The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by DDVR. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015 and 30 December 2016 respectively.

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

The total cash and bank balance (including bank deposits with original maturity over three months) as at 30 June 2017 was approximately HK$227,215,000. As at 30 June 2017, the Group had banking facilities of approximately HK$69,400,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK$58,876,000 are denominated in Hong Kong dollars and loans amounting to approximately HK$5,139,000 are denominated in Renminbi. During the Review Period, all of the Group's bank loans (except the Five Year Loan mentioned above) were classified as either current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (except the Five Year Loan which is fully classified as a current liability) as at 30 June 2017 was spread over a period of 15 years, with approximately 6% repayable within one year, 6% repayable between one to two years, 18% repayable between two to five years and 70% repayable after five years.

The Group's current assets were approximately HK$450,149,000 while the current liabilities were approximately HK$241,830,000 as at 30 June 2017. As at 30 June 2017, the Group's current ratio was 1.9 (as at 31 December 2016: 1.0).

As at 30 June 2017, the Group's gearing ratio, representing the Group's bank loans, other loans, convertible notes, obligations under finance leases, secured notes and promissory note divided by the equity attributable to owners of the Company was 23% (as at 31 December 2016: 68%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2017, the total headcount of the Group was 987. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

PROSPECT

The Group will continue to leverage its extensive experience in the VFX industry and proactively seek new projects and business opportunities despite the highly competitive market environment. Through the acquisition of Lucrative Skill (including Post Production Office Limited and its subsidiaries), the Group is proactively exploring opportunities to develop its Greater China market in the VFX, VR, CG, virtual human and immersive entertainment business. The Group already set up its own studio in Hyderabad, India for VFX and VR productions. With the expansion in China and India, this will increase the working capacity of the Group and reduce the production cost in the long run. The effectiveness and efficiency of this kind of expansions will be reflected in the coming years.

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

Besides 360º shooting and livestreaming, the Group also develops VR cinematic series and/or games. Digital Domain's *"Monkey King"* episodic VR experience introduces a new chapter for supernatural simian Sun Wukong, aka the Monkey King, one of the most famous literary figures in Chinese mythology. Other VR products will be launched in the second half of 2017.

With the successful performance of the Virtual Human Miss Teresa Teng Musical Show in Taipei, the Group is also in discussion with other business partners on collaborations with respect to movies and TV series as well as variety shows and concerts for virtual human Teresa Teng. The Group will continue to explore business opportunities in virtual human aspects by developing new technologies which will enhance the interactive function between virtual human and audience.

Following a rapid expansion of business operations and investment diversification, the Group will continue to seek opportunities for financing and collaboration with strategic partners (such as CITIC and SoftBank China during the year 2016) as well as recruitment of global talent in order to upgrade its shareholding and management structures from a corporate perspective.

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

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

There was a banking facility (the "Facility") with the principal amount of HK$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 30 June 2017, the outstanding loan principal of this Facility amounted to approximately HK$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim results of the Group for the Review Period.

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

Hong Kong, 30 August 2017

As at the date of this announcement, Mr. Peter Chou, Mr. Wei Ming, Mr. Seah Ang and Mr. Amit Chopra are the executive Directors, Mr. Pu Jian and Dr. Song Alan Anlan are the non-executive Directors and Ms. Lau Cheong, Mr. Duan Xiongfei, Mr. Wong Ka Kong Adam and Mr. John Alexander Lagerling are the independent non-executive Directors.