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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "Directors" and the "Board" respectively) of Digital Domain Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	*4*	**703,004**	763,501
Cost of sales and services rendered		**(621,226)**	(639,154)
Gross profit		**81,778**	124,347
Other income and gains	*5*	**9,828**	11,184
Selling and distribution expenses		**(32,705)**	(79,715)
Administrative expenses and other net operating expenses		**(579,513)**	(503,129)
Finance costs	*7*	**(21,598)**	(56,210)
Fair value gains on investment properties		**1,900**	797
Share of losses of associates		**(3,763)**	-
Share of profits/(losses) of joint ventures		**14**	(716)
Loss before taxation		**(544,059)**	(503,442)
Taxation	*8*	**(82)**	5,062
Loss for the year	*6*	**(544,141)**	(498,380)
Loss attributable to:			
- Owners of the Company		**(524,893)**	(479,377)
- Non-controlling interest		**(19,248)**	(19,003)
		(544,141)	(498,380)
Loss per share:	9		
Basic and diluted		**HK cents (2.458)**	HK cents (4.099)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	*2017* *HK$'000*	2016 *HK$'000*
Non-current assets			
Property, plant and equipment		**124,251**	59,843
Investment properties		**212,500**	210,600
Intangible assets	*10*	**1,165,046**	1,029,722
Interests in associates		**15,102**	-
Interests in joint ventures		**62**	6,388
Deposits and prepayments	*11*	**31,908**	-
		1,548,869	1,306,553
Current assets			
Inventories		**142**	637
Trade receivables, other receivables and prepayments	*11*	**118,684**	146,775
Bank balances and cash		**225,334**	465,838
		344,160	613,250
Current liabilities			
Trade payables, other payables and accruals	*12*	**126,668**	101,853
Deferred revenue		**16,218**	10,856
Borrowings		**152,646**	73,162
Promissory note		**-**	34,314
Convertible notes		**-**	370,273
Obligations under finance leases		**12,139**	-
Tax payable		**1,978**	1,565
		309,649	592,023
Net current assets		**34,511**	21,227
Total assets less current liabilities		**1,583,380**	1,327,780
Non-current liabilities			
Borrowings		**105,218**	216,085
Obligations under finance leases		**25,801**	-
Deferred tax liabilities		**49,330**	46,267
		180,349	262,352
NET ASSETS		**1,403,031**	1,065,428
Capital and reserves			
Share capital		**244,418**	126,187
Reserves		**1,133,055**	896,467
Equity attributable to owners of the Company		**1,377,473**	1,022,654
Non-controlling interest		**25,558**	42,774
TOTAL EQUITY		**1,403,031**	1,065,428

NOTES

1. ORGANISATION AND OPERATIONS

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

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are media entertainment and property investment.

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

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

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

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

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

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

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

Amendments to HKAS 7 – Disclosure Initiative

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

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

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

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

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

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

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

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

Effective date:

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

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

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle

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

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

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

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

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

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

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

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

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

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

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

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

Amendments to HKAS 40 – Transfers of Investment Property

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

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

HKFRS 9 – Financial Instruments

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

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

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

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

HKFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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

HKFRS 16 – Leases

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

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

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

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION

Statement of compliance

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

4. REVENUE AND SEGMENT REPORTING

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

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

(a) Reportable segments

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

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

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

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

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

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

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

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

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

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

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

(c) Geographic information

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

(i) Revenue from external customers

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

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

(ii) Specified non-current assets

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

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

(d) Major customers

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

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

5. OTHER INCOME AND GAINS

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

6. LOSS FOR THE YEAR

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

Note:

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

7. FINANCE COSTS

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

8. TAXATION

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

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

9. LOSS PER SHARE

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

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

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

Note:

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

10. 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*
	(Note (a))	*(Note (b))*	*(Note (c))*	*(Note (d))*	*(Note (e))*	*(Note (f))*	*(Note (g))*	
COST								
As at 1 January 2016	587,739	144,110	91,430	258,873	60,494	22,000	19,943	1,184,589
Additions from business combination	102,386	-	-	-	-	-	-	102,386
Additions	-	-	16,311	-	42,658	4,082	11,503	74,554
Exchange realignment	(188)	4,067	236	154	601	-	-	4,870
As at 31 December 2016 and 1 January 2017	689,937	148,177	107,977	259,027	103,753	26,082	31,446	1,366,399
Additions	-	-	26,606	121,537	-	-	-	148,143
Exchange realignment	(380)	10,345	2,099	2,004	4,781	-	-	18,849
As at 31 December 2017	689,557	158,522	136,682	382,568	108,534	26,082	31,446	1,533,391
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS								
As at 1 January 2016	-	-	57,244	251,183	116	1,121	953	310,617
Amortisation for the year	-	-	12,500	2,363	5,570	3,295	2,640	26,368
Exchange realignment	-	-	18	147	(473)	-	-	(308)
As at 31 December 2016 and 1 January 2017	-	-	69,762	253,693	5,213	4,416	3,593	336,677
Amortisation for the year	-	-	14,523	2,393	5,242	3,395	3,279	28,832
Exchange realignment	-	-	961	1,970	(95)	-	-	2,836
As at 31 December 2017	-	-	85,246	258,056	10,360	7,811	6,872	368,345
CARRYING AMOUNT								
As at 31 December 2017	689,557	158,522	51,436	124,512	98,174	18,271	24,574	1,165,046
As at 31 December 2016	689,937	148,177	38,215	5,334	98,540	21,666	27,853	1,029,722

