THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

SUN INNOVATION HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

MAJOR TRANSACTION
INVOLVING THE ISSUE OF CONVERTIBLE NOTES FOR ACQUISITION OF VISUAL EFFECT PRODUCTION BUSINESS
AND
NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

天行聯合證券有限公司
United Simsen Securities Limited

Independent financial adviser to the Shareholders

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out from pages 5 to 38 of this circular. A letter from GF Capital is set out from pages 39 to 68 of this circular. A notice convening a special general meeting of the Company to be held at the Conference Room, Room 1818, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Wednesday, 3 July 2013 at 10:00 a.m. is set out on pages 137 to 138 of this circular.

A form of proxy for use at the special general meeting is enclosed with this circular, which is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.suninnovation.com). Whether or not you are able to attend the special general meeting, you are advised to read the notice and to complete and return the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time fixed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof (as the case may be) should you so wish.

14 June 2013

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares and Shareholder's Loan by the Company pursuant to the Sale and Purchase Agreement
"associate(s)"	shall have the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day (excluding Saturday and Sunday) on which banks are generally open for business in Hong Kong
"Company"	Sun Innovation Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the Sale and Purchase Agreement
"Completion Date"	the third Business Day subsequent to the satisfaction of all conditions of the Sale and Purchase Agreement or the waiver thereof or such other date as agreed by the parties thereto in writing, being the date on which Completion takes place
"Consideration"	the consideration payable for the transfer of the Sale Shares and the Shareholder's Loan under the Sale and Purchase Agreement
"Conversion Period"	the period commencing on the day after the date of first issue of the Convertible Notes to and including the date which is 7 days prior to the Maturity Date
"Conversion Price"	HK$0.04 per Conversion Share, subject to adjustments pursuant to the conditions of the Convertible Notes
"Conversion Share(s)"	Shares to be issued by the Company upon exercise of the conversion rights attaching to the Convertible Notes
"Convertible Note(s)"	convertible notes in the principal amount of HK$392 million to be issued by the Company to the Vendors
"Digital Domain"	Digital Domain 3.0, Inc., a corporation incorporated in the state of Delaware, U.S.
"Digital Domain Production"	Digital Domain Productions 3.0 (BC), Ltd., a company incorporated in the province of British Columbia, Canada

"Digital Domain Group"	Digital Domain, Digital Domain Production, and Mothership Media
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group immediately after Completion
"Galloping Horse US"	Galloping Horse US, LLC, a limited liability company formed in the state of Delaware, U.S.
"Galloping Horse – Reliance"	Galloping Horse – Reliance, LLC, a limited liability company formed in the state of Delaware, U.S. and was formerly known as Galloping Horse America, LLC
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants from time to time
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Financial Adviser" or "GF Capital"	GF Capital (Hong Kong) Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO, and the independent financial adviser to the Shareholders in respect of the terms of the Acquisition
"Last Trading Day"	27 March 2013, being the last day on which the Shares were traded on the Stock Exchange prior to the suspension of trading in the Shares pending the publication of the announcement dated 28 March 2013 regarding the Sale and Purchase Agreement
"Latest Practicable Date"	11 June 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 December 2013 or such later date as the parties hereto may otherwise agree in writing
"Maturity Date"	the day before the second anniversary of the date of issue of the Convertible Notes or, if that is not a Business Day, the first Business Day thereafter

"Mothership Media"	Mothership Media, Inc., a corporation incorporated in the state of Delaware, U.S.
"MOU"	the memorandum of understanding dated 18 November 2012 entered into between the Company and the Vendors
"Mr. Che"	Mr. Che Fung, being the ultimate beneficial owner of Harmony Energy Limited
"Mr. Fan"	Mr. Fan Lei, being an executive Director of the Company
"Mr. Zhou"	Mr. Zhou Jian, being an executive Director and chairman of the Company
"PRC"	the People's Republic of China
"Purchaser"	Digital Domain Enterprise Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the conditional sale and purchase agreement in relation to the Acquisition dated 27 March 2013 entered into amongst the Company, the Purchaser, the Vendors and Mr. Che, as amended by a side letter dated 23 May 2013 between the same parties
"Sale Share(s)"	10,000 shares of US$1.00 each in the issued share capital of the Target Company, representing the entire issued share capital of the Target Company as at the date of the Sale and Purchase Agreement
"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"SGM"	a special general meeting of the Company to be held at the Conference Room, Room 1818, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Wednesday, 3 July 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)

"Shareholder's Loan"	the shareholder's loan due from the Target Company to Harmony Energy Limited
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Target Company"	Upfield Sky Limited, a company incorporated in the British Virgin Islands with limited liability
"Target Group"	Target Company and its subsidiaries
"U.S."	United States of America
"US$"	U.S. dollar, the lawful currency of U.S.
"Vendors"	Harmony Energy Limited and Gegen Tana
"VFX"	visual effects
"%"	per cent.

For the purpose of this circular, all amounts denominated in US$ have been translated (for information only) into HK$ and RMB using the exchange rate of US$1.00:HK$7.76 and US$1.00: RMB6.21 respectively. No representation is made that any amounts in US$, HK$ or RMB can be or could have been converted at the relevant dates at the above rate or any other rates at all.

** The English translation of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

SUN INNOVATION HOLDINGS LIMITED

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

Executive Directors:
Mr. Zhou Jian *(Chairman)*
Mr. Fan Lei

Independent Non-executive Directors:
Ms. Lau Cheong
Mr. Duan Xiongfei
Mr. Tam Tak Kei Raymond

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Rooms 1818-1823, 18th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

14 June 2013

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
INVOLVING THE ISSUE OF CONVERTIBLE NOTES FOR ACQUISITION OF VISUAL EFFECT PRODUCTION BUSINESS
AND
NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

References are made to the announcements of the Company dated 19 November 2012 and 28 March 2013 in relation to, among other things, the Acquisition.

On 27 March 2013, the Company and the Purchaser entered into the Sale and Purchase Agreement with the Vendors and Mr. Che, pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to purchase the Sale Shares at a Consideration of HK$392 million. In addition, Harmony Energy Limited shall assign to the Purchaser all the right, title and interest in the Shareholder's Loan at its principal amount outstanding at Completion.

The purpose of this circular is to provide you with (i) further details of the Acquisition; (ii) a letter of advice from GF Capital; (iii) the accountants' report on the Target Group; (iv) the valuation report on the Target Group and (v) the notice of SGM.

SALE AND PURCHASE AGREEMENT

Date:

27 March 2013

Parties:

(1) Harmony Energy Limited, as vendor;
(2) Ms. Gegen Tana, as vendor;
(3) Mr. Che, as guarantor of Harmony Energy Limited;
(4) The Purchaser; and
(5) The Company

The Purchaser is a wholly-owned subsidiary of the Company.

Harmony Energy Limited is a company incorporated in the British Virgin Islands and its principal business is investment holding. Harmony Energy Limited is wholly owned by Ever Union Capital Limited, a company beneficially owned by Mr. Che.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Harmony Energy Limited, Ever Union Capital Limited, Mr. Che and Ms. Gegen Tana is a third party independent of the Company and its connected persons.

Mr. Fan, an executive Director, has occasionally assisted in certain administrative work for Ever Union Asset Management Limited, a wholly-owned subsidiary of Ever Union Capital Limited, from August 2010 to March 2013 through the introduction of a friend. Mr. Fan has not entered into any employment contract nor has received any remuneration from Ever Union Asset Management Limited or Ever Union Capital Limited. Mr. Zhou, an executive Director and the chairman of the Company, was a director of the Target Company from 19 September 2012 to 26 October 2012. Mr. Zhou was experienced in television and multimedia businesses and therefore he was invited by Mr. Che to oversee the business of the Target Company. Mr. Zhou introduced this investment opportunity to the Board for consideration. To avoid conflict of interests, Mr. Zhou resigned as the director of the Target Company on 26 October 2012. The MOU was then entered into by the Company and the Vendors on 18 November 2012 to provide the Company the right to conduct due diligence review on the Target Group. Mr. Fan and Mr. Zhou have voluntarily abstained from voting at the Board meeting in respect of the Sale and Purchase Agreement. Wise Sun Holdings Limited, which is beneficially owned by Mr. Zhou and held 2,610,395,180 Shares, representing approximately 26.55% of the issued share capital of the Company as at the Latest Practicable Date, will also abstain from voting at the SGM. As at the Latest Practicable Date, to the best knowledge of the Directors, save as aforesaid, no other Shareholder has a material interest in the Acquisition by virtue of which such Shareholder and its associates are required under the Listing Rules to abstain from voting at the SGM.

Assets to be acquired

(1) Sale Shares, representing 100% of the issued share capital of the Target Company, are held by the Vendors as follows:

	No. of Sale Shares	Shareholding in the Target Company
Harmony Energy Limited	4,860	48.60%
Gegen Tana	5,140	51.40%
Total	**10,000**	**100.00%**

(2) Shareholder's Loan outstanding as at the Completion, which is interest free and repayable on demand. As at 31 January 2013, the outstanding principal amount of Shareholder's Loan is approximately HK$15.64 million and the Sale and Purchase Agreement provides that the Shareholder's Loan to be acquired is subject to the maximum amount of US$3 million (equivalent to approximately HK$23.28 million) unless otherwise agreed by the Purchaser in accordance with the Sale and Purchase Agreement.

As at the Latest Practicable Date, the principal asset of the Target Company is the entire issued share capital of Galloping Horse US, which owns 70% of the equity interest in Galloping Horse – Reliance. Galloping Horse – Reliance owns the entire equity interest in Digital Domain. Digital Domain owns the entire equity interest in Digital Domain Production and Mothership Media. The businesses of the Target Group are set out in the section "Information on the Target Group" below.

Consideration

(i) The Consideration for the Sale Shares will be HK$392 million which is to be satisfied by the issue of the Convertible Notes in the aggregate principal amount of HK$392 million to the Vendors to be apportioned as to the principal amount of HK$190.512 million to Harmony Energy Limited and the principal amount of HK$201.488 million to Ms. Gegen Tana.

(ii) The Consideration for the Shareholder's Loan will be an amount equal to the principal amount of the Shareholder's Loan outstanding as at Completion subject to the maximum amount of US$3 million (equivalent to approximately HK$23.28 million) unless otherwise agreed by the Purchaser in writing in accordance with terms in the Sale and Purchase Agreement. The cash portion of the Consideration will be financed by the Group's internal resources.

The Consideration was arrived at after arm's length negotiation between the Company and the Vendors and was determined with reference to the preliminary valuation of the entire equity interest of the Target Group of around HK$420 million as at 31 January 2013 prepared by BMI Appraisals Limited and the future prospects of visual effect market as discussed in the section "Reasons for the Acquisition" below. The finalized valuation of the entire equity interest of the Target Group amounted to HK$426 million, the details of which are set out as Appendix V to this circular. The Consideration for the Sale Shares of HK$392 million represents a discount of approximately 7.98% to the finalized valuation of HK$426 million.

Basis of Consideration

The Directors note that the equity attributable to owners of the Target Company amounted to approximately HK$213.41 million as at 31 January 2013 and the consideration for the acquisition of certain assets from DDMG is approximately HK$241.41 million. However, the Directors consider that these are not the only factors in determinating the Consideration as neither the equity attributable to owners of the Target Company nor the then acquisition cost reflects the future earning capabilities of the business prospects of the Target Group at prevailing condition.

Despite the short operating history of the Target Group, it recorded a revenue of approximately HK$194.18 million during the Relevant Period, which was mainly attributable to the provision of VFX services. This shows that the Target Group can generate a revenue stream. The Target Group recorded a loss before taxation of approximately HK$75.96 million during the Relevant Period, which was mainly due to the administrative expenses and cost of sales. The administrative expenses are associated to the staff costs, amortisation of intangible assets and rental. The Digital Domain Group has implemented a series of stringent cost control measures and those cost control measures are expected to gradually reduce the administrative expenses and cost of sales of the Target Group as illustrated in the section "Businesses of the Digital Domain Group" below.

When determining the Consideration, the Directors have made reference to the valuation prepared by BMI Appraisals Limited which represents a market value assessed by independent professional valuer, the finalized version of which is set out in Appendix V. The valuation report sets out the grounds for forming the value of each key parameters include, among other things, the existing signed contracts and agreements, the historical margins in each segments, the business plan of optimizing the costs and expenses and the expected return on the new businesses. When reviewing such valuation, the Directors and the senior management of the Company had discussions with the management of the Target Group, BMI Appraisals Limited, BDO Limited and United Simsen Securities Limited. Matter discussed include the valuation methodology, assumptions adopted for the valuation and the related accounting policies and calculations, including but not limited to the basis of discount rate, the source of comparable companies, the basis for the forecasted growth rate of the revenue, the trend of cost on sales and expenses, the tax implication, the amortisation policy, the existing business and the future development plan of the Target Group and the general statistics of the industry.

The Directors noted that according to the Accountant's Report, the Target Group recorded a gross profit margin of approximately 5.4%, while in the valuation report, the forecasted gross profit margins for the forecast period range from 20.1% to 28.7%, except that in respect of 2013 where the gross profit margin is forecasted to be 30.5%. The Company has discussed with the management of the Digital Domain Group regarding the historical and forecasted gross profit margins, and was advised that:

(i) Effects of the bankruptcy sale – the low gross profit margin for the Relevant Period in the Accountant's Report is mainly attributable to the effects of the bankruptcy sale by DDMG Group to the Digital Domain Group as all or part of the revenue attributable to certain projects assumed from DDMG Group have been collected by DDMG Group as advance cash payment from clients before bankruptcy while certain relevant costs were incurred by the Digital Domain Group. Conversely, the relatively high forecasted gross profit margin for 2013 is attributable to the fact that costs for a co-production project for which the majority of its revenue is expected to be collected and recognised by the Digital Domain Group in 2013 have mainly been incurred and paid for by DDMG. Gross profit margin for new projects taken up by the Digital Domain Group which are currently in production has normalised as these factors no longer apply.

(ii) Other factors that are expected to contribute towards improvements in profit margins. These include:

(a) revenue expected to be contributed by the Digital Domain Group's new business segments, such as its co-production business which is still in progress and cooperation with Beijing Galloping Horse, while the indirect costs of the Digital Domain Group, such as amortisation of intangible assets and depreciation of property, plant and equipment that related to production, are expected to remain relatively stable according to the forecast; and

(b) cost control and outsourcing measures to be implemented by the Digital Domain Group with the aim of having around 30% of its work with relatively low technological requirement gradually outsourced to China and India in the coming years. In 2013, Digital Domain Group has outsourced a small part of VFX production to an Indian company as its pilot program for cost reduction and has efficiently reduced its production cost by nearly 40%. These measures are expected to continue. With reference to such cost reduction effect, the forecast has taken into account a 12% reduction in the VFX production direct costs for the forecast period due to such cost control and outsourcing measures.

Taking into account the above factors, the Directors are of the view that the valuation could reasonably be used as a reference for determination of the Consideration.

In addition to the valuation, the Directors also take into consideration (i) the prospects of VFX market and the development potential of Digital Domain Group, which is expected to generate stable income for the Group; (ii) The continuous support of the management of the Digital Domain Group by leveraging on their experience, expertise, resources and business connection in the entertainment industry, details of which are set out in the section "Competitive strengths of the Digital Domain Group" below; and (iii) the potential benefits of the diversification of the Group's existing business upon Completion as mentioned in the section "Reasons for the Acquisition" below in determining the Consideration.

Accordingly, the Directors are of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Conditions

The Completion of the Sale and Purchase Agreement is conditional upon:

(a) approval by the Shareholders of the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares) in accordance with the Listing Rules;

(b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares;

(c) completion of business, financial and legal due diligence on all relevant aspects of the Target Group by the Purchaser and the Company, and the Purchaser and the Company each being satisfied with the results of such due diligence in its sole discretion;

(d) all other approvals and consents required to be obtained from any third party in respect of the entering into of the Sale and Purchase Agreement and/or the transactions contemplated hereunder being obtained;

(e) recordation by the Target Group of the Intellectual Property Assignment Agreement, dated 24 September 2012, by and among Galloping Horse America, LLC (now known as Galloping Horse – Reliance, LLC) and Digital Domain Media Group, Inc. and its subsidiaries, with the United States Patent and Trademark Office; and

(f) the Group obtaining releases from certain liens held on the patents referred to in the Sale and Purchase Agreement.

The Company and the Purchaser may, in its absolute discretion, waive any condition set out in above clauses (c) to (f) at any time by specific notice in writing to such effect to the Vendors.

If the conditions shall not have been fulfilled (or waived by the Purchaser and the Company) by the Long Stop Date, the Sale and Purchase Agreement shall terminate and be of no further effect and the parties shall have no further claims against each other save in respect of any antecedent breach.

As at the Latest Practicable Date, conditions (e) and (f) have been fulfilled.

Termination

If at any time before Completion:

(a) any material breach of the warranties set out in the Sale and Purchase Agreement comes to the notice of the Purchaser that is incapable of being remedied, or where that breach is capable of being remedied, is not remedied to the reasonable satisfaction of the Purchaser within 10 days after a written notice (accompanied by the relevant supporting documents) is served on the Vendors; or

(b) any Vendor is in material breach of any obligation on its part under the Sale and Purchase Agreement and, where that breach is capable of remedy, it is not remedied to the reasonable satisfaction of the Purchaser within 10 days after a written notice (accompanied by the relevant supporting documents) is served on the relevant Vendors; or

(c) anything occurs which constitute, or is likely to constitute, a material adverse change (as defined in the Sale and Purchase Agreement), including any of the following:

  (i) a strike, lock-out or other significant industrial dispute arising or being threatened;

  (ii) any litigation or arbitration proceedings being instituted or threatened by or against any member of the Group;

  (iii) any significant asset of any member of the Group being destroyed or damaged,

then, but without prejudice to any other rights or remedies available to the Purchaser, the Purchaser may without any liability to the Vendors elect not to complete the purchase of the Sale Shares and the Shareholder's Loan by giving notice in writing to the Vendors.