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 9 December 2016, the Group acquired a portfolio of patents in relation to interactive entertainment technology from an independent third party in consideration of HK$42,658,000 including (i) cash of HK$7,756,000; and (ii) 57,172,131 shares of the Company out of which 19,057,377 shares of the Company were issued on 9 December 2016 and 38,114,754 shares of the Company to be issued in 3 annual instalments by 9 December 2019. The patents are measured at their fair values as at the date of acquisition with reference to a professional valuation report issued by KF.

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

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

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

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

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

11. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

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

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

No interest is charged on trade and other receivables.

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

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

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

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

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

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

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

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

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

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

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

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

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

13. CONTINGENT LIABILITIES

The Group has been acknowledged by several customers in the USA in connection with the possible indemnification of losses suffered by these customers as a result of their involvements in other lawsuits filed by a claimant (the "Claimant") against these customers. This Claimant had dispute over ownership of certain physical equipment and intellectual property (the "Disputed IP") with the original owner (the "Original Owner") and a court in the USA concluded that the Claimant owns the Disputed IP on 11 August 2017. The Group had used these Disputed IP under a license from the Original Owner and completed certain visual effect projects for these customers. No specific monetary amount has been identified in the indemnity requests by these customers. The Group is currently in the process of negotiating with the insurance company and with these customers the extent to which the insurance company will pay.

No provision for the indemnity has been recognised for the year ended 31 December 2017 as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

14. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On 1 March 2018, the Group entered into a placing agreement with the placing agent in relation to the placing, on a best effort basis, of up to 2,175,780,000 placing shares at the placing price of HK$0.19 per placing share. As at 1 March 2018, the authorised share capital of the Group is HK$750,000,000 divided into 75,000,000,000 shares, of which 24,442,254,094 shares are in issue.

On 22 March 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), entered into an agreement with, among others, a vendor (the "Vendor") for the acquisition of 66.88% of the issued share capital of a company incorporated in the British Virgin Islands and its subsidiaries (the "Target Group") at an aggregate consideration of up to RMB240 million (equivalent to approximately HK$298 million), subject to adjustments, which is to be settled in cash. Upon completion, the Target Group will be a 66.88% owned subsidiary of the Group. As at the date of this announcement, the acquisition is not completed yet. Further details of the transaction refer to announcement of the Company on 22 March 2018.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil)

REVIEW AND OUTLOOK

FINANCIAL AND BUSINESS REVIEW

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

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

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

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

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

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

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

(iv) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

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

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

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

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

Digital Domain's VR and 360° camera team executed many, often simultaneous, livestream broadcasts, including the following events in 2017:

- **The Golden Globe Awards Red Carpet:** Exclusive 360° footage of popular actors and entertainment personalities as they entered the awards ceremony.
- **2017 U.S. Presidential Inauguration:** This curated livestream of the 58th presidential inauguration of the United States of America was the first-ever immersive 360° broadcast of this globally significant event.
- **Grammy Awards Red Carpet:** An opportunity for audiences to see their favourite music stars at the red carpet entrance to the acclaimed music industry awards.
- **Academy Awards Red Carpet:** Showcasing the most famous, talented and glamorous stars of the film industry as they displayed the latest fashions on their way into the prestigious Oscar Awards ceremony.
- **The Met Gala:** A partnership between Digital Domain, The Met Gala, Facebook, Moët and Vogue created the Met Gala's first 360° broadcast, a livestream of the annual fundraiser put on by the Costume Institute at the Metropolitan Museum of Art in New York City.

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

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

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

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

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

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

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

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

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

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

The Digital Domain Content Team is a group of writers, artists and conceptualists who develop and produce content in VR, 360°, film, TV and for other platforms. In 2017, the team created:

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

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

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

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

In addition to the Flagship Digital Domain App, Digital Domain also created several apps for partners, including:

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

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

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

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

The global studio participated in several events, including:

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

<u>NAB 2017</u>
At the National Association of Broadcasters' annual convention encompassing the convergence of media, entertainment and technology, Digital Domain announced its end-to-end solutions for creating and distributing VR experiences, including a new spherical camera, live streaming capabilities, new integrations with post-production suites and a cloud-based VR distribution platform.