Completion

Subject to the fulfillment (or waiver) of the conditions of the Sale and Purchase Agreement, Completion shall take place on the Completion Date or at such other time as the Company and the Vendors may agree in writing.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

Convertible Notes

Pursuant to the Sale and Purchase Agreement, as part of the Consideration, the Company will issue to the Vendors the Convertible Notes in the aggregate principal amount of HK$392 million upon Completion as follows:

Noteholder(s):	Harmony Energy Limited, the noteholder of the Convertible Notes with a principal amount of HK$190.512 million
	Ms. Gegen Tana, the noteholder of the Convertible Notes with a principal amount of HK$201.488 million

The principal terms of the Convertible Notes are summarized as follows:

Issuer:	The Company
Aggregate Principal Amount:	HK$392 million
Interest:	Nil
Maturity Date:	The day before the second anniversary of the date of issue of the Convertible Notes or if not a Business Day, the following Business Day thereafter.
Conversion Price:	The Conversion Price shall be HK$0.04 per Conversion Share.

The Conversion Price of HK$0.04 represents:

(i) a discount of approximately 66.10% to the closing price of HK$0.118 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 66.10% to the closing price of HK$0.118 per Share as quoted on the Stock Exchange on Last Trading Day;

(iii) a discount of approximately 64.41% to the average closing price of HK$0.1124 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 15.61% over the net asset value per Share of HK$0.0346 as at 31 December 2012, which is calculated based on the number of Shares of 9,832,685,768 in issue as at the Latest Practicable Date and the net assets of HK$339,796,000 of the Company as at 31 December 2012;

(v) a discount of approximately 51.63% to the average closing price of HK$0.0827 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days prior to the date of the MOU.

The initial Conversion Price was agreed after arm's length negotiations between the Company and the Vendors, with reference to, among other things, the prevailing market price of Shares as quoted on the Stock Exchange and in particular for the 30 day period prior to the signing of the MOU, the net asset value per Share of HK$0.0346 as at 31 December 2012 and the market sentiment of the stock markets.

As set out in the MOU, the Conversion Price shall be within the range of (i) the net asset value per Share of HK$0.0339 as at 30 June 2012 and (ii) the average closing price of the Shares for the thirty (30) consecutive trading days prior to the date of the MOU, being HK$0.0827. The Directors considered that as the trading volume of the Share is relatively low, the prevailing market price of Shares may not be a comprehensive reflection on the value of Shares. The Directors consider that the net asset value per Share as at 31 December 2012 of HK$0.0346 to be an appropriate reference in determining the Conversion Price.

Having considered all the foregoing, the Directors consider that the Conversion Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The Conversion Price will from time to time be adjusted upon the occurrence of, among other matters, subdivision or consolidation of Shares, reclassification, capitalisation issues, rights issues and other dilutive events, being customary dilutive events which usually appear in convertible securities in the market.

Conversion Restriction: The Company will not be obliged to issue any Conversion Shares pursuant to any conversion notice if the Company, acting reasonably, comes to a view that the issue of Conversion Shares pursuant to such conversion will (i) cause the Shares in the hands of "public" (as defined in Rule 8.24 of the Listing Rules) to fall below the 25% or such other minimum percentage of the total issued share capital of a listed issuer as prescribed under the Listing Rules that must remain in public hands, or (ii) result in the aggregate voting rights in the Company held by the holders and the parties acting in concert with it as defined under the Takeovers Code exceeding 29.9%, or if applicable, the maximum percentage (to one decimal place) of the Shares the holders could then acquire without being required to make a mandatory general offer for the Shares under the Takeovers Code.

Ranking of Conversion Shares: The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all other Shares in issue as at the date of exercise of conversion rights and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of the exercise of conversion rights.

Voting: The holder(s) of the Convertible Notes will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it/they being the holder(s) of the Convertible Notes.

Transferability:	The Convertible Notes may, subject to the following provisions, be freely transferred or assigned to any third party. The Convertible Notes (or any part thereof) may not be assigned or transferred to a connected person of the Company without the prior written consent of the Company. Any assignment and/or transfer of the Convertible Notes is subject to (1) the Listing Rules for so long as the Shares are listed on the Stock Exchange and all applicable laws and regulations; (2) the approval of the Shareholders in a general meeting if so required under, and in compliance with, the Listing Rules if such assignment and/or transfer is proposed to be made to a connected person of the Company. A holder of the Convertible Notes shall not be in breach if it does not know, nor does it have reasonable cause to believe after having made due enquiries, that the transferee is a connected person of the Company.
Redemption:	Unless previously converted or purchased or redeemed, the Company shall redeem the Convertible Notes on the Maturity Date at the redemption amount which is 100% of the principal amount of the Convertible Notes then outstanding.
Conversion Shares:	Assuming the issue of the Convertible Notes is completed and based on the initial Conversion Price of HK$0.04 per Conversion Share, 9,800,000,000 Conversion Shares will be allotted and issued if the conversion rights attaching to the Convertible Notes are exercised in full, representing approximately 99.67% of the issued share capital of the Company as at the Latest Practicable Date and approximately 49.92% of the Company's issued share capital as enlarged by the allotment and issue of the Conversion Shares upon conversion of the Convertible Notes in full. The Conversion Shares will be issued and allotted under a specific mandate to be obtained by the Company. The Directors proposed to seek approval from the Shareholders at the SGM to issue the Conversion Shares.
Listing:	No application will be made for the listing of, or permission to deal in, the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

INFORMATION ON THE TARGET GROUP

The Target Company

The Target Company was incorporated in the British Virgin Islands with limited liability on 6 September 2012, with 10,000 shares being issued and fully paid up. As at the Latest Practicable Date, its principal asset is the entire issued share capital in Galloping Horse US.

Galloping Horse US

Galloping Horse US is a limited liability company formed in the state of Delaware, U.S. on 21 November 2012 and its principal business is investment holding. As at the Latest Practicable Date, its principal asset is 70% of the issued share capital in Galloping Horse – Reliance.

Galloping Horse – Reliance

Galloping Horse – Reliance is a limited liability company formed in state of Delaware, U.S. on 17 September 2012 and its principal business is investment holding. As at the Latest Practicable Date, its principal asset is the entire issued share capital in Digital Domain.

Digital Domain

Digital Domain is a corporation incorporated in the state of Delaware, U.S. on 25 September 2012. The principal assets of Digital Domain are the entire issued share capital in each of Digital Domain Production and Mothership Media.

Digital Domain Production

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

Mothership Media

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

The Digital Domain Group consists of Digital Domain, Digital Domain Production, and Mothership Media, which acquired certain assets of a number of subsidiaries of Digital Domain Media Group, Inc. ((“**DDMG**”), together with its subsidiaries, the “**DDMG Group**”) through which DDMG is engaged in the business of digital production and animation. The assets acquired include the rights in certain contracts and film projects, rights in real estate leases, fixed assets and equipment, intellectual property registrations, intangible properties and all related rights, accounts receivable, etc. relating to that business.

The key rights in contracts and film projects for the Digital Domain Group's business include the rights to the related physical materials, all rights of use, display, publication, reproduction, distribution, performance and rights to create derivative works and all those contracts entered into in connection with the development, pre-production, post-production or exploitation of the film projects.

The key intellectual and intangible property for the Digital Domain Group's business include (i) trademarks, internet domain names and all registrations of and applications to register any of the foregoing; (ii) copyright rights in original works of authorship, software and applications, and registrations and applications therefor; (iii) all rights of use, distribution, performance and rights to create derivative works; and (iv) proprietary or confidential know-how, tools, patents and trade secrets etc.

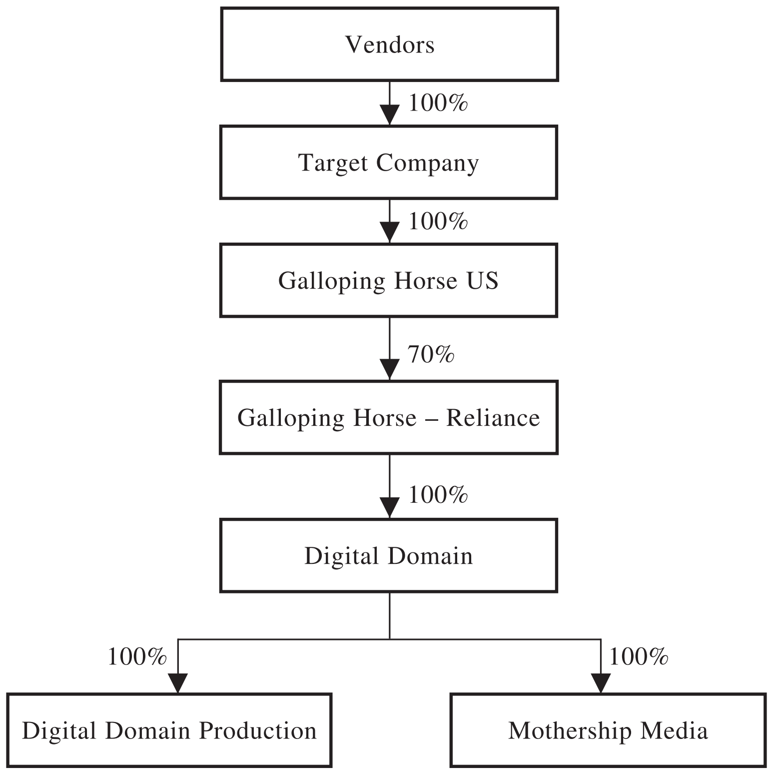
The major components of the intangible assets include the "Digital Domain" trademark, proprietary software and participation rights. The "Digital Domain" trademark is registered in various jurisdictions and plays an essential role in the business of the Digital Domain Group. It represents high quality VFX production services that the Digital Domain Group provides and assists the Digital Domain Group to expand its customers base. The proprietary software mainly represents internally developed software used in the VFX production, key parts of which are subject of two registered patents and two pending patent applications. The Company understands from the Vendors that DDMG did not consider it necessary to seek full copyright or patent registration for all its proprietary software. The participation rights represent contractual rights of profit sharing on pre-determined percentages from the movies "Ender's Game" and "Titanic" which are not registrable as intellectual property in the U.S.

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

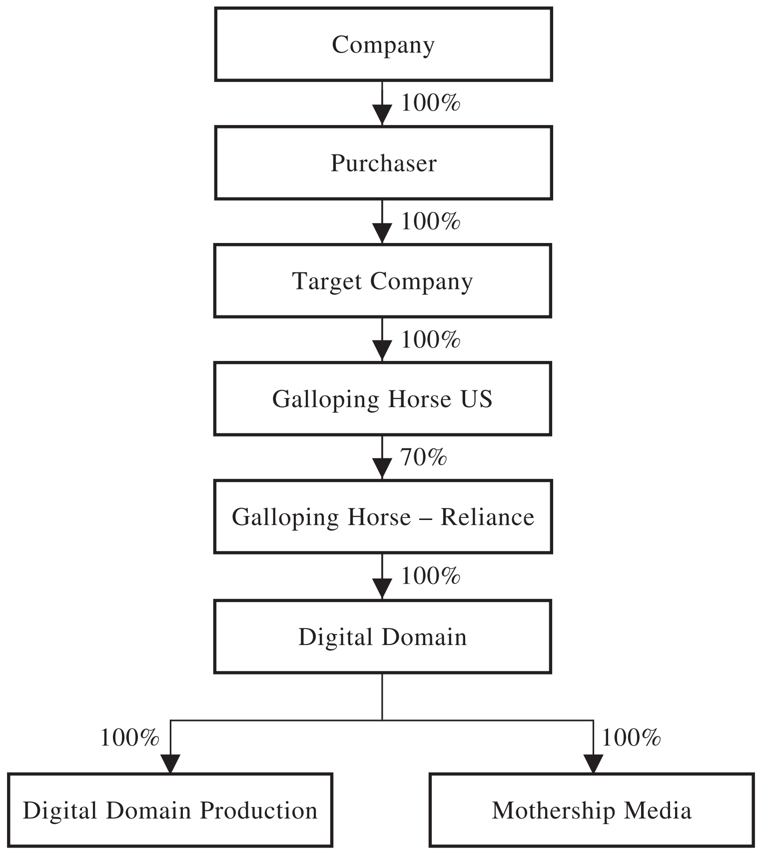
DDMG is not part of the Target Group, and the assets comprised in the Target Group were sold to the Target Group pursuant to a court-sanctioned bankruptcy sale order. Therefore, any future development of bankruptcy proceedings relating to DDMG is not expected to have any material impact on the Acquisition, the Target Group and the Enlarged Group.

The following charts are a simplified structure of the Target Group (a) as at the Latest Practicable Date; and (b) immediately after completion of the Acquisition:

(a) As at the Latest Practicable Date



(b) Immediately after the Completion



Businesses of the Digital Domain Group

According to the information provided by the Vendors and the Target Group, Digital Domain Group is a leading provider of VFX for major motion picture studios and advertisers. Currently, Digital Domain Group has four business segments: (i) feature films; (ii) commercial production; (iii) co-production and (iv) digital human business.

Although the Digital Domain Group was newly incorporated in 2012, it has retained its predecessor's major senior management, creative teams and technical teams of the DDMG Group for the VFX production. In addition, it holds certain contracts entered into by DDMG with the major studios and acquired the major assets from DDMG including certain fixed assets, intellectual and intangible property. Despite its short operating history, Digital Domain Group is capable of the production of high level VFX. Furthermore, Digital Domain Group has benefited from the established track record of the DDMG Group in the movie industry.

Detailed introductions on each of its business segments are as follows:

Feature Films

Digital Domain Group is one of the largest VFX providers in the entertainment industry. Digital Domain Group is fully equipped with digital film cameras, high performance computers, laptops and workstations and is capable of managing the entire process of development and production of VFX for large-scale action motion pictures.

Digital Domain Group is typically hired by a motion picture studio, often at the recommendation of a producer or director, to provide VFX in the development stage of a film project. Digital Domain Group typically will be invited into a bid for VFX production. Once Digital Domain Group wins the bid, as standard practice, Digital Domain Group will enter into a contract with the studio.

Digital Domain Group also carries out a small amount of short term contract work. These are typically small numbers of shots that may be required during the post-production phases of films with which Digital Domain Group has not previously been associated. This short term contract work provides Digital Domain Group an opportunity to smoothen its workflow between projects and utilize resources that might otherwise be idle until the next large-scale project begins.

The creative and technical teams of Digital Domain Group have over a decade of experience in VFX production for feature films. They produced VFX for some of the most visually stunning films, including Thor, TRON: Legacy, the Transformers trilogy, The Curious Case of Benjamin Button, Apollo 13 and Titanic.

Details of those feature films for which Digital Domain Group provides its VFX production since its incorporation are set out in the table below:

Name	Production companies	Release date or expected release date in U.S.
House of Cards	Media Rights Capital Panic Pictures (II) Trigger Street Productions	February 2013
Oblivion	Universal Pictures Chernin Entertainment Ironhead Studios Radical Pictures Radical Studios Truenorth Productions	April 2013
Iron Man III	Marvel Studios Paramount Pictures	May 2013

Name	Production companies	Release date or expected release date in U.S.
Ender's Game	Odd Lot Entertainment KurtzmanOrci Paper Products Digital Domain Chartoff Productions Summit Entertainment Tomkats Catering	2013
Black Sky	Broken Road Productions New Line Cinema	2013
Maleficent	Moving Picture Company Roth Films	2014

Source: IMDB

Digital Domain Group is generally capable of handling eight to ten motion pictures per year.

Commercial Production

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

Digital Domain Group's suite of creative services includes:

(i) Interactive brand marketing campaign planning and strategy;

(ii) Content development and production;

(iii) Creation, delivery and maintenance of both active and ongoing marketing campaigns; and

(iv) Development of and implementation of broad digital marketing initiatives.

Digital Domain Group is normally capable of handling around twenty commercial projects per year.

Co-Production

Digital Domain Group has entered into an investment and production agreement with Ender's Game Holdings LLC and Odd Lot Entertainment, LLC to provide financing and production services to co-produce the VFX action movie Ender's Game. This is the first time Digital Domain Group has been engaged in the co-production film business. Ender's Game has a production budget slightly in excess of US$100 million and is scheduled for theatrical release in the fourth quarter of 2013. Distribution services are to be provided by Summit Entertainment.

Digital Domain Group believes that its role as a key participant in a number of live-action feature film projects of major film studios and leading filmmakers presents it with opportunities to selectively co-produce large scale live-action feature films. Its increased participation may come in the form of film profit participations, premiums or bonuses based upon theatrical box office results or other criteria used to measure a film's economic success.

Co-production opportunities allow Digital Domain Group to invest in a film's overall production budget, while playing a role in the production of digital content and integrated advertising campaigns. Such opportunities provide the ability to enhance overall profit potential from VFX projects through economic participation in the film's profits, as well as the long-term value of the company itself due to ownership of the film's intellectual property, including ancillary revenue streams. The management of Digital Domain intends to actively explore film co-production opportunities.

Through its digital production studios and entertainment industry connections, Digital Domain Group is working to take advantage of opportunities to partner with its motion picture studio clients and other filmmakers by co-producing feature films. From time to time, Digital Domain Group has been approached by leading filmmakers to help conceptualize and develop new and unique ideas that push the envelope for digital film content. As part of this conceptualization work, Digital Domain Group has been exposed to these projects at an early stage, and has been offered the opportunity to co-produce or invest in them. In certain situations, it receives participation in the financial success of films based upon discounted profit-margins or other early-stage contributions of its creative and technical talents. Digital Domain Group intends to regularly evaluate such opportunities to favorably satisfy appropriate budgetary, development and distribution criteria.

Digital Human Business

Digital Domain Group has a state-of-the-art performance capture studio that was originally constructed for producer and director Robert Zemeckis for the creation of feature films such as A Christmas Carol (2009) and Mars Needs Moms (2011). The scope of Digital Domain Group's digital production capabilities include real time performance capture and cutting edge facial capture for feature films, advertising and commercials, and video game production – are a key component of its new virtual digital human business.

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

Business expansion to the PRC

The key part of Digital Domain Group's strategy is to expand its business efforts internationally. The global market for regionally produced film content is growing and that a global network of production studios is the most efficient way to create entertainment content. In particular, there are significant opportunities for Digital Domain Group to expand into the high growth China's film market.

Although China's film market is still relatively small – total box office revenue were RMB17.07 billion (approximately US$2.75 billion) in 2012, compared to the US$10.8 billion spent in the U.S./ Canada – it is growing fast, at an annually compounded growth rate of approximately 35.8% since 2005[1]. Now, China has the world's second largest film market after U.S. Officially, Beijing is backing the domestic film industry as part of broader efforts to increase China's "soft power", or match its growing economic muscle in the cultural sphere. In the 12th Five-Year Plan, presented last year, the government committed itself to "deepening reform of China's cultural industries."

As a strategic move to tap into the growing China's film production market, Digital Domain has entered into a letter of intent of cooperation with 北京小馬奔騰文化傳媒股份有限公司 (Beijing Galloping Horse Media Co., Ltd.*) ("**Beijing Galloping Horse**"), a film and television show producer in China. Pursuant to the letter of intent of cooperation, Beijing Galloping Horse has intention exclusively to appoint Digital Domain to provide VFX services on all feature films, television shows and commercials that Beijing Galloping Horse produces or invests in. The cooperation will last for five years upon entering into the official cooperation agreement between Digital Domain and Beijing Galloping Horse.

Beijing Galloping Horse has a professional film studio that focuses on investment, production, marketing and distribution of filmed entertainment content. Beijing Galloping Horse has participated in projects such as 機器俠(Metallic Attraction: Kungfu Cyborg*), 花木蘭(Mulan*), 無人區(No Man Zone*), 越光寶盒(Just Another Pandora's Box*), 美麗密令(Beauty on Duty*), 功夫夢(The Karate Kid*), 劍雨(Reign of Assassins*), 將愛情進行到底(Eternal Moment*), etc.

To the best knowledge, information and belief of the Directors, Beijing Galloping Horse and its associates are independent from the Company and its connected persons.

* *for identification purpose only*

[1] Source: The State Administration of Radio Film and Television of China

Strict cost control and outsourcing

The management of Digital Domain Group has implemented a series of measures to reduce its costs and expenditures without compromising the standard and quality of services including:

(i) minimizing the number of unutilized production employees without jeopardizing the workflow;

(ii) dismissing employees who have unsatisfactory performance; and

(iii) implementing stricter control on other expenditures such as equipment purchases and office supplies.

Given the labor intensive nature in VFX production, a large portion of the production costs is attributable to salaries. The management of Digital Domain Group plans to gradually outsource its VFX production with relatively low technical requirements to China and India in the next five years. The graphic and animation designing sector is a fast-growing industry sector in India and China in recent years and have much lower average wages compared to the U.S.

Awards received by the creative and technical teams of Digital Domain Group

The creative and technical teams of Digital Domain Group has provided its VFX for some of the most recognizable and successful feature films. Set out below are some awards and nominations to feature films and visual effects technology to recognise the VFX provided by the teams of Digital Domain Group:

Name	**Award Year** *(Note)*	**Awards/Nominations**
Academy Award		
Transformers: Dark of the Moon	2011	Nominee for Best Visual Effects
Real Steel	2011	Nominee for Best Visual Effects
The Curious Case of Benjamin Button	2008	Best Visual Effects
FSIM Fluid Simulation	2007	Scientific and Engineering Award
I, Robot	2004	Nominee for Best Visual Effects

Note: refers to the year for which the feature films or visual effects technology were nominated for the awards.

Set out below is a list of certain award winning commercial production produced by or with contributions from the creative and technical teams of Digital Domain Group:

Name	Award Year (Note)	Award
The Association of Independent Commercial Producers Awards ("AICP Award")		
Nike "Biomorph"	2012	Visual Effects
Nike "Chalk"	2009	Visual Style
Cannes Lions		
"Virtual 2Pac at Coachella"	2012	Titanium Lion
Clio Award		
Audi "Intelligently Combined"	2010	Silver: Television/Cinema – Visual Effects
Visual Effects Society Award ("VES Award")		
Gears of War 3 "Dust to Dust"	2012	Outstanding Virtual Cinematography in a Broadcast Program or Commercial

Note: refers to the year in which the relevant awards were presented.

Competitive strengths of the Digital Domain Group

By acquiring certain of DDMG's assets relevant to digital production and animation business and its experienced senior management and creative and technical teams, the following competitive strengths of the Digital Domain Group are identified:

Leading industry reputation

The predecessor of Digital Domain Group successfully operates businesses in industries that ascribe significant value to reputation and track record to the trademark of Digital Domain. Its leading industry reputation stems from the key role it has played in the production of some of the most successful motion pictures and innovative television commercials. Digital Domain Group has demonstrated its industry reputation through its creative and technical team's work on motion pictures which are recognized as some of the most visually stunning productions, including TRON: Legacy, the Transformers trilogy, The Curious Case of Benjamin Button, Apollo 13 and Titanic. The motion pictures and commercial production that Digital Domain Group's creative and technical team has worked on have been recognized with numerous awards for the VFX, including Academy Awards, Scientific and Technical Achievement Awards, BAFTA Awards and Cannes Lions Awards. Digital Domain Group believes that its reputation consistently makes it one of the top choices for the most complex and challenging VFX projects.

Established connections with major studios and leading filmmakers

A number of major studios dominate the motion picture industry and set the pace for producing films at the forefront of digital imagery innovation. The senior management and creative and technical teams of Digital Domain Group work with many of these major studios, and believes that its connection with such studios will continue to provide it with early access to large-scale and visual effects-driven feature film projects in their early stages of development. Additionally, the senior management of Digital Domain Group has established connections with many of the entertainment industry's leading directors and producers and a significant number of its projects are with directors and producers with whom it has worked in the past.

Innovative technology platform

The creative and technical teams of Digital Domain Group have developed a VFX and digital media production technology platform that enables its artists to create what they believe to be some of the most stunning digital imagery on screen. Digital Domain Group believes that it is experienced in creating photorealistic, computer-generated natural effects such as water, smoke and fire and other natural environments, effects and phenomena. In 2007, the staff of Digital Domain was awarded a Scientific and Engineering Award by the Academy for fluid simulation software. Integrating photorealistic digital human "hero characters" in a film requires subtlety and the ability to withstand the scrutiny of extremely close-up images, and such work is often considered to be the pinnacle of VFX. Its expertise in a fully photorealistic digital human likeness helped its staff win an Academy Award for Best Visual Effects for The Curious Case of Benjamin Button, and enabled its predecessor creation of "virtual" Tupac Shakur for the Coachella Valley Music Festival – a seismic event in global entertainment. Digital Domain Group's proprietary intellectual property provides it with a significant competitive advantage as it competes for technologically challenging work.

Creative and experienced talent

Digital Domain Group's production team is experienced in the VFX industry, including over 30 technical directors, over 25 computer graphics, digital and visual effects supervisors, over 20 digital producers, over 25 animators and over 200 digital, lighting and effects artists.

Most of the key members of Digital Domain Group's team have over 10 years experience and are members of the Academy of Motion Picture Arts & Sciences which is a professional organization dedicated to the advancement of the arts and sciences of motion pictures. They have held leadership positions in the production of the motion pictures winning Academy Award in visual effects including "Titanic" and "The Curious Case of Benjamin Button". Key members of the team have received accolades for their participation in several high grossing films such as "TRON: Legacy", " The Lord of the Rings series", "Real Steel", "Transformers: Dark of the Moon". The commitment of the Digital Domain Group's team to fostering the continued growth of its talent pool allows the team to maintain the quality of its creative and technical work.

Digital Domain Group has retained its predecessor's production talent to manage large feature film projects, and recruited new creative talent to expand its capabilities in creative development, and new technical talent to build infrastructure and tools allowing it to undertake increasingly larger and more complex productions.

Long standing advertiser and advertising agency connections

The creative and technical teams of Digital Domain Group has produced commercial campaigns for many Fortune 500 companies, and through this work, they have established connections with leading advertising agencies and corporate advertisers, and a number of international brands. Digital Domain Group has strengthened these connections by offering clients a suite of cross-platform advertising services to create compelling convergent marketing campaigns, including an end-to-end digital production solution from creation through production across multiple media platforms, including television, online, web, print, and interactive media.

Financial information of the Target Group

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

Consolidated Statement of Comprehensive Income	**For the period from (date of incorporation of the Target Company) 6 September 2012 to 31 January 2013** *HK$' million*
Revenue	194.18
Net profit/(loss) before taxation	(75.96)
Net profit/(loss) after taxation	(82.91)

Consolidated Statement of Financial Position	**As at 31 January 2013** *HK$' million*
Total assets	396.71
Total liabilities	91.93
Net assets	304.78

It came to the Directors' notice that the Target Group recorded net current liabilities of approximately HK$18,131,000 as at 31 January 2013 and the Target Group incurred a loss of approximately HK$82,914,000 for the period from 6 September 2012 to 31 January 2013 (the "**Relevant Period**"). Nevertheless, the directors of the Target Company consider that it is appropriate to prepare the financial information on a going concern basis, reasons for which are disclosed in the accountants' report on the Target Group in Appendix II to this circular.

The Board also noted that subsequent to the end of the Relevant Period, a project with estimated sum of approximately HK$101,000,000 has been secured, for which the cost and expenses in the aggregate amount of approximately HK$22,420,000 have been charged to the profit or loss for the Relevant Period whilst no revenue has been recognised for the Relevant Period. Taking into account of the above and the bank balances and cash of the Group as at 31 December 2012 which amounted to approximately HK$238,873,000, the Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds and presently available credit facilities, the Enlarged Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular. Therefore the Directors expect that the net current liabilities of the Target Group as at 31 January 2013 would not have material effect on the operation of the Target Group and are confident that the business of the Target Group would be sustainable.

RISK FACTORS

The visual effects industry is highly competitive and if Digital Domain Group is unable to compete successfully, its business will be harmed

The VFX industry is an intensely competitive sector of the entertainment industry. Multiple entities, including VFX companies, digital content production companies and animation studios often bid to provide VFX services for the same feature film or cross platform advertising projects, and certain of these entities have greater financial, creative and managerial resources than Digital Domain Group does. In addition, large major motion picture studios have developed or acquired the capability to provide such services in house. Moreover, the management believes foreign competitors and competitors with operations or subcontractors in countries such as South Korea, China and India may become an increasing source of competition, due largely to their access to low-cost, high-skilled labor.

If Digital Domain Group is unable to compete successfully against current or future competitors in the visual effects industry, its revenues, margins and market share could be adversely affected, any of which could significantly harm the Enlarged Group's business.

Digital Domain Group's success depends on certain key personnel

Digital Domain Group's performance to date has been and will continue to be largely dependent on the talents, efforts and performance of its senior management and key technical personnel, who generally have significant experience with its company and substantial connections and reputations within the entertainment industry. There is no guaranteed continued services of such personnel. The loss of executive officers or other key personnel could cause delays on projects and could have an adverse impact on the Digital Domain Group's client and industry connections, its business, operating results or financial condition.

Digital Domain Group's operating results may fluctuate significantly

Digital Domain Group's operating results may fluctuate as a result of a number of factors, many of which are outside of its control. Each of the risk factors described in this section, and the following factors, may affect Digital Domain Group's operating results:

(i) Digital Domain Group's ability to continue to attract clients for its services and products;

(ii) the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of Digital Domain Group's businesses, operations and infrastructure;

(iii) the results of Digital Domain Group's investments in relatively high financial risk projects, such as film co-production projects;

(iv) general economic conditions and those economic conditions specific to Digital Domain Group's industries;

(v) changes in business cycles that affect the markets in which the Digital Domain Group sell its products and services; and

(vi) geopolitical events such as war, threat of war or terrorist actions.

Digital Domain Group intends to co-produce or invest in feature film projects, which involve financial risk

As part of its growth strategy, Digital Domain Group may co-produce or invest in feature film projects that require a substantial capital investment. Digital Domain cannot guarantee the financial success of any such project because the revenue derived from the distribution of a motion picture depends primarily upon its acceptance by the public, which cannot be accurately predicted. The financial success of a motion picture also depends upon the public's acceptance of competing films, the availability of alternative forms of entertainment and leisure time activities, piracy and unauthorized copying and distribution of feature films, general economic conditions, and other tangible and intangible factors, none of which can be guaranteed.

Digital Domain may not be able to implement its strategies of entering into the film production business effectively or at all

Digital Domain Group's growth strategy depends on its ability to successfully develop visual effects-driven feature films by leveraging the talents of its artistic personnel, their experience with visual effects production and Digital Domain Group's proprietary technology. Entry into the film production business presents significant challenges and subjects its business to significant risks, including those risks set forth below. The inability to successfully manage these challenges could adversely affect Digital Domain Group's potential success in the film production business with respect to VFX-driven films. Such failures would significantly limit its ability to grow its business and could also divert significant resources from its digital production and other businesses.

Digital Domain Group's successful entry into the film production business faces various risks and challenges, including:

(i) the success of Digital Domain Group's film production business will be primarily dependent on audience acceptance of the films, which is extremely difficult to predict;

(ii) only a relatively few "hit" films account for a significant portion of total revenue in the film industry and any failure by Digital Domain Group to produce "hit" films could cause revenue generated from its proposed film production business to fall below expectations;

(iii) the production and marketing of visual effects-driven films is capital-intensive and its capacity to generate cash from its films may be insufficient to meet the anticipated capital requirements;

(iv) delays and increased expenditures due to creative problems, technical difficulties, talent availability, accidents, natural disasters or other events beyond the control of the production companies and distributors;

(v) the entrance of additional film studios into the visual effects-driven film market, which may result in increased competition for visual effects-driven film audiences and for talented computer graphics animators and technical staff;

(vi) the costs of producing and marketing feature films have steadily increased and may increase in the future, which may make it more difficult for a film to generate a profit or compete against other films;

(vii) film production is subject to seasonal variations based on the timing of theatrical motion picture and home entertainment releases and a short-term negative impact on the business during a time of high seasonal demand (such as might result from a natural disaster or a terrorist attack during the time of one of the theatrical or home entertainment releases) could have a disproportionate effect on the results for the year;

(viii) a strike by one or more of the labor unions or similar groups that provide personnel essential to the production of feature films could delay or halt its proposed film production activities;

(ix) Digital Domain Group has no experience producing or releasing feature films and the strain on its personnel from the effort required to produce such feature films and the time required for creative development of future feature films may hinder its ability to consistently release visual effects-driven feature films; and

(x) the profitable distribution of a motion picture depends in large part on the availability of one or more capable distributors who are able to arrange for appropriate advertising and promotion, proper release dates and bookings in first-run and other theaters. Any decision by those distributors not to distribute or promote one of the motion pictures which it may produce or to promote competitors' motion pictures to a greater extent than they promote Digital Domain Group's, or inability for Digital Domain Group to enter into profitable distribution arrangements with such distributors, could have an adverse effect on Digital Domain Group's proposed film production business.

Interruption or failure of Digital Domain Group's information technology systems could impair its ability to provide its services and products in an effective and timely manner, which could damage Digital Domain Group's reputation and have an adverse impact on its operating results

Digital Domain Group's future success is significantly dependent on its ability to provide visual effects services that consistently meet its clients' product development schedules. Digital Domain Group relies on its software applications, hardware and other information technology and communications systems for the development and provision of its visual effects services. Its systems are vulnerable to damage or interruption from earthquakes, hurricanes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses or other attempts to harm its systems, and similar events. Its facilities are located in areas with a high risk of major earthquakes and hurricanes and are also subject to break-ins, sabotage and intentional acts of vandalism. Even if some of its systems are not fully redundant as a result of occurrence of such events, any disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster or other unanticipated problems at Digital Domain Group's facilities could result in lengthy interruptions in its projects and its ability to deliver services. An error or defect in the software, a failure in the hardware, and a failure of its backup facilities could delay its delivery of products and services and could result in significantly increased production costs, hinder its ability to retain and attract clients and damage its brand if clients believe Digital Domain Group is unreliable. Given its reliance on the industry connections, it could also result in a decrease in Digital Domain Group's revenues and otherwise adversely affect its business and operating results.

Digital Domain Group cannot predict the effect that rapid technological change may have on its business or industry

The entertainment industry in general, and the visual effects segment thereof in particular, are rapidly evolving, primarily due to technological developments. The rapid growth of technology and shifting consumer tastes prevent it from being able to accurately predict the overall effect that technological growth may have on its potential revenue and profitability. Furthermore, because Digital Domain Group is required to provide advanced digital imagery products to continue to win business, Digital Domain Group must ensure that its production environment integrates the latest tools and techniques developed in the industry. This requires Digital Domain Group to either develop these capabilities by upgrading its own proprietary software, which can result in substantial research and development costs and substantial capital expenditures for new equipment, or to purchase third-party licenses, which can result in significant expenditures. In the event Digital Domain Group seeks to obtain third-party licenses, there is no guarantee that they will be available or, once obtained, will continue to be available on commercially reasonable terms, or at all. If Digital Domain Group is unable to develop and effectively market new technologies that adequately or competitively address the needs of these changing industries, it could have an adverse effect on its business and growth prospects.

Others may assert intellectual property infringement claims against Digital Domain Group

Companies in the visual effects segment of the entertainment industry are subject to the possibility of claims that their products, services or techniques misappropriate or infringe the intellectual property rights of third parties. Infringement or misappropriation claims (or claims for indemnification resulting from such claims) against Digital Domain Group may be asserted or prosecuted, regardless of their merit, and any such assertions or prosecutions may adversely affect its business and/or operating results. Irrespective of the validity or the successful assertion of such claims, Digital Domain Group would incur significant costs and diversion of resources relating to the defense of such claims, which could have an adverse effect on its business and/or operating results. If any claims or actions are asserted against it, Digital Domain Group may seek to obtain a license of a third-party's intellectual property rights; however, under such circumstances such a license may not be available on reasonable terms or at all.