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

<u>Hong Kong International Film and Television Exhibition 2017 (FILMART 2017)</u>
The studio released the trailer of its original VR creation *Micro Giants*. This vivid and photorealistic animation depicts true-to-life insect behaviour in a jungle setting, *Micro Giants* offers a unique sensory experience, allowing the viewer to enter a 'micro-world' and experience life from an insect's perspective.

B. Visual Effects ("VFX") Production and Post-Production Business
This segment also provides VFX production and post-production services for major motion picture studios, advertisers and games.

Digital Domain North America (USA and Canada):
The following list of recent awards offers recognition for Digital Domain's artists and technology:

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

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

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

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

(a) *"Beauty and the Beast"*
(b) *"The Fate of the Furious (alternatively known as "Fast and Furious 8)"*
(c) *"Spider-man: Homecoming"*
(d) *"Power Rangers"*
(e) *"Thor: Ragnarok"*

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

- VFX for a Budweiser TV campaign
- 30 second cinematic trailer for the Star Wars mobile game "*Galaxy of Heroes*" in which multiple rivals battle both in natural environments and on a holo-table in the Cantina
- Commercial for Dell featuring "*Spider-man: Homecoming*"
- 60 second online commercial for BMW, showing the i3 silently driving through a library before unleashing its power and astonishing the library patrons
- Motion graphics and live installation for the National Basketball League (NBA)'s All-Star Technology Summit
- 19 shots, including 12 all-CG Shots for two episodes, including the finale of STARZ's hit show "*Outlander*".
- Promo for David Fincher's Netflix show "*Mindhunter*"
- VFX work on two episodes of the remake of Stephen King's "*The Mist*" for Spike TV
- Work for other clients, including Google, Dell, BMW and Electronic Arts

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

<u>Possible Indemnification</u>

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

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

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

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

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

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

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

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

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

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

Digital Domain India:

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

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

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

C. Virtual Human Business

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

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

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

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

D. Co-production

Feature Film:

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

TV Drama Series:

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

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

PROPERTY INVESTMENT SEGMENT

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

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

INTERESTS IN JOINT VENTURES

Joint venture with Tencent

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

INTERESTS IN ASSOCIATES

DD Space (VR Theatre)

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

EVENTS AFTER THE REPORTING PERIOD

Placing of Shares

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

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

For details, please refer to announcements dated 1 March and 16 March 2018.

Acquisition of 3Glasses Group (the "Acquisition")
On 22 March 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), the vendor, Lead Turbo Limited (the "Target") and the guarantor entered into the agreement (the "Agreement"), pursuant to which the Purchaser conditionally agreed to acquire (or procure the acquisition of), and the vendor conditionally agreed to sell, 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration of up to RMB240 million (equivalent to approximately HK$298 million), subject to adjustments.

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

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

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

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

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

CAPITAL

Shares

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

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

The gross proceeds of the share placing were approximately HK$420 million. The net proceeds of the share placing were approximately HK$414.67 million and are intended for the media entertainment segment and as general working capital for the Group. For details, please refer to the Company's announcements dated 19 October 2017 and 30 October 2017.

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

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

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

Share Options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive. As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. ("DDVR"). The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by DDVR. As at 31 December 2017, the outstanding value of the secured notes on the book is approximately HK$59,326,000. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015 and 31 December 2015 respectively.

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

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

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

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

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

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

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

PROSPECT

The Group will continue to leverage its extensive experience in the VFX industry and proactively seek new projects and business opportunities despite the highly competitive market environment. Through the establishment of Digital Domain China, the Group is proactively exploring opportunities to develop its Greater China market in the VFX, VR, CG, virtual human and immersive entertainment businesses. The Group has already set up Digital Domain India with its own studio in Hyderabad, India for VFX and VR productions. The ongoing expansion in

China and India will increase the working capacity of the Group and reduce production costs in the long run. The effectiveness and efficiency of this expansion will be reflected in the coming years.

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

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

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

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

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

CORPORATE GOVERNANCE

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

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

1. During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were five Board meetings held for addressing ad hoc issues. The Company also sought for the Board's approval on the issues by circulating the written resolutions. The Board considered

that sufficient meetings had been held during the year and business operation and development of the Group had been communicated on the Board;

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

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

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

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2017.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Company at www.ddhl.com and the Stock Exchange at www.hkexnews.hk respectively. The annual report of the Company will be despatched to shareholders and available at the same websites in due course.

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

Hong Kong, 28 March 2018

As at the date of this announcement, Mr. Peter Chou, Mr. Seah Ang, Mr. Amit Chopra and Mr. Wei Ming 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.