Motion picture piracy may affect the ability to maximize Digital Domain Group's revenues

Motion picture piracy is extensive in many parts of the world. The Motion Picture Export Association, the American Motion Picture Marketing Association and the American Motion Picture Export Association monitor the progress and efforts made by various countries to limit or prevent piracy. In the past, these various trade associations have enacted voluntary embargoes on motion picture exports to certain countries in order to pressure the governments of those countries to become more aggressive in preventing motion picture piracy. In addition, the U.S. government has publicly considered implementing trade sanctions against specific countries which, in the opinion of the U.S. government, do not prevent copyright infringement of U.S.-produced motion pictures. However, future voluntary industry embargoes or U.S. government trade sanctions may not be enacted. If enacted, such trade sanctions could impact the amount of revenue that Digital Domain Group realizes from the international exploitation of feature films, depending upon the countries subject to such action and the duration of such action. If embargoes or sanctions are not enacted or if other measures are not taken, Digital Domain Group may lose an indeterminate amount of additional revenue as a result of motion picture piracy.

Digital Domain Group could be adversely affected by strikes or other union job actions

Its visual effects projects generally utilize actors, directors, and writers who are members of the Screen Actors Guild, Directors Guild of America, and Writers Guild of America, respectively, pursuant to industry-wide collective bargaining agreements. Many projects also employ members of a number of other unions, including, among others, the International Alliance of Theatrical and Stage Employees. A strike by one or more of the unions or guilds that provide personnel essential to the production of its projects could delay or halt ongoing production activities, which could materially adversely affect its business, operating results and/or financial condition.

Film production incentives and subsidies offered by foreign countries and states where Digital Domain Group does not have operations, or its failure to continue to enjoy such incentives and subsidies offered by foreign countries and states where Digital Domain Group does have operations, could affect its ability to secure work on visual effects projects

Production incentives and subsidies for feature film production are widely used throughout the industry and are important in helping film studios and production companies to offset production costs. Many countries and states have programs designed to attract feature film production. Incentives and subsidies are used to reduce feature film production costs and such incentives and subsidies take different forms, including direct government rebates, sale and leaseback transactions or transferable tax credits. As a result, film studios and production companies may send their visual effects work to companies in foreign countries and states where Digital Domain Group does not have operations in order to take advantage of the incentives and subsidies offered in such places. In addition, Digital Domain Group may enjoy film production incentives and subsidies offered by foreign countries (e.g., Canada) or states where it does have operations which may not be available in the future. Any diminution in its ability to secure work on visual effects projects due to such incentives and subsidies could have a material adverse effect on its business, operating results or financial condition.

Changes in U.S., regional or global economic conditions could adversely affect Digital Domain Group's profitability

A decline in economic conditions in the United States or in other regions of the world could lead to a decrease in discretionary consumer spending, which in turn could adversely affect demand for feature films and box office revenue. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from entertainment products such as feature films. Such events could cause a decrease in the demand for the visual effects services it offers as well as for the feature films Digital Domain Group proposes to produce, either of which would have an adverse effect on its profitability and operating results.

The valuation of the 100% equity interest in the Target Group is estimated based on a number of assumptions which may deviate from the actual figures over time

There are numerous uncertainties inherent in estimating the valuation of the 100% equity interest in the Target Group. The value of the Target Group has been independently evaluated by BMI Appraisals Limited, and the valuation includes a number of factors and assumptions made as of the date which the valuation is made. The details of the assumptions adopted in the valuation are disclosed in the valuation report on the Target Group in Appendix V to this circular. The valuation on the Target Group may require revision based on the actual operation figures afterwards. Actual operation figures and cash flow may vary from BMI Appraisals Limited's estimates on both, and such variations may be material and adverse.

Potential deterioration in the market value of the Target Group could result in the recognition of impairment losses

The valuation of the entire equity interest of the Target Group is prepared by the professional valuer. A decline in the value of the Target Group can result in the recognition of impairment losses if the management of the Group determines that such a decline in value is not temporary. If the Group's management determines that the Target Group is impaired, the book value of the Target Group is adjusted and a corresponding loss is recognized in current earnings.

REASONS FOR THE ACQUISITION

The Group is principally engaged in property investment business and trading business.

As disclosed in 2012 annual report of the Company, the Group had maintained an upward inclination of its financial performance. It achieved a turnover from continuing operations of approximately HK$184,457,000 for the year ended 31 December 2012, representing an increase of 32% as compared to the previous year of approximately HK$139,390,000. Profit from continuing operations for the year ended 31 December 2012 recorded approximately HK$5,641,000, representing an increase of 78.9% as compared to the previous year of approximately HK$3,153,000.

For the property investment business, as at the Latest Practicable Date, the Group has two shops and ten car parks in the Citicorp Centre. For the year ended 31 December 2012, it generated a turnover and segment profit of approximately HK$5.42 million and HK$4.28 million respectively, accounting for approximately 2.94% of the Group's total turnover and approximately 28.78% of the Group's segment profit for continuing operations. Based on recent trends in the rental property market in recent years, the Directors expect a steady but mild increase in the Group's income generated from its leasing business in the future. For the trading business, the Group is engaged in the trading of metal scraps (mainly copper wire) and plastic scraps among Hong Kong, Mainland China and other countries. For the year ended 31 December 2012, it generated a turnover and segment profit of approximately HK$179.04 million and HK$10.58 million respectively, accounting for approximately 97.06% of the Group's total turnover and approximately 71.22% of the Group's segment profit for continuing operations. The Group's trading business substantially relied on the global copper market. Although the global copper market sustained a fairly positive trend in year 2012, there is no guarantee that the global copper market will keep an optimistic growth rate. The future performance of the global copper market is out of the Group's control. Any fluctuation in the global copper market may adversely affect the Group's business, operation results and its financial condition. The Company is therefore looking forward to diversifying the Group's business through the Acquisition.

Not only will the Directors make continuous effort to improve the performance of the existing business, the Directors also strive to improve the business operations and financial position of the Group by proactively seeking potential investment opportunities that can diversify its existing business portfolio and broaden its source of income, and enhance value to the Shareholders.

An executive Director of the Company, Mr. Zhou, was an executive director of 家有購物有限公司 (Jiayou Home Shopping Co., Ltd.*) which has been granted an approval from the State Administration of Radio Film and Television in the PRC for carrying out trading business on television and multimedia in the PRC. He has over 18 years' experience in operation, administrative affairs and strategic planning. The other executive Director of the Company, Mr. Fan, previously worked in China Construction Bank and Bank of Communications and has more than 15 years of experience in banking industry including asset management in the PRC. Mr. Zhou and Mr. Fan will closely supervise the business of the Digital Domain Group with the assistance of other senior management of the Group. As the Acquisition will bring a new line of business which the Company has not engaged in before and the Directors have limited experience in the VFX industry, upon Completion, the Group will recruit and appoint suitable experts and management personnel to ensure continual efficient development of the Digital Domain Group through the referral of the existing management of the Digital Domain Group or recruitment agents.

As at the Latest Practicable Date, the Company proposes to appoint Mr. Zhou as a director of the Target Company to oversee the business operations of the Digital Domain Group and will continue to identify suitable candidates if necessary.

The Acquisition provides an opportunity for the Group to re-enter the media related business which ceased in 2010 by tapping into the VFX market and to generate diversified income and additional cash flow for the Group's continuous development.

Today, 3D films are popular and the demand for 3D film has increased substantially. According to the Motion Picture Association of America U.S. Theatrical Market: 2012 Statistics, in the U.S./Canada market, there were only 2 3D films released in 2003, representing approximately 0.44% of the total films released in the same year, but in 2012, there were 36 3D films released, representing approximately 5.32% of the total films released in the same year. The number of digital 3D screens in the U.S./Canada also increased substantially from 13,490 in 2011 to 14,734 in 2012, representing an increase of approximately 9.22%. Furthermore, among top 20 films by the U.S./Canada box office earned in 2012, 11 of which were 3D films. Meanwhile, the combination of creative storytelling and cutting-edge digital imagery increasingly defines the success of new feature films. The demand for 3D films has attracted more film studios and producers to engage in 3D films, which involves large production budgets for VFX products, and in turn drives the rapid and constant growth of the VFX market.

As forecasted by ZenithOptimedia, the aggregate size of advertising expenditure in North America was approximately US$171.9 billion in 2012. This market is expected to grow to approximately US$177.9 billion in 2013, at an annual 3.5% growth rate, to approximately US$185.8 billion in 2014, at an annual 4.4% growth rate, and to approximately US$194.7 billion in 2015, at an annual 4.8% growth rate. Companies that produce VFX in advertising and market solutions play an important and rapid expanding role in the development and production of marketing content. The demand for entertainment content for distribution in all forms of media and the proliferation of new channels for marketing goods and services has driven the growth of the utilization of VFX.

* *for identification purpose only*

Having considered the prospects of VFX market and the development potential of Digital Domain Group, it is expected that the demand for VFX for both feature film and advertising will increase in the future. After reviewing the business plan of the Digital Domain Group, the Directors believe that the Digital Domain Group will benefit from the implementation of stringent cost control measures and outsourcing strategies. Besides, it is the global climate to expand business to China to provide continuing economic development. Having Beijing Galloping Horse as its strategic ally in China, and backed by its cutting-edge VFX production technology, the Directors are optimistic about its business expansion to China and believe the business plan is feasible. Based on the above, the Directors consider that the Acquisition represents a good investment opportunity for the Company and would generate stable source of diversified income to the Group.

The Company has undertaken a due diligence review of the legal, financial, and business aspects of the Target Group and engaged relevant professional parties for preparation of reports. The financial aspects of the Target Group is disclosed in the accountants' report on the Target Group in Appendix II to this circular. The valuation report of the entire equity interest of the Target Group is disclosed in the valuation report on the Target Group in Appendix V to this circular. The business of the Target Group is disclosed in the section "business of the Digital Domain Group" in Letter from the Board of this circular.

In view of the foregoing, the Directors believe that the terms of the Sale and Purchase Agreement are fair and reasonable and the Acquisition (including the issue of the Convertible Notes) is in the interests of the Company and the Shareholders as a whole.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

For illustrative purpose only, set below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; (ii) immediately after issue and allotment of the Conversion Shares upon conversion of the Convertible Notes in full at the initial Conversion Price assuming there being no other change in the shareholding structure and share capital of the company from the Latest Practicable Date up to the date of conversion:

Shareholders	**As at the Latest Practicable Date**		**After allotment of the maximum number of Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price** *(Note 3)*	
	Number of Shares	*%*	*Number of Shares*	*%*
Wise Sun Holdings Limited *(Note 1)*	2,610,395,180	26.55	2,610,395,180	13.30
Fortune Source International Limited *(Note 2)*	1,125,000,000	11.44	1,125,000,000	5.73
Harmony Energy Limited	–	–	4,762,800,000	24.26
Gegen Tana	–	–	5,037,200,000	25.66
Public Shareholders	6,097,290,588	62.01	6,097,290,588	31.05
Total	**9,832,685,768**	**100.00**	**19,632,685,768**	**100.00**

Note:

(1) Wise Sun Holdings Limited is wholly owned by Bright Ace Holdings Limited. Mr. Zhou Jian, being an executive Director, owns 100% share interests in Bright Ace Holdings Limited.

(2) Fortune Source International Limited is wholly owned by Zhang Xiaoqun.

(3) The Company will not be obliged to issue any Conversion Shares pursuant to any conversion notice if the Company, acting reasonably, comes to a view that the issue of Conversion Shares pursuant to such conversion will (i) cause the Shares in the hands of "public" (as defined in Rule 8.24 of the Listing Rules) to fall below the 25% or such other minimum percentage of the total issued share capital of a listed issuer as prescribed under the Listing Rules that must remain in public hands, or (ii) result in the aggregate voting rights in the Company held by it and parties acting in concert with it as defined under the Takeovers Code exceeding 29.9%, or if applicable, the maximum percentage (to one decimal place) of the Shares it could then acquire without being required to make a mandatory general offer for the Shares under the Takeovers Code. Given the aforesaid conversion restriction, there will be no change of control of the Company.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the Digital Domain Group will become indirect non wholly-owned subsidiaries of the Company. The accounts of the Target Group will be consolidated with those of the Group.

Assets

According to the 2012 annual report of the Company, as at 31 December 2012, the audited consolidated total assets of the Group amounted to approximately HK$427,777,000.

As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2012, the unaudited pro forma consolidated total assets of the Group would be approximately HK$1,012,573,000, representing an increase in the total assets by approximately HK$584,796,000.

Liabilities

According to the 2012 annual report of the Company, as at 31 December 2012, the audited consolidated total liabilities of the Group amounted to approximately HK$87,981,000.

As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2012, the unaudited pro forma consolidated total liabilities of the Group would be approximately HK$508,060,000, representing an increase in the total liabilities by approximately HK$420,079,000.

Earnings

According to the 2012 annual report of the Company, the Group recorded an audited consolidated profit of approximately HK$6,218,000 for the year ended 31 December 2012.

In light of the potential future prospects of the Target Group, the Directors are of the view that the Acquisition would have a positive impact on the future earnings of the Enlarged Group in the long run.

Gearing

According to note 32 to the financial statements of 2012 annual report of the Company, the Group's gearing ratio was determined as the proportion of net debt to equity. Net debt equals to the total bank borrowings and obligations under finance leases (if any) minus bank balances. As at 31 December 2012, the Group had bank borrowings of approximately HK$70,796,000, obligations under finance leases of nil and bank balance of approximately HK$238,873,000. Therefore, gearing ratio is not applicable to the Group.

As set out in Appendix IV to this circular, assuming the Completion had taken place on 31 December 2012, the Enlarged Group has bank borrowings of approximately HK$70,796,000, obligations under finance leases of approximately HK$5,070,000 and bank balance of approximately HK$224,636,000. Therefore, gearing ratio is not applicable to the Enlarged Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Upon Completion, the Enlarged Group will be principally engaged in (i) property investment business; (ii) trading business; and (iii) visual effect production.

(i) Property investment segment

The Group owns two shops at the ground floor and ten car parks in the Citicorp Centre. All shops and majority of car parks were leased out as at 31 December 2012. For the year ended 31 December 2012, the segment reported a turnover and profit of approximately HK$5,416,000 (2011: HK$5,100,000) and HK$4,278,000 (2011: HK$4,053,000) respectively both with a mild increase of 6% compared to the prior year. The turnover accounted for 3% of the Group's overall turnover during the year ended 31 December 2012. Driven by the stable rental income, the turnover and profit of this segment have grown steadily and contributed as a stable income stream for the Group. The Group would review the existing investment properties portfolio constantly and continue to explore potential profitable investments in Hong Kong and/or the PRC. The Company will continue to lease its properties and from time to time search in the market for any investment opportunities in order to enhance the performance of the portfolio. As at the Latest Practicable Date, the Company had not identified any suitable property as an investment target.

(ii) Trading segment

This segment engages in the trading of metal scraps (e.g. copper wire) and plastic scraps among Hong Kong, Mainland China and other countries/regions ("**Trading Segment**"). During the year ended 31 December 2012, the Group remained focused on enhancing the business of the Trading Segment. The segment recorded a turnover of approximately HK$179,041,000 (2011: HK$134,290,000) for the year ended 31 December 2012, reflecting an uplift of 33% over last year and a significant contribution of 97% of the turnover of the Group. The profit of the Trading Segment also rose by 22% to HK$10,584,000 (2011: HK$8,698,000).

Despite the slowing economic activities worldwide, the global copper market sustained a fairly positive trend for the year of 2012. The Trading Segment managed to bolster its performance under these circumstances. The Group would make relentless effort to boost the business and optimize the efficiency and product varieties of the Trading Segment so as to lay a solid foundation for the future growth of the Group. The Company intends to continue the operation of Trading Segment at its current scale.

(iii) Visual effect production segment

For details of the business prospects of the Target Group, please refer to the section headed "Information on the Target Group" in this letter.

Despite the global economic uncertainties in the year of 2013, the Group will continue to strive for stable growth of its existing and new business. Active exploration of new potential business opportunities will be the primary goal and task of the Group in order to achieve a promising value to shareholders and investors of the Company. At present the Group plans to devote additional resources in the entertainment related businesses and may cooperate with different partners to explore the relevant investment opportunities. However no concrete plan has been made as at the Latest Practicable Date. When the investments materialize, the Company will make further announcement as and when appropriate in accordance with the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios (calculated in accordance with Chapter 14 of the Listing Rules) exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements.

SGM

The SGM will be held on at the Conference Room, Room 1818, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Wednesday, 3 July 2013 at 10 a.m., for the purpose of considering, and if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Notes and the issue and allotment of the Conversion Shares). A notice convening the SGM is set out on pages 137 to 138 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the SGM or any adjournment thereof if you so wish.

As disclosed in the section "Parties" above, Mr. Fan and Mr. Zhou have voluntarily abstained from voting on the Board resolutions approving the transactions contemplated under the Sale and Purchase Agreement. Wise Sun Holdings Limited, which is beneficially owned by Mr. Zhou and held 2,610,395,180 Shares as at the Latest Practicable Date, will abstain from voting at the SGM. Furthermore, the Company has appointed the Independent Financial Adviser to advise the Shareholders in relation to the Acquisition.

RECOMMENDATIONS

The Directors consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Notes and the issue and allotment of the Conversion Shares) are in the interest of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the SGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Convertible Notes and the issue and allotment of the Conversion Shares).

FURTHER INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

By Order of the Board
SUN INNOVATION HOLDINGS LIMITED
Zhou Jian
Chairman

The following is the full text of the letter of advice to the Shareholders from the Independent Financial Adviser which has been prepared for inclusion in this circular.

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

To the Shareholders of Sun Innovation Holdings Limited

14 June 2013

Dear Sirs,

**MAJOR TRANSACTION
INVOLVING THE ISSUE OF CONVERTIBLE NOTES FOR
ACQUISITION OF VISUAL EFFECT PRODUCTION BUSINESS**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Shareholders in respect of the Acquisition, including the terms of the Sale and Purchase Agreement and the Convertible Notes, particulars of which, among other things, are set out in the letter from the Board (the "**Letter from the Board**") of the circular of the Company dated 14 June 2013 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular.

On 27 March 2013, the Company and the Purchaser entered into the Sale and Purchase Agreement with the Vendors and Mr. Che, pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to purchase the Sale Shares at a consideration of HK$392 million. In addition, Harmony Energy Limited shall assign to the Purchaser all the right, title and interest in the Shareholder's Loan at its principal amount outstanding at Completion.

As the applicable percentage ratios (calculated in accordance with Chapter 14 of the Listing Rules) exceed 25% but are less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirements.

As set out in the Letter from the Board, Mr. Fan, an executive Director, has occasionally assisted in certain administrative work for Ever Union Asset Management Limited, a wholly-owned subsidiary of Ever Union Capital Limited, from August 2010 to March 2013 through the introduction of a friend. Mr. Fan has not entered into any employment contract nor has received any remuneration from Ever Union Asset Management Limited or Ever Union Capital Limited. Mr. Zhou, an executive Director and the chairman of the Company, was a director of the Target Company from 19 September 2012 to 26 October 2012. Mr. Zhou was experienced in television and multimedia businesses and therefore he was invited by Mr. Che to oversee the business of the Target Company. Mr. Zhou introduced this investment opportunity to the Board for consideration. To avoid conflict of interests, Mr. Zhou resigned as the director of the Target Company on 26 October 2012. The MOU was then entered into by the Company and the Vendors on 18 November 2012 to provide the Company the right to conduct due diligence review on the Target Group. Mr. Fan and Mr. Zhou have voluntarily abstained from voting at the Board meeting in respect of the Sale and Purchase Agreement.

In addition, Wise Sun Holdings Limited, which is beneficially owned by Mr. Zhou and held 2,610,395,180 Shares, representing approximately 26.55% of the issued share capital of the Company as at the Latest Practicable Date, will also abstain from voting at the SGM. As at the Latest Practicable Date, to the best knowledge of the Directors, save as aforesaid, no other Shareholder has a material interest in the Acquisition by virtue of which such Shareholder and its associates are required under the Listing Rules to abstain from voting at the SGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinions and representations provided to us by the Company, its representatives, its management (the "**Management**") and the Directors for which they are solely and wholly responsible and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular.

We have assumed that all statements of belief, opinion and intention made by the Company, its representatives, the Management and the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinion.

Our review and analyses were based upon the information and facts contained or referred to in the Circular, the information provided by the Company and our review of relevant public information and discussion with the Management. We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice. In addition, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors. We, however, have not conducted any independent in-depth investigation into the business, affairs, financial position or prospects of the Group, the Target Group, the Guarantor or their respective subsidiaries or associates, nor have we carried out any independent verification of the information supplied.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or the Target Group and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on the Target Group (the "**Valuation Report**") as set out in Appendix V to the Circular. The Valuation Report was prepared by BMI Appraisals Limited ("**BMI**"). Since we are not experts in the valuation of business/company such as the Target Group, we have relied solely upon the Valuation Report for the market value of the Target Group as at 31 January 2013 (the "**Valuation**"). Shareholders should also note that since the Valuation involves various bases and assumptions, it may or may not accurately reflect the true market value of the Target Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into account the following principal factors and reasons in arriving at our opinion and recommendation with regard to the Acquisition:

1. Background of and reasons for the Acquisition

(a) Information on the Group

(i) Business of the Group

The Group is principally engaged in property investment business (the "**Property Investment Segment**") and trading business (the "**Trading Segment**"). For the Property Investment Segment, the Group owns two shops and ten car parks in the Citicorp Centre. All shops and majority of car parks were leased out for rental income as at the Latest Practicable Date. The Trading Segment is mainly engaged in the trading of metal scraps, including mainly copper wire and plastic scraps among Hong Kong, Mainland China and other countries.

(ii) Financial performance and position of the Group

Set out below is the financial information of the Group extracted from the Company's annual report for the financial year ended 31 December 2012 (the "**2012 Annual Report**"):

Extracted consolidated income statement

	For the year ended 31 December 2012 (audited) *HK$'000*	2011 (audited) *HK$'000*
Sales of goods from the Trading Segment	179,041	134,290
Rental income from the Property Investment Segment	5,416	5,100
Total Revenue	184,457	139,390
Gross profit	16,748	13,893
Operating loss *(Note 1)*	(4,723)	(6,855)
Profit for the year from continuing operations	5,641	3,153
Profit for the year	6,218	1,734

Note 1: Operating loss is the loss excluding finance costs, losses on deregistration and dissolution of subsidiaries (if any), fair value gains on investment properties, and taxation.

Source: 2012 Annual Report

For the year ended 31 December 2012, the Trading Segment recorded a turnover of approximately HK$179.0 million, representing a significant increase of approximately 33.3% as compared to the preceding financial year ended 31 December 2011 and a substantial contribution of approximately 97.1% of the turnover of the Group. The increase in the turnover for the Trading Segment was mainly due to the positive trend for the global copper market during 2012. As stated in the Letter from the Board, there is no guarantee that the global copper market will keep an optimistic growth rate, and any fluctuation in the global copper market may adversely affect the Group's business, operation results and its financial condition. The Directors considered that the Company will continue the operation of Trading Segment at its scale.

For the year ended 31 December 2012, the Property Investment Segment reported a turnover of approximately HK$5.4 million, representing a moderate increase of approximately 6.2% as compared to the preceding financial year ended 31 December 2011, and a contribution of approximately 2.9% of the turnover of the Group. As stated in the Letter from the Board, the Directors expect to have a steady and mild increase in the income generated from its Property Investment Segment in the future. The Group will continue to lease its properties, and from time to time search in the market for any investment opportunities for suitable properties. As at the Latest Practicable Date, the Company had not identified any suitable property as an investment target.

The total revenue of the Group for the year ended 31 December 2012 increased by approximately 32.3% as compared to the preceding financial year. Although the Group recorded gross profit of approximately HK$16.7 million and HK$13.9 million for the two years ended 31 December 2012 respectively, we noted that the Group actually recorded an operating loss of approximately HK$4.7 million and HK$6.9 million for the two years ended 31 December 2012 respectively. The overall profit from continuing operations of approximately HK$5.6 million and HK$3.2 million for the two years ended 31 December 2012 respectively were mainly attributable to the fair value gains on investment properties (which were not recurring in nature) of approximately HK$12.2 million and HK$14.4 million recorded for the two years ended 31 December 2012 respectively.

Based on our discussion with the Management, we understand that the Directors would continue to improve the performance of existing business, and at the same time, proactively explore potential investment opportunities that could diversify its existing business portfolio and broaden its source of income.

Extracted consolidated balance sheet

The following table summarises the key financial positions of the Group as at 31 December 2011 and 2012:

	As at 31 December 2012 (audited) *HK$'000*	**As at 31 December 2011** (audited) *HK$'000*
Non-current assets	145,311	133,465
Current assets	282,466	218,050
Current liabilities	23,583	18,507
Net current assets	258,883	199,543
Net assets	339,796	332,009

Source: 2012 Annual Report

As at 31 December 2012, the Group had non-current assets of approximately HK$145.3 million, which was mainly comprised of investment properties of approximately HK$144.6 million, representing approximately 99.5% of the non-current assets. Among the current assets, bank balances and cash amounted to approximately HK$238.9 million, which represents approximately 84.6% of the Group's current assets as at 31 December 2012. The current assets of the Group amounted to approximately HK$282.5 million as at 31 December 2012, representing an increase of approximately 29.5% as compared with that as at 31 December 2011.

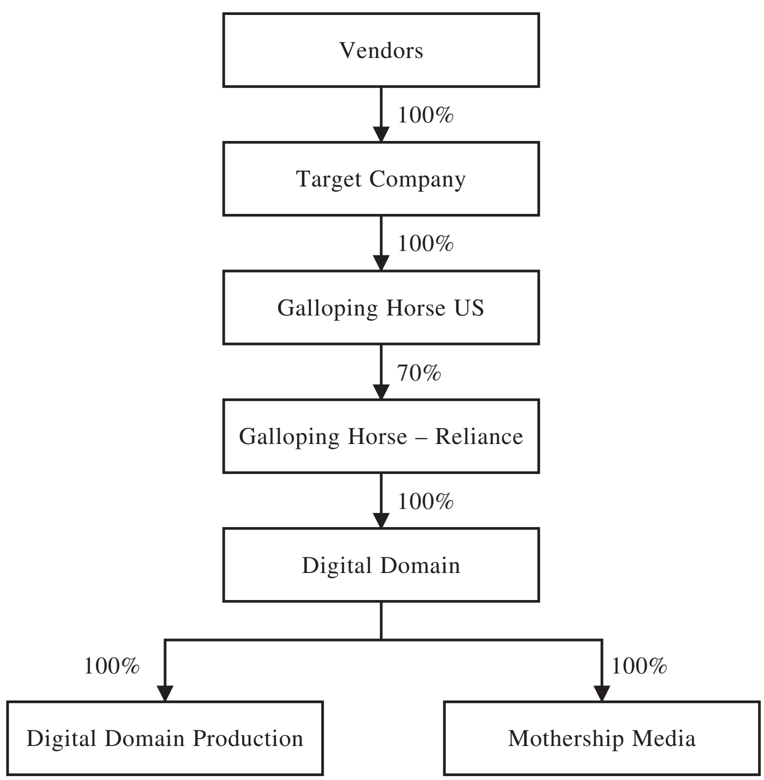
As at 31 December 2012, the Group's current liabilities amounted to approximately HK$23.6 million, which was mainly comprised of trade payables, other payables and accruals of approximately HK$16.1 million and bank borrowings of approximately HK$7.4 million. The Group's net current assets increased from approximately HK$199.5 million as at 31 December 2011 to approximately HK$258.9 million as at 31 December 2012. Net assets value as at 31 December 2012 was approximately HK$339.8 million as compared to that of approximately HK$332.0 million as at 31 December 2011.

(b) Information on the Target Group

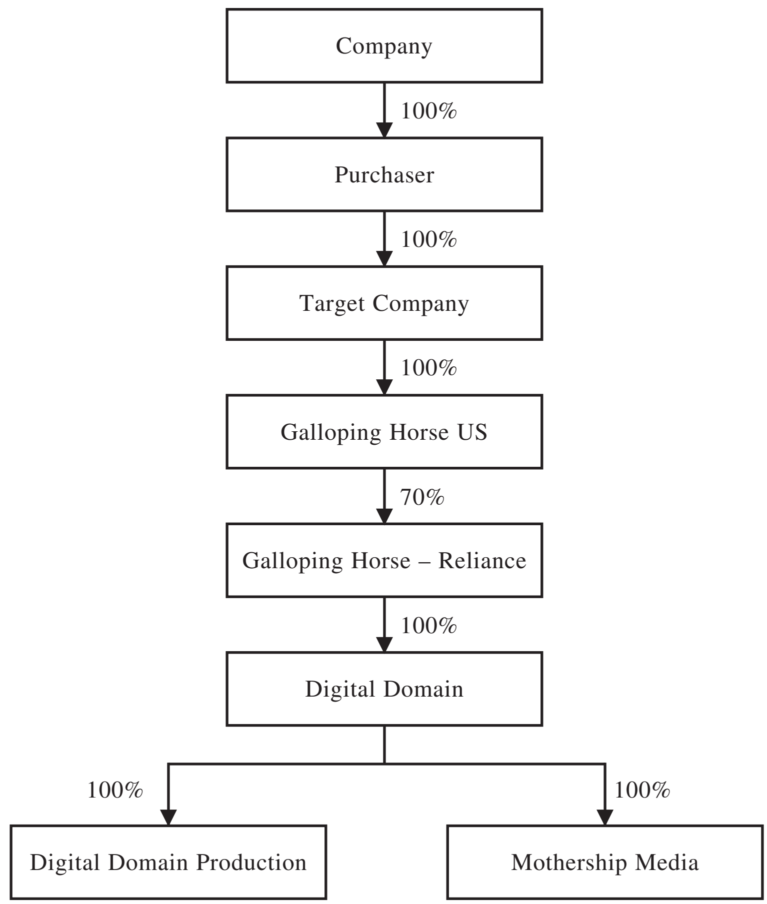
(i) Shareholding structure of the Target Group

Set out below is the shareholding structure of the Target Group:

As at the Latest Practicable Date:



Upon Completion:



(ii) Overview of the Target Group

The Target Company

The Target Company was incorporated in the British Virgin Islands with limited liability on 6 September 2012, with 10,000 shares being issued and fully paid up. As at the Latest Practicable Date, its principal asset is the entire issued share capital in Galloping Horse US.

Galloping Horse US

Galloping Horse US is a limited liability company formed in the state of Delaware, U.S. on 21 November 2012 and its principal business is investment holding. As at the Latest Practicable Date, its principal asset is 70% of the issued share capital in Galloping Horse – Reliance.

Galloping Horse – Reliance

Galloping Horse – Reliance is a limited liability company formed in state of Delaware, U.S. on 17 September 2012 and its principal business is investment holding. As at the Latest Practicable Date, its principal asset is the entire issued share capital in Digital Domain.

Digital Domain

Digital Domain is a corporation incorporated in the state of Delaware, U.S. on 25 September 2012. The principal assets of Digital Domain are the entire issued share capital in each of Digital Domain Production and Mothership Media.

Digital Domain Production

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

Mothership Media

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

Based on our discussion with the Management, we understand that the establishment of the entities comprising the Target Group was for the purpose of acquisition of certain assets from a number of subsidiaries of Digital Domain Media Group, Inc. ("**DDMG**"). The shares of DDMG were originally traded on the New York Stock Exchange. On 11 September 2012, DDMG filed for Chapter 11 bankruptcy protection which was mainly due to, among others, liquidity issues. Its shares were subsequently delisted from the New York Stock Exchange. Digital Domain Group is consisted of Digital Domain, Digital Domain Production, and Mothership Media, which acquired and currently possesses the relevant assets acquired from DDMG, including the rights in certain contracts and film projects, rights in real estate leases, fixed assets and equipment, intellectual property registrations, intangible properties and all related rights, accounts receivable, etc. relating to the business of digital production and animation.

The key rights in contracts and film projects for the Digital Domain Group's business include the rights to the related physical materials, all rights of use, display, publication, reproduction, distribution, performance and rights to create derivative works and all those contracts entered into in connection with the development, pre-production, postproduction or exploitation of the film projects.

The key intellectual and intangible property for the Digital Domain Group's business includes (i) trademarks, internet domain names and all registrations of and applications to register any of the foregoing; (ii) copyright in original works of authorship, software and applications, and registrations and applications therefor; (iii) all rights of use, distribution, performance and rights to create derivative works; and (iv) proprietary or confidential know-how, tools, patents and trade secrets etc.

The major components of the intangible assets included the "Digital Domain" trademark, proprietary software and participation rights. The "Digital Domain" trademark is registered in various jurisdictions and plays an essential role in the business of the Digital Domain Group. It represents high quality VFX production services that the Digital Domain Group provides and assists the Digital Domain Group to expand its customers base. The proprietary software mainly represented internally developed software used in the VFX production, key parts of which are subject of two registered patents and two pending patent applications. The Company understands from the Vendors that DDMG did not consider it necessary to seek full copyright or patent registration for all its proprietary software. The participation rights represented contractual rights of profit sharing on pre-determined percentages from the movies "Ender's Game" and "Titanic" which are not registrable as intellectual property in the U.S.

The business of the DDMG Group thereafter underwent a series of restructuring in accordance with the United States' Bankruptcy Code before those assets of the DDMG Group were acquired by the Digital Domain Group. As stated in the Letter from the Board, DDMG is not part of the Target Group, and the assets comprised in the Target Group were sold to the Target Group pursuant to a court-sanctioned bankruptcy sale order. Therefore, any future development of bankruptcy proceedings in relation to DDMG is not expected to have any material impact on the Acquisition, the Target Group and the Enlarged Group.

(iii) Business of the Digital Domain Group

As disclosed in the Letter from the Board, Digital Domain Group is a leading provider of VFX for major motion picture studios and advertisers. Currently, Digital Domain Group has four business segments, including (i) feature films; (ii) commercial production; (iii) co-production; and (iv) digital human business.

As set out in the Letter from the Board, although the Digital Domain Group is newly incorporated in 2012, it has retained its predecessor's senior management, creative teams and technical teams of the DDMG Group for the VFX production. In addition, it holds certain contracts entered into by DDMG with the major studios and acquired the major assets from DDMG including certain fixed assets, intellectual and intangible property. Despite its short operating history, Digital Domain Group is capable of the production of high level VFX. Furthermore, Digital Domain Group has benefited from the established track record of the DDMG Group in the movie industry.

Feature Films

Digital Domain Group is one of the largest VFX providers in the entertainment industry. Digital Domain Group is fully equipped with digital film cameras, high performance computers, laptops and workstations and is capable of managing the entire process of development and production of VFX for large-scale action motion pictures. Besides, Digital Domain Group carries out a small amount of short term contract work, which provides the opportunity to smoothen its workflow between projects and utilize resources that might otherwise be idle until the next large-scale projects begins.

As stated in the Letter from the Board, the creative and technical teams of Digital Domain Group have over a decade of experience in VFX production for feature films. They produced VFX for some of the most visually stunning films, including for example, Thor, TRON: Legacy, the Transformers trilogy, The Curious Case of Benjamin Button, Apollo 13 and Titanic. Digital Domain Group is generally capable of handling eight to ten motion pictures per year. Based on our review of certain contracts of Digital Domain Group, as at the Latest Practicable Date, Digital Domain Group had signed several production contracts for feature film works, including Ender's Game, Oblivion, Maleficent, Iron Man III, and Black Sky, which expected to be completed in 2013 and 2014. Further details of some of the awards and nominations received by feature films to recognize the VFX provided by the teams of Digital Domain Group were disclosed in the Letter from the Board.

Commercial Production

Digital Domain Group's commercial production aims at the advertising market, including (i) provision of VFX and/or animation for all advertising media such as television commercials and campaigns of related commercials and online interactive advertising; and (ii) focused on the development, creation, production and implementation of marketing solutions for brand advertisers and advertising agency clients. Its commercial production is provided across multiple media platforms, which includes television, online, print, mobile and other forms of interactive media. As set out in the Letter from the Board, the Digital Domain Group is normally capable of handling around twenty commercial projects per year.

Further details of certain award winning commercial production produced by or with contributions from the creative and technical the teams of Digital Domain Group were disclosed in the Letter from the Board.

Co-Production

Digital Domain Group has entered into an investment and production agreement with Ender's Game Holdings LLC and Odd Lot Entertainment LLC, to provide financing and production services to co-produce the VFX action movie Ender's Game. This is the first time Digital Domain Group has been engaged in the co-production of film business. Ender's Game has a production budget slightly in excess of US$100 million and is scheduled for theatrical release in the fourth quarter of 2013. Distribution services are to be provided by Summit Entertainment.

Digital Domain Group believes that its role as a key participant in a number of live-action feature film projects of major film studios and leading filmmakers presents it with opportunities to selectively co-produce large scale live-action feature films. Its increased participation may come in the form of film profit participations, premiums or bonuses based upon theatrical box office results or other criteria used to measure a film's economic success.

Co-production opportunities allow the Digital Domain Group to invest in a film's overall production budget, while playing a role in the production of digital content and integrated advertising campaigns. Such opportunities provide the ability to enhance overall profit potential from VFX projects through economic participation in the film's profits, as well as the long-term value of the company itself due to ownership of the film's intellectual property, including ancillary revenue streams. The management of Digital Domain Group intends to actively explore film co-production opportunities.

Digital Human Business

Digital Domain Group has a state-of-the-art performance capture studio that was originally constructed for producer and director Robert Zemeckis for the creation of feature films such as A Christmas Carol (2009) and Mars Needs Moms (2011). The scope of Digital Domain Group's digital production capabilities include real time performance capture and cutting edge facial capture for feature films, advertising and commercials, and video game production – are a key component of its new virtual digital human business.

(iv) Business expansion plan to the PRC

As stated in the Letter from the Board, we noted that it is the strategy of Digital Domain Group to expand its business efforts internationally. The global market for regionally produced film content is growing and that a global network of production studios is the most efficient way to create entertainment content. In particular, the Directors are of the view that there are potential opportunities for Digital Domain Group to expand into the rapidly-growing China's film market.

As a strategic move to tap into the growing China's film production market, Digital Domain has entered into a letter of intent of cooperation with北京小馬奔騰文化傳媒股份有限公司(Beijing Galloping Horse Media Co., Ltd.*) ("**Beijing Galloping Horse**"), a film and television show producer in China. We have reviewed the letter of intent of cooperation and noted that Beijing Galloping Horse has the intention to exclusively appoint Digital Domain Group to provide VFX services on all feature films, television shows and commercials that Beijing Galloping Horse produces or invests in. The cooperation will last for five years upon entering into the official cooperation agreement between Digital Domain and Beijing Galloping Horse. Given (i) the established track record of Beijing Galloping Horse as recognized in its participation in some of the reputable movies in China, including 機器俠(Metallic Attraction: Kungfu Cyborg*), 花木蘭(Mulan*), 無人區(No Man Zone*), 越光寶盒(Just Another Pandora's Box*), 美麗密令(Beauty on Duty*), etc.; (ii) Beijing Galloping Horse is one of the few leaders in the China's film production market; (iii) according to information provided by the Management, Beijing Galloping Horse has a number of movies on the pipeline, which is expected to be released in the coming few years; and (iv) as stated in the Letter from the Board, it is the global climate to expand business to China to provide continuing economic development, we concur with the Directors' view that the cooperative relationship with Beijing Galloping Horse is beneficial to Digital Domain Group's business expansion plan to the PRC.

* *for identification purpose only*

(v) Financial information of the Target Group

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

Consolidated Statement of Comprehensive Income

	For the period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013 ("the Relevant Period") *HK$' million*
Revenue	194.2
Net profit/(loss) before taxation	(76.0)
Net profit/(loss) after taxation	(82.9)

Consolidated Statement of Financial Position	**As at 31 January 2013** *HK$' million*
Total assets	396.7
Total liabilities	91.9
Net assets	304.8
Equity attributable to owners of the Target Company	213.4

Upon review of the accountants' report on the Target Group as set out in Appendix II to the Circular, the Management Discussion and Analysis on the Target Group as set out in the Appendix III to the Circular and the business plan of the Target Group provided by the Management, we have the following observation and analysis:

(i) despite the limited operating history of the Target Group (given the Target Company was established since 6 September 2012), the Target Group managed to record a revenue of approximately HK$194.2 million during the Relevant Period, which was mainly attributable to the provision of VFX services;

(ii) based on our review of the signed contracts with respect to the features films, we understand that certain revenue have been reflected in the financial results of the Target Group during the Relevant Period, and the rest is expected to contribute positively to the financial year of 2013 and 2014. The Directors considered that the revenue attributable from the production of visual effect for those contracted feature films are of high certainty;

(iii) during the Relevant Period, the Target Group recorded a loss before and after taxation of approximately HK$76.0 million and HK$82.9 million respectively. Based on our discussion with the Management, we understand that the loss-making results during the Relevant Period was mainly due to the staff cost and administrative expenses, which amounted to approximately HK$209.1 million and approximately HK$63.2 million during the Relevant Period, respectively; and

(iv) upon review of the business plan and our discussion with the Management, we understand that the Target Group has implemented a series of stringent cost control and outsourcing measures, including among others, (i) reducing the number of unutilized production employees without jeopardizing the fluency of workflow; (ii) dismissing employees who have unsatisfactory performance; (iii) in the next five years, outsourcing gradually the VFX production with relatively low technical requirements to China and India, which are fast-growing in the graphic and animation designing sector in recent years and have much lower average wages compared to the U.S.; and (iv) implementing stricter cost control on other expenditures such as equipment purchases and office supplies. The Directors considered that the above cost-saving measures will contribute positively to the financial results of the Target Group in the near future.

Based on the foregoing, we concur with the Directors' view that the loss-making position of the Target Group during the Relevant Period is not indicative of its future performance, and that the financial performance of the Target Group is expected continue to improve gradually.

In addition, we noted from the Letter from the Board that the Target Group recorded net current liabilities of approximately HK$18,131,000 as at 31 January 2013. This was due to the fact that subsequent to the end of the Relevant Period, a project with estimated sum of approximately HK$101,000,000 has been secured, for which the cost and expenses in the aggregate amount of approximately HK$22,420,000 have been charged to the profit or loss for the Relevant Period whilst no revenue has been recognised for the Relevant Period.

Taking into account of the above and the bank balances and cash of the Group as at 31 December 2012 which amounted to approximately HK$238,873,000, the Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds and presently available credit facilities, the Enlarged Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular. Based on the foregoing, we concur with the Directors' view that the net current liabilities of the Target Group as at 31 January 2013 would not have material effect on the operation of the Target Group.

(c) Reasons for the Acquisition

The Group is principally engaged in the property investment business and trading business, namely the Property Investment Segment and the Trading Segment, respectively.

As disclosed in 2012 Annual Report, the Group had maintained an upward inclination of its financial performance. Profit from continuing operations for the year ended 31 December 2012 recorded approximately HK$5.6 million, representing an increase of approximately 78.9% as compared to the previous year of approximately HK$3.2 million. Nevertheless, as discussed in the section headed "Information on the Group" in this letter, the profit from continuing operations was mainly due to the fair value gains on investment properties of approximately HK$12.2 million and HK$14.4 million for the two years ended 31 December 2012, respectively. The Group had actually recorded an operating loss (which excluded finance costs and non-recurring items, including among the others, fair value gains on investment properties) of approximately HK$4.7 million and HK$6.9 million for the two years ended 31 December 2012, respectively.

In addition, based on our review of the 2012 Annual Report and our discussion with the Management, we observed that:

(i) the European debt crisis, potential fiscal cliff in the United States of America, and economic slow-down in some emerging countries have presented potential challenges to the Trading Segment;

(ii) the commodity prices continue to be unstable in the near future which might create uncertainties to operating results for the Trading Segment; and

(iii) given the existing high reliance on the Trading Segment as the major business, any fluctuation in the global copper market may adversely affect the Group's business, operation results and its financial condition.

As stated in the Letter from the Board, the Directors would make continuous effort to improve the performance of the existing business and strive to improve the business operations and financial position of the Group by proactively seeking potential investment opportunities that can diversify its existing business portfolio and broaden its source of income, and enhance value to the Shareholders. In this connection, we consider that the Acquisition of the visual effect production business is consistent with the overall development strategy of the Group, and represented an opportunity for the Group to diversify its existing business portfolio and generate diversified source of income.

As advised by the Management, the Company proposes to appoint Mr. Zhou as a director of the Target Company and, with the assistance of other existing senior management of the Digital Domain Group, oversee the business operations of the Digital Domain Group. Mr. Zhou, was an executive director of 家有購物有限公司 (Jiayou Home Shopping Co., Ltd.*) which has been granted an approval from the State Administration of Radio Film and Television in the PRC for carrying out trading business on television and multimedia in the PRC. Mr. Zhou has over 18 years' experience in operation, administrative affairs and strategic planning. As set out in the Letter from the Board, as the Acquisition will bring a new line of business which the Company has not engaged in before and the Directors have limited experience in the VFX industry, upon Completion, the Group will recruit and appoint suitable experts and management personnel to ensure continual efficient development of the Digital Domain Group through the referral of the existing management of the Digital Domain Group or recruitment agents. Based on the above, we consider that the experience of the Directors with respect to the VFX industry might be limited. Nevertheless, given (i) the Digital Domain Group has retained its predecessor's senior management, creative teams and technical teams of the DDMG Group for the VFX production; and (ii) upon Completion, the Group has the intention to recruit and appoint suitable experts and management personnel to facilitate the business operations of the Digital Domain Group, we concur with the Directors' view that sufficient measures have been in place to ensure the continual and efficient development of the Digital Domain Group.

According to theatrical market statistics published by Motion Picture Association of America, the global box office amounted to approximately US$34.7 billion in 2012, representing a year-on-year growth rate of approximately 6.0%. The US and Canada theatrical market, which is more developed and mature, recorded modest compounded annual growth rate ("**CAGR**") of approximately 2.4% between 2007 and 2012. The international theatrical market, which

* *for identification purpose only*

includes the fast growing emerging economies such as the PRC, Brazil and Russia, achieved a relatively higher CAGR of approximately 7.6% during the same period. Considering the PRC film market alone, although it is still relatively small with total box office revenue of RMB17.07 billion (equivalent to approximately US$2.75 billion) in 2012, it is rapidly growing at an annual compounded growth rate of approximately 35.8% since 2005. According to Motion Picture Association of America, China has the world's second largest film market after the U.S.. Furthermore, as disclosed in the Letter from the Board, the demand for 3D film has grown dramatically over the past decade. The proportion of 3D films released in the U.S. or Canada market represented approximately 5.32% of the total films released during 2012, increasing from approximately 0.44% of the same during 2003. The number of digital 3D screens in the U.S. or Canada market also increased substantially from 13,490 in 2011 to 14,734 in 2012, representing an increase of approximately 9.22%. The demand for 3D films has attracted more film studios and producers to engage in 3D films, which involves large production budgets for VFX products, and in turn drives the rapid and constant growth of the VFX market. Based on the above information, the Directors expected that the international movie markets, in particular the PRC movie market, would continue to grow steadily in the near future, which would in turn be beneficial to the VFX market.

As set out in the Letter from the Board, ZenithOptimedia forecasted that the aggregate size of advertising expenditure in North America was approximately US$171.9 billion in 2012 and the market is expected to grow to approximately US$194.7 billion in 2015, representing a CAGR of approximately 4.2%. Therefore, companies that produce VFX in advertising and market solutions play an important and rapid expanding role in the development and production of marketing content. The demand for entertainment content for distribution in all forms of media and the proliferation of new channels for marketing goods and services has driven the growth of the utilization of VFX. Given the positive outlook above, the Directors are of the view that it could benefit the commercial production business (which aims at the advertising market) of the Target Group.

Based on our discussion with the Management and upon our review of relevant information, we understand that the teams of Digital Domain Group have over a decade of experience in VFX production for feature films and have been formally recognized with some of the most recognizable awards and nominations in the industry, including among others, awards issued by the Academy of Motion Picture Arts and Sciences, Academy Awards for Best Visual Effects and awards for Scientific and Technical Achievement. Details of which have been set out in full in the Letter from the Board. We also noted that the teams of Digital Domain Group have also produced VFX for some of the most visually stunning films, including for example, the Transformers trilogy, The Curious Case of Benjamin Button, Apollo 13 and Titanic. In addition, based on our review of signed production contracts, we noted that the teams have successfully secured some of the large-scale visual effect production projects for feature films during 2013, including for example, Ender's Game, Oblivion, Maleficent, Iron Man III and Black Sky.

Based on the foregoing, particularly taking into account that:

(i) the Acquisition is in line with the Group's development strategy to diversify its existing business portfolio and broaden its source of income;

(ii) the international movie markets and the advertising market would continue to grow steadily in the near future, which would be positive and beneficial to the VFX market;

(iii) the Group's intention to recruit and appoint suitable experts and management personnel to facilitate the business operations of the Digital Domain Group upon Completion;

(iv) the experienced and proven track record of the teams of Digital Domain Group in the VFX industry; and

(v) the existing production pipelines with signed contracts for large-scale visual effect production projects.

We concur with the Directors that the Acquisition (although not in the ordinary and usual course of business of the Group) represents an investment opportunity which could possibly enhance the long-term development of the Group and is commercially justifiable.

2. Key terms of the Sale and Purchase Agreement

(a) Assets to be acquired

(i) Sale Shares, representing 100% of the issued share capital of the Target Company, are held by the Vendors as follows:

	No. of Sale Shares	**Shareholding in the Target Company**
Harmony Energy Limited	4,860	48.6%
Gegen Tana	5,140	51.4%
Total	**10,000**	**100.0%**

(ii) Shareholder's Loan outstanding as at the Completion, which is interest free and repayable on demand. As at 31 January 2013, the outstanding principal amount of Shareholder's Loan is approximately HK$15.64 million and the Sale and Purchase Agreement provides that the Shareholder's Loan to be acquired is subject to the maximum amount of US$3 million (equivalent to approximately HK$23.28 million) unless otherwise agreed by the Purchaser in accordance with the Sale and Purchase Agreement.

(b) Consideration

(i) The Consideration for the Sale Shares will be HK$392 million which is to be satisfied by the issue of the Convertible Notes in the aggregate principal amount of HK$392 million to the Vendors to be apportioned as to the principal amount of HK$190.512 million to Harmony Energy Limited and the principal amount of HK$201.488 million to Ms. Gegen Tana.

(ii) The Consideration for the Shareholder's Loan will be an amount equal to the principal amount of the Shareholder's Loan outstanding as at Completion subject to the maximum amount of US$3 million (equivalent to approximately HK$23.28 million) unless otherwise agreed by the Purchaser in writing in accordance with terms in the Sale and Purchase Agreement. The cash portion of the Consideration will be financed by the Group's internal resources.

As set out in the Letter from the Board, the Consideration was arrived at after arm's length negotiation between the Company and the Vendors and was determined with reference to the preliminary valuation of the entire equity interest of the Target Group of around HK$420 million as at 31 January 2013 prepared by BMI and the future prospects of visual effect market as discussed in the section "Reasons for the Acquisition". The finalized valuation of the entire equity interest of the Target Group amounted to HK$426 million as at 31 January 2013, details of which are set out in Appendix V to the Circular. In this connection, the Consideration for the Sale Shares represented a discount of approximately 8.0% to the finalized valuation of the entire equity interest of the Target Group.

Based on our review of the Accountants' Report set out in Appendix II to the Circular, we noted that the equity attributable to owners of the Target Company amounted to approximately HK$213.4 million as at 31 January 2013 (the "**Attributable NAV**") and the consideration for the acquisition of certain assets from DDMG was approximately HK$241.4 million ("**Original Acquisition Cost**"). We noted that the Consideration for the Sales Shares represented a significant premium over the Attributable NAV and Original Acquisition Cost. Nevertheless, we considered that neither the Attributable NAV nor the Original Acquisition Cost could reflect the future earning capabilities of the business of the Target Group.

We are of the view that it is a usual commercial practice for the parties of a transaction to appoint an independent professional valuer to provide a valuation on the target entity as a basis for an arm's length negotiation on the consideration. Having considered that the Valuation Report was prepared by BMI which is an independent professional valuer, we considered that the Valuation Report is a fair and reasonable basis for determination of the Consideration. In assessing the fairness and reasonableness of the Consideration, we have reviewed the Valuation Report set out in Appendix V to the Circular prepared by an independent professional valuer, BMI.

According to the Valuation Report and based on our discussion with BMI, we understand that BMI has considered three generally accepted approaches, namely the cost approach, market approach and income approach, in deriving the valuation of the entire equity interest of the Target Company. BMI considered that, the cost approach and market approach are not appropriate for the valuations of the Target Group given (i) the market approach is difficult to apply since companies in similar industry may not be directly comparable in terms of their business models and stage of development; and (ii) the cost approach does not reflect the future earning capabilities of the business of the Target Group. In this regard, BMI considers that the income approach is the most appropriate valuation approach for the valuation of the Target Company. Taking into account the characteristics and business nature of the VFX industry, which are largely dependent on talents and key technical personnel, and given the availability of some contracted large-scale production projects which will create a foreseeable future income streams, we concur with BMI that the income approach is an appropriate valuation approach for valuing the equity interest of the Target Company. Under the income approach, the Discounted Cash Flow ("**DCF**") method was adopted. In applying the DCF method, the free cash flows for each year in the future were determined. The results were then discounted using a discount rate to determine the present value of the free cash flows.

When using DCF to estimate the present value of cash flows generated from the Target Group, a discount rate has to be determined in discounting future cash flows. We note that BMI has adopted a discount rate of 17.17% (the "**Discount Rate**") in the DCF model to arrive at the Valuation. The Discount Rate is based on the estimated weighted average cost of capital ("**WACC**"), which comprises two components including the cost of equity and cost of debt. The unlevered cost of equity for the Valuation was developed through the application of the capital asset pricing model, which is the most commonly adopted method of estimating the required rate of return for equity. We note that BMI has taken into consideration, among others, (i) risk free rate; (ii) market risk premium; (iii) unlevered beta of the selected comparable companies which are public listed companies engaging in the same business of Digital Domain Group (the "**Comparable Companies**"); and (iv) the weights of debt of the Comparable Companies, in arriving at the Discount Rate. Having taken into account these factors, BMI considers the Discount Rate used to arrive at the Valuation to be fair and reasonable. We have reviewed the analysis prepared by BMI in determining the Discount Rate and discussed with BMI on the reasonableness of the parameters used in the calculation of the Discount Rate. We understand that the parameters of the Discount Rate (including, among other things, the risk free rate, unlevered beta, equity risk premium, size premium and company specific premium) are determined with reference to the publicly available data adjusted by company specific risk and based on the professional judgement and internal research of BMI. Therefore, we have no reason to doubt the fairness and reasonableness of using such rate.

In assessing the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Report, we noted that BMI has made various general and particular assumptions for the valuations of the equity interests of the Target Company, details of which are set out in the Appendix V to the Circular. We have reviewed the Valuation Report and the underlying financial model, and have also taken the following steps as our independent due diligence on the appraisal value of the Target Company prepared by BMI, including:

(a) discussed with BMI to walk through the DCF model with its underlying basis and assumptions, particularly, the key forward-looking assumptions, such as the revenue estimates and the timing of future income from contracted and potential projects, which are derived through (i) the information and estimates provided by the Digital Domain Group; and (ii) the market research of BMI;

(b) obtained and reviewed the relevant production contracts for VFX projects on which the financial forecast is used and noted that the revenue estimates adopted in the DCF model are in line with the production contracts reviewed; and

(c) kept timely communication with BMI for our further inquiry into the model assumptions.

Based on our review of the Accountants' Report and the DCF model, we further noted that the forecasted gross profit margin adopted in the DCF model of ranging from approximately 20.1%

to 30.5% was much higher than the historical gross profit margin of approximately 5.4% during the Relevant Period. As stated in the Letter from the Board, such low gross profit margin during the Relevant Period is mainly attributable to the effects of the bankruptcy sale by DDMG Group to the Digital Domain Group as all or part of the revenue attributable to certain projects assumed from DDMG Group have been collected by DDMG Group as advance cash payment from clients before bankruptcy while certain relevant costs were incurred by the Digital Domain Group. As stated from the Letter from the Board, gross profit margin for new projects taken up by the Digital Domain Group which are currently in production has normalized as these factors no longer apply.

We consider that the assumptions for the forecasted gross profit margin adopted in the DCF model are fair and reasonable taking into account that (i) the historical gross profit margin of the Target Group was distorted due to non-recurring factors that arose in the consequence of bankruptcy sale as discussed above; (ii) as stated in the Valuation Report, the gross profit margins in the forecast period is in line with the gross profit margins of the comparable companies of Upfield Sky Group (as set out in the section headed "The Comparable Companies" in the Valuation Report) ranging from approximately 22.1% to 46.8%. Based on our review of the Valuation Report, we noted that the comparable companies selected are principally engaged in motion picture and related businesses, and therefore we consider these companies are representative for comparison purpose; and (iii) as stated in the Letter from the Board, other factors, including the revenue contribution from the new business segments, and the cost control and outsourcing measures of Digital Domain Group, are expected to contribute towards improvements in profit margins.

Upon the aforesaid due diligence on the valuation methodology, we are of the view that the principal basis and assumptions adopted for the Valuation Report are fair and reasonable.

In addition, we have performed the followings steps regarding the appraisal value of the Target Company prepared by BMI and Valuation Report pursuant to note 1(d) to Rule 13.80 of the Listing Rules:

(a) reviewed the company website of BMI and were satisfied with their experience and expertise;

(b) reviewed the terms of engagement and the scope of work of BMI and considered that the scope of their work is appropriate and without limitation; and

(c) confirmed with BMI that, save for the engagement of certain appraisals with the Company, they have no current or prior relationships with the Company, the other parties to the Acquisition and the connected persons of either the Company or another party to the Acquisition.

Given the valuation of the equity interests of the Target Company in the Valuation Report involve the use of DCF approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules. United Simsen Securities Limited, being the financial adviser to the Company, has confirmed that they have reviewed and discussed with BMI the bases and assumptions upon which the Valuation Report have been made. We understand that the Directors have engaged BDO Limited, the reporting accountants of the Company, to review its underlying cash flow forecast, so far as the arithmetical accuracy of the calculations are concerned, have been properly complied, in all material respects, in accordance with the assumptions made by the directors of the Company and set out in the Valuation Report. United Simsen Securities Limited has confirmed that the Valuation Report which constitutes a profit forecast under Rule 14.61 of the Listing Rules, have been made after due and careful enquiries according to the Letter from the Board. Reports on forecasts underlying the valuation on the Target Group from BDO Limited and United Simsen Securities Limited relating to the Valuation Report are set out as Appendix VI to this Circular.

Based on the foregoing and as the Consideration was determined by reference to the Valuation Report prepared by BMI, an independent qualified asset appraisal firm, we consider that the Consideration for the Acquisition are fair and reasonable so far as the Shareholders are concerned. Shareholders should note that the DCF method is based upon various bases and assumptions which may or may not materialize and thus the Valuation may not reflect the true and accurate value of the Target Group.

(c) Key terms of the Convertible Notes

Pursuant to the Sale and Purchase Agreement, as part of the Consideration, the Company will issue to the Vendors the Convertible Notes in the aggregate principal amount of HK$392 million upon Completion. The respective principal amounts of the Convertible Notes owned as to the Harmony Energy Limited and Ms. Gegen Tana, will be HK$190.512 million and HK$201.488 million, respectively. Principal terms of the Convertible Notes are set out in the Letter from the Board in the Circular.

The principal terms of the Convertible Notes are summarized as follows:

Issuer:	The Company
Aggregate principal amount:	HK$392 million
Interest:	Nil
Maturity Date:	The day before the second anniversary of the date of issue of the Convertible Notes or if not a Business Day, the following Business Day thereafter.
Conversion Price:	The Conversion Price of HK$0.04 per Conversion Share represents: (i) a discount of approximately 66.10% to the closing price of HK$0.118 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (ii) a discount of approximately 66.10% to the closing price of HK$0.118 per Share as quoted on the Stock Exchange on Last Trading Day;

(iii) a discount of approximately 64.41% to the average closing price of HK$0.1124 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 15.61% over the net asset value per Share of HK$0.0346 as at 31 December 2012, which is calculated based on the number of Shares of 9,832,685,768 in issue as at the Latest Practicable Date and the net assets of HK$339,796,000 of the Company as at 31 December 2012;

(v) a discount of approximately 51.63% to the average closing price of HK$0.0827 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days prior to the date of the MOU.

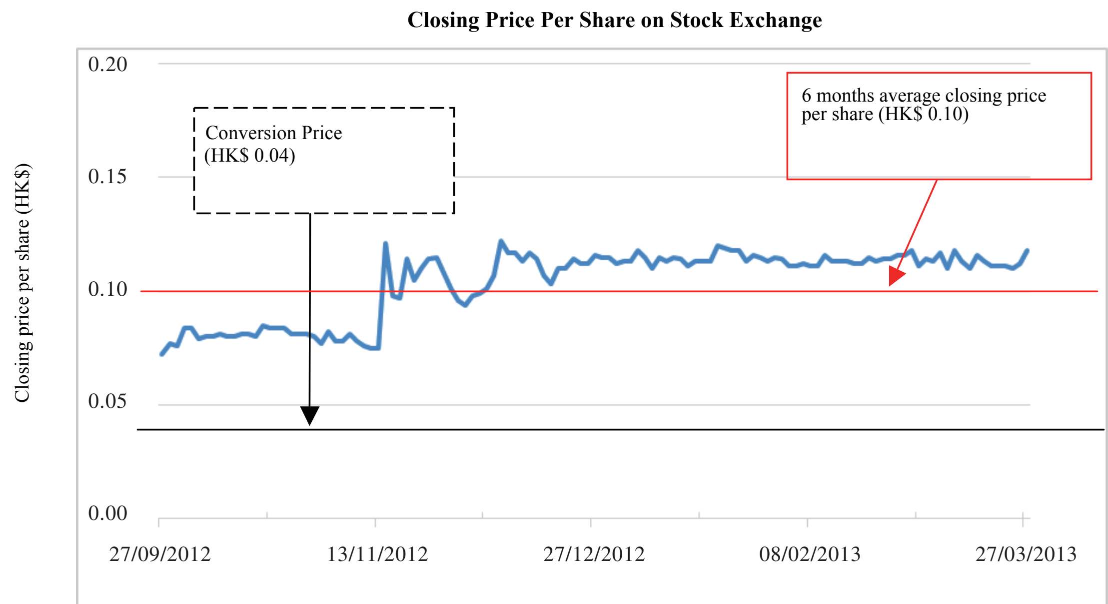
As set out in the Letter from the Board, the initial Conversion Price of HK$0.04 per Conversion Share was agreed after arm's length negotiations between the Company and the Vendors, with reference to, among other things, the prevailing market price of Shares as quoted on the Stock Exchange and in particular for the 30 day period prior to the signing of the MOU, the net asset value per Share of HK$0.0346 as at 31 December 2012 and the market sentiment of the stock markets.

As set out in the MOU, the Conversion Price shall be within the range of (i) the net asset value per Share of HK$0.0339 as at 30 June 2012 and (ii) the average closing price of the Shares for the thirty (30) consecutive trading days prior to the date of the MOU, being HK$0.0827. The Directors considered that as the trading volume of the Share is relatively low, the prevailing market price of Shares may not be a comprehensive reflection on the value of Share. The Directors consider that the net asset value per Share as at 31 December 2012 of HK$0.0346 to be an appropriate reference in determining the Conversion Price.

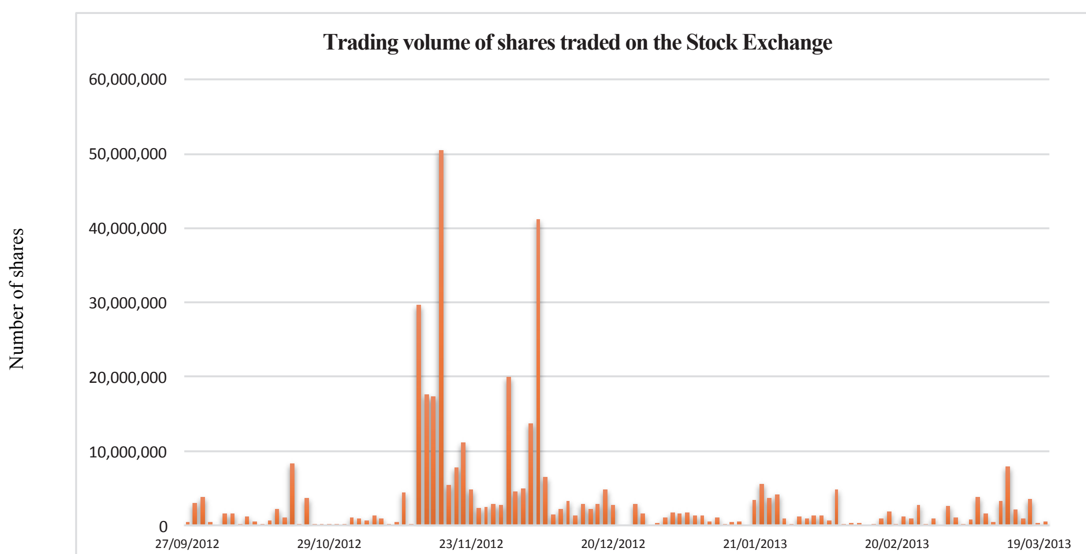
Having considered all the foregoing, the Directors consider that the Conversion Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

(i) Analysis on the historical Share price movement

In order to assess the fairness and reasonableness of setting the Conversion Price at HK$0.04 per Conversion Share, we have analyzed the recent closing prices of the Shares and the liquidity of the Shares. Set out below are charts showing the closing prices and daily trading volume of the Shares on the Stock Exchange for the 6 months period ended 27 March 2013 (the "**Review Period**"), being the last trading day immediately before the entering into of the Sale and Purchase Agreement.



Source: Website of Stock Exchange (http://www.hkex.com.hk)



Source: Website of Stock Exchange (http://www.hkex.com.hk)

As illustrated in the charts above, during the Review Period, the Shares were traded within a range of a high of HK$0.12 on 6 December 2012 and a low of HK$0.08 on 12 November 2012 and 13 November 2012. Average closing price of the Shares during the Review Period was approximately HK$0.10 per Share. We noted that all of the historical closing prices for the Shares were above the Conversion Price during the Review Period. Nevertheless, trading volume of the Shares was significantly thin during the Review Period, with the average daily trading volume being approximately 3,298,647 shares, and representing approximately 0.03% of the Company's issued share capital as at the Latest Practicable Date. Given the relatively low liquidity of the Shares, we consider it is fair that potential investors would seek for a reasonable discount to the prevailing market price of the Shares when determining the Conversion Price.

(ii) Analysis on the Comparable Issues

To assess the fairness and reasonableness of the terms of the Convertible Notes, to the best of our knowledge, we have identified a number of companies listed on the Main Board of the Stock Exchange ("**Main Board**") which have made announcement to issue convertible notes/bonds (the "**Comparable Issues**") during the three months ended the Last Trading Day as summarised below. Although the business and financial position of the Comparable Issues and their purposes of issuing convertible securities may not be identical, we believe that as the terms of the Comparable Issues are determined under similar market conditions and sentiments (i.e. within three months prior to the Last Trading Day) as the Convertible Notes, we consider the Comparable Issues are fair and representative samples. Set out below is the summary of the Comparable Issues considered in our analysis:

Company (Stock Code)	Date of announcement	Currency denominated in	Maximum of principal amount (in million (M))	Interest rate per annum	Maturity (Year)	Premium/ (Discount) of the Conversion Price over/ to the last trading day prior to the date of the corresponding announcement (%)	Premium/ (Discount) of the Conversion Price over/to the average closing price of the last 5 trading days prior to the date of the corresponding announcement or last 5 trading days including the last trading day (%)
Sino Oil and Gas Holdings Limited (702)	3 April 2013	HK$	275	2.00%	3	19.29%	13.61%
Siberian Mining Group Company Limited ("**SMGC**") (1142) *(Note 1)*	3 April 2013	US$	443.1	0.00%	5	19,900.00%	16,982.00%
China South City Holdings Limited ("**CSCH**") (1668)	1 April 2013	HK$	975	6.50%	5	20.00%	21.12%
Warderly International Holdings Limited ("**WIH**") (607)	21 March 2013	HK$	500	2.00%	5	(89.58)%	(89.36)%
China Financial Services Holdings Limited (605)	15 March 2013	US$	12	10.00%	2	(15.25)%	(16.67)%
Capital VC Limited (2324)	11 March 2013	HK$	20	10.00%	1	33.33%	42.05%
Lisi Group (Holdings) Limited (526)	4 March 2013	HK$	382.8	3.00%	3	(6.25)%	(1.64)%
The Hong Kong Building and Loan Agency Limited ("**HKBLA**") (145)	28 February 2013	HK$	162	0.00%	2.8	(49.06)%	(43.51)%
Extrawell Pharmaceutical Holdings Limited (858)	27 February 2013	HK$	641.3	0.00%	20	(1.34)%	(2.83)%
EPI (Holdings) Limited (689)	26 February 2013	HK$	100	8.00%	2	0.53%	(2.56)%

Company (Stock Code)	Date of announcement	Currency denominated in	Maximum of principal amount (in million (M))	Interest rate per annum	Maturity (Year)	Premium/ (Discount) of the Conversion Price over/ to the last trading day prior to the date of the corresponding announcement (%)	Premium/ (Discount) of the Conversion Price over/to the average closing price of the last 5 trading days prior to the date of the corresponding announcement or last 5 trading days including the last trading day (%)
United Gene High-Tech Group Limited (399)	18 February 2013	HK$	133	0.10%	10	(9.09)%	(6.10)%
New Times Energy Corporation Limited (166)	6 February 2013	HK$	105	0.00%	10	1.03%	0.62%
China Fortune Financial Group Limited (290)	6 February 2013	HK$	32	5.00%	3	(8.26)%	(14.09)%
Prosperity International Holdings (H.K.) Limited (803)	1 February 2013	US$	30	8.25%	3	40.60%	36.40%
Tak Sing Alliance Holdings Limited (126)	1 February 2013	HK$	80	5.00%	1	6.48%	9.94%
ENN Energy Holdings Limited ("**ENN**") (2688)	30 January 2013	US$	500	0.00%	5	30.00%	N/A
China Precious Metal Resources Holdings Co,. Ltd ("**CPMR**") (1194)	28 January 2013	HK$	1,028	7.25%	5	25.00%	28.00%
Huili Resources (Group) Limited (1303)	25 January 2013	HK$	215	2.00%	2	(15.40)%	(13.70)%
Greenfield Chemical Holdings Limited (582)	24 January 2013	HK$	550	0.00%	3	(17.05)%	(12.05)%
New Times Energy Corporation Limited (166)	22 January 2013	HK$	11.9	0.00%	1	1.01%	6.16%
China Properties Investment Holdings Limited ("**CPIH**") (736) *(Note 2)*	18 January 2013	HK$	20	3.00%	7	N/A	N/A
Shanghai Industrial Holdings Limited ("**SIH**") (363)	16 January 2013	HK$	3,900	2.00%	5	30.00%	33.10%
Kingwell Group Limited (1195)	11 January 2013	HK$	100	1.00%	5	(24.24)%	(24.24)%
Minimum				**0.00%**	**1.0**	**(89.58)%**	**(89.36)%**
Maximum				**10.00%**	**20.0**	**40.60%**	**42.05%**
Mean				**3.43%**	**4.6**	**(1.35)%**	**(1.80)%**
The Company		**HK$**	**392**	**0%**	**2**	**(66.10)%**	**(64.41)%**

Note 1: The statistics of the convertible notes issued by SMGC are considered of extreme values and are therefore excluded from our analysis above.

Note 2: As the convertible bonds to be issued by CPIH carry a floating conversion price with reference to the market price of its shares within the conversion period which is of a different nature as the Convertible Bonds which carry a fixed initial conversion price (subject to adjustment for subdivision or consolidation of Shares), we have excluded the sample from our analysis above.

** We have checked the announcements of the above listed companies subsequent to the proposed issuance of convertible notes/bonds and observed that, as at the Latest Practicable Date, the proposed issuance of convertible notes/bonds are either issued within the closing date or placing period or the relevant agreement(s) of the proposed issuance have not been lapsed. Therefore, we conclude the above Comparable Issues adopted in our analysis are valid comparison.

(i) Conversion Price

The Conversion Price of HK$0.04 per Conversion Share represents a discount of approximately 64.29% to the closing price of HK$0.112 per Share as quoted on the Stock Exchange on the last trading date prior to the entering into of the Sale and Purchase Agreement. Besides, we noted that the discount represented by the Conversion Price was close to the lower end represented by the Comparable Issues from the maximum of a premium of approximately 40.60% to a discount of approximately 89.58%. Although the discount represented by the Conversion Price approaches the lower end represented by the Comparable Issues, we are of the view that while considering the fairness and reasonableness of the Conversion Price, Shareholders should also take into account that (i) the positive outlook and prospects of the international film market and advertising market which is beneficial to the VFX industry; (ii) the Acquisition is consistent with the business strategy of the Group to diversify its existing business portfolio and broaden its source of income; (iii) the background and the development potentials of the Digital Domain Group; (iv) the Conversion Price represents a premium of approximately 15.61% over the net asset value per Share of HK$0.0346 as at 31 December 2012; and (v) the Shares are thinly-traded with low liquidity during the Relevant Period. In this connection, taking into consideration the factors as discussed above, we consider the Conversion Price has been, on balance, determined under normal commercial terms and the Conversion Price is acceptable.

(ii) Interest rate

As shown in the above table, the interest rate of the Comparable Issues range from nil to 10.0% and an average of approximately 3.43%. The Convertible Notes as proposed to be issued by the Company is at zero interest rate, which falls within the range and since it does not constitute interest payment to the Company, we consider that the zero interest rate of the Convertible Notes is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(iii) Term to maturity

The term to maturity of the Comparable Issues ranged from 1 year to 20 years and the term of the Convertible Notes of 2 years is within the range of the Comparable Issues. Hence, we consider that the term to maturity is determined under normal commercial terms.

In view of the analysis on historical Share price movement and the Comparable Issues as discussed above, we are of the opinion that the terms of the Convertible Notes are fair and reasonable so far as the Shareholders are concerned.

3. Potential dilution effect on the shareholding interest of the existing public Shareholders

As set out in the Letter from the Board, below is a summary of the shareholdings in the Company (i) as at the Latest Practicable Date; (ii) immediately after issue and allotment of the Conversion Shares upon conversion of the Convertible Notes in full at the initial Conversion Price assuming there being no other change in the shareholding structure and share capital of the company from the Latest Practicable Date up to the date of conversion:

Shareholders	As at the Latest Practicable Date		After allotment of the maximum number of Conversion Shares upon full conversion of the Convertible Notes at the initial Conversion Price *(Note 3)*	
	Number of Shares	*%*	*Number of Shares*	*%*
Wise Sun Holdings Limited *(Note 1)*	2,610,395,180	26.55	2,610,395,180	13.30
Fortune Source International Limited *(Note 2)*	1,125,000,000	11.44	1,125,000,000	5.73
Harmony Energy Limited	–	–	4,762,800,000	24.26
Gegen Tana	–	–	5,037,200,000	25.66
Public Shareholders	6,097,290,588	62.01	6,097,290,588	31.05
	9,832,685,768	**100.00**	**19,632,685,768**	**100.00**

Note:

(1) Wise Sun Holdings Limited is wholly owned by Bright Ace Holdings Limited. Mr. Zhou Jian, being an executive Director, owns 100% share interests in Bright Ace Holdings Limited.

(2) Fortune Source International Limited is wholly owned by Zhang Xiaoqun.

(3) The Company will not be obliged to issue any Conversion Shares pursuant to any conversion notice if the Company, acting reasonably, comes to a view that the issue of Conversion Shares pursuant to such conversion will (i) cause the Shares in the hands of "public" (as defined in Rule 8.24 of the Listing Rules) to fall below the 25% or such other minimum percentage of the total issued share capital of a listed issuer as prescribed under the Listing Rules that must remain in public hands, or (ii) result in the aggregate voting rights in the Company held by it and parties acting in concert with it as defined under the Takeovers Code exceeding 29.9%, or if applicable, the maximum percentage (to one decimal place) of the Shares it could then acquire without being required to make a mandatory general offer for the Shares under the Takeovers Code. Given the aforesaid conversion restriction, there will be no change of control of the Company.

The issue of the Convertible Notes does not have the immediate dilution effect on the shareholding of the public Shareholders. The full conversion of the Convertible Notes will result in an allotment and issue of 9,800,000,000 Conversion Shares (based on the initial Conversion Price), which represents approximately 99.67% of the issued share capital of the Company as at the Latest Practicable Date, and approximately 49.92% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon conversion of the Convertible Notes in full. Dilution effect on the existing public Shareholders is approximately 30.96%. Although the dilution effect of the Convertible Notes to existing public Shareholders is significant, we consider that the aforesaid dilution effect acceptable in light of the (i) the benefit of preserving existing cash resources of the Group for an extended period of time before the Maturity Date; (ii) the Acquisition is consistent with the business strategy of the Group to diversify its existing business portfolio and broaden its source of income; (iii) the Directors are optimistic on the prospect and development potentials with respect to the VFX industry and the Digital Domain Group; (iv) the Convertible Notes bear no interest while the alternative means of financing for the Acquisition, including debt financing, means the Company has to be prepared to pay a higher financing cost; (v) the conversion of the Convertible Notes is subject to the minimum public float requirement for the Conversion Shares as required under the Listing Rules; and (vi) the issuance of the Convertible Notes, if converted, will strengthen the capital base of the Company.

4. Financial effects of the Acquisition

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the Digital Domain Group will become indirect non-wholly-owned subsidiaries of the Company. The profits and losses of the Target Group will be consolidated in the Group's profit and loss accounts and all of its assets and liabilities will be consolidated into the Group's statement of financial position.

(a) Net assets

Based on the 2012 Annual Report, the net asset of the Group attributable to owners of the Company amounted to approximately HK$339.8 million as at 31 December 2012. According to the "Unaudited Pro Forma Financial Information" as set out in Appendix IV to this circular, upon completion of the Acquisition, the net assets value of the Group attributable to owners of the Company would increase to approximately HK$404.9 million.

According to the Sale and Purchase Agreement, the Consideration for the Sales Shares of HK$392.0 million is to be satisfied by the issue of Convertible Notes in the aggregate principal amount of HK$392.0 million. The fair values of the liability component and equity component of the Convertible Notes are determined by the Directors with reference to a professional valuation conducted by an independent valuer and was accounted for approximately HK$320.7 million and HK$71.3 million respectively. The increase in net assets value of the Group attributable to owners of the Company was primarily attributable to the recognition of the fair value of the equity component of the Convertible Notes which accounted for approximately HK$71.3 million.

(b) Liquidity

Based on the 2012 Annual Report, the amount of bank balances and cash and the amount of net current assets of the Group as at 31 December 2012 was approximately HK$238.9 million and HK$258.9 million respectively.

According to the Sale and Purchase Agreement, the Consideration for the Sales Shares of HK$392.0 million is to be satisfied by the issue of Convertible Notes in the aggregate principal amount of HK$392.0 million while the Consideration for the Shareholder's Loan of not more than US$3.0 million (equivalent to approximately HK$23.3 million) will be settled by cash. As at

31 January 2013, the outstanding principal amount of the Shareholder's Loan was approximately HK$15.6 million. Having considered the liquidity position of the Group, the cash outflow resulted from the Acquisition would not cause material adverse effect to the liquidity positions of the Group.

(c) Gearing

Based on the section headed "Business Review and Outlook" of the 2012 Annual Report, the gearing ratio (measured by the aggregate amount of the Group's bank loans, non-bank loans and convertible notes (if any) divided by the equity attributable to owners of the Company) of the Group was approximately 21.0%.

According to the "Unaudited Pro Forma Financial Information of the Enlarged Group" as set out in Appendix IV to this Circular, the aggregate amount of the Group's bank loans, non-bank loans and convertible notes would increase from approximately HK$70.8 million to approximately HK$391.5 million upon completion of the Acquisition primarily due to the recognition of the liability component of the Convertible Notes of approximately HK$320.7 million. Accordingly, the gearing ratio would increase significantly to 96.7%. Shareholders should note that the issue of Convertible Notes would inevitably increase the gearing of the Company while it avoids any deterioration of liquidity position of the Group due to settlement of Consideration. Should the Convertible Notes be partly or fully converted into Conversion Shares, the gearing ratio of the Group will be lowered.

(d) Earnings

As disclosed in the 2012 Annual Report, the net profit for the year ended 31 December 2012 amounted to approximately HK$6.2 million.

After Completion, the financial results of the Target Group will be fully consolidated into the accounts of the Group. We consider that the effect of the Acquisition on the earnings of the Group will depend on the actual financial performance of the Target Group after Completion, which is in turn subject to various factors affecting the macro-economics, VFX industry and the Target Company's operations and prospect.

Based on the profit forecast of the Target Company adopted in the valuation report prepared by BMI, the Acquisition would have a positive impact to the revenue and earnings of the Group in the long run.

5. Risk factors

We noticed that the Acquisition represents a new area of business to the Group and hence the Group's level of risk exposure associated with Acquisition will inevitably increase. While we are unable to assess the likelihood of occurrence of those adverse situations, we would recommend the Shareholders to read through the section headed "Risk factors" in the Letter from the board thoroughly. Moreover, Shareholders should also bear in mind all the possible risk factors associated with the Acquisition based on their own subjective risk preference and risk tolerance level.

As set out in the Letter from the Board, the Enlarged Group may face the following risk factors (which are not meant to be exhaustive):

- The visual effects industry is highly competitive and if Digital Domain Group is unable to compete successfully, its business will be harmed;
- Digital Domain Group's success depends on certain key personnel;
- Digital Domain Group's operating results may fluctuate significantly;
- Digital Domain Group intends to co-produce or invest in feature film projects, which involve financial risk;
- Digital Domain may not be able to implement its strategies of entering into the film production business effectively or at all;
- Interruption or failure of Digital Domain Group's information technology systems could impair its ability to effectively and timely provide its services and products, which could damage Digital Domain Group's reputation and have an adverse impact on its operating results;
- Digital Domain Group cannot predict the effect that rapid technological change may have on its business or industry;
- Others may assert intellectual property infringement claims against Digital Domain Group;
- Motion picture piracy may affect the ability to maximize Digital Domain Group's revenues;
- Digital Domain Group could be adversely affected by strikes or other union job actions;
- Film production incentives and subsidies offered by foreign countries and states where Digital Domain Group does not have operations, or its failure to continue to enjoy such incentives and subsidies offered by foreign countries and states where Digital Domain Group does have operations, could affect its ability to secure work on visual effects projects;
- Changes in U.S., regional or global economic conditions could adversely affect Digital Domain Group's profitability;
- The valuation of the 100% equity interest in the Target Group is estimated based on a number of assumptions which may deviate from the actual figures over time;
- Potential deterioration in the market value of the Target Group could result in the recognition of impairment losses.

We consider that the risk factors as set out above are typical to the VFX industry, and that the relevant risk exposures are inevitable particularly when this industry represented a new area of business to the Group. Nevertheless, taking into account of the reasons and benefits as set out in the section headed "Reasons for the Acquisition", we are of the view that the Acquisition is, on balance, beneficial to the Company and is fair and reasonable so far as the Shareholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons, we consider that the Acquisition is fair and reasonable and the Acquisition is on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. Although the Acquisition is not in the Group's ordinary and usual course of business, it is beneficial to the development of the Group. Accordingly, we advise the Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve among other things, the Acquisition.

Yours faithfully,
For and on behalf of
GF Capital (Hong Kong) Limited

Danny Wan
Managing Director

Brian Lee
Deputy Managing Director

I. FINANCIAL SUMMARY

The financial information of the Group for (i) the year ended 31 December 2012 is disclosed in the annual report of the Company for the year ended 31 December 2012 published on 5 February 2013, from pages 30 to 98; (ii) the year ended 31 December 2011 is disclosed in the annual report of the Company for the year ended 31 December 2011 published on 22 March 2012, from pages 24 to 94; (iii) for the year ended 31 December 2010 is disclosed in the annual report of the Company for the year ended 31 December 2010 published on 21 March 2011, from pages 24 to 100, all of which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.suninnovation.com).

II. INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of HK$179,195,000, comprising secured bank loans of approximately HK$69,984,000, an unsecured other loan of approximately HK$92,982,000, an unsecured shareholder's loan of approximately HK$16,104,000 and obligations under finance leases of approximately HK$125,000. Except for (i) bank loans with an aggregate amount of HK$7,437,000, (ii) unsecured other loan of HK$92,982,000 and (iii) obligations under finance leases of HK$125,000 which are repayable on demand or within 1 year, the remaining borrowings of the Enlarged Group of HK$78,651,000 are not repayable within 1 year from 30 April 2013.

The Enlarged Group's secured borrowings consisted of the following:

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

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

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

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

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

As at 30 April 2013, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 and HK$1,063,000 respectively. The related accrued interest payable was calculated in accordance with the loan agreement of the SME loan and the Claim. In the opinion of the directors of the Company, the related cost of legal action and further or other relief in connection with the Claim cannot be measured reliably and hence no provision has been made as at 30 April 2013.

As of 30 April 2013, the SME loan and the related accrued interest payable have not been settled by the Group nor has any negotiation been made with the bank. There was no corporate guarantee issued by the Company in favour of the Subsidiary nor the immediate holding company of the Subsidiary, and the directors of the Company are of the opinion that adequate provisions and disclosures have been made, and the above matter in the non-repayment of the SME loan and the related accrued interest payable has no further material adverse financial impact to the Company or the Group.

(c) Obligations under finance leases of approximately HK$125,000 are for certain computer equipment of the Enlarged Group. The obligations are secured by the lessor's charge over the leased assets.

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities and normal trade bills arising in the ordinary course of business, the Enlarged Group did not have any outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 30 April 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

Save as aforesaid, the Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 30 April 2013, the date to which the indebtedness statement is made and up to the Latest Practicable Date.

III. WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds and presently available credit facilities, the Enlarged Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

IV. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest audited financial statements of the Group were made up.

A. ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

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香港干諾道中111號
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14 June 2013

The Board of Directors
Sun Innovation Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Upfield Sky Limited (the "Target Company") and its subsidiaries (collectively the "Target Group"), namely Galloping Horse US, LLC ("Galloping Horse US"), Galloping Horse - Reliance, LLC ("Galloping Horse - Reliance"), Digital Domain 3.0, Inc. ("Digital Domain"), Digital Domain Productions 3.0 (BC), Ltd. ("Digital Domain Production") and Mothership Media, Inc. ("Mothership Media"), which comprises the Target Group's consolidated statement of financial position and the Target Company's statement of financial position as at 31 January 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Target Group for the period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information, prepared on the basis set out in Note 2 of Section C below, for inclusion in the circular of Sun Innovation Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") dated 14 June 2013 (the "Circular") in connection with the Group's proposed acquisition of the entire issued share capital of the Target Company and the shareholder's loan due from the Target Company to one of the vendors pursuant to the acquisition agreement dated 27 March 2013. Details of the Target Company's interests in its subsidiaries are set out in Note 1 of Section C below.

The Target Company was incorporated as a limited liability company in the British Virgin Islands (the "BVI") on 6 September 2012. Its registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. During the Relevant Period and up to the date of this report, the principal activities of the Target Company, Galloping Horse US and Galloping Horse - Reliance were investment holding; and Digital Domain, Digital Domain Production and Mothership Media were engaged in the provision of services of visual effect production.

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

For the purpose of this report, the directors of the Target Company have prepared the Target Group's consolidated statement of financial position and the Target Company's statement of financial position as at 31 January 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Target Group for the Relevant Period (collectively the "Underlying Financial Statements"), in accordance with the basis of preparation set out in Note 2 of Section C below and significant accounting policies set out in Note 4 of Section C below which conform with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

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

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

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

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 of Section C below which indicates that the Target Group incurred a loss of approximately HK$82,914,000 for the Relevant Period and, as of 31 January 2013, the Target Group's current liabilities exceeded the current assets by approximately HK$18,131,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Target Group's ability to continue as a going concern.

B. FINANCIAL INFORMATION

Consolidated Statement of Comprehensive Income

	Notes	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013 HK$'000
Revenue	6	194,183
Cost of sales		(183,735)
Gross profit		10,448
Other revenue and gains	8	554
Selling and distribution expenses		(23,577)
Administrative expenses		(63,181)
Finance costs	9	(202)
Loss before taxation	7	(75,958)
Taxation	10	(6,956)
Loss for the period		**(82,914)**
Other comprehensive income:		
Currency translation differences		187
Other comprehensive income for the period		187
Total comprehensive income for the period		**(82,727)**
Loss for the period attributable to:		
– Owners of the Target Company	11	(58,026)
– Non-controlling interest		(24,888)
		(82,914)
Total comprehensive income for the period attributable to:		
– Owners of the Target Company		(57,839)
– Non-controlling interest		(24,888)
		(82,727)
Loss per share		
– Basic and diluted	14	**(6.36)**

Consolidated Statement of Financial Position

	Notes	As at 31 January 2013 HK$'000
Non-current assets		
Property, plant and equipment	15	57,283
Intangible assets	16	277,490
Deferred tax assets	10	5,167
		339,940
Current assets		
Trade receivables, deposits and prepayments and other receivables	17	55,360
Bank balances		1,407
		56,767
Current liabilities		
Trade payables, other payables and accruals	18	67,239
Deferred revenue		2,440
Obligations under finance leases	19	4,432
Amounts due to related companies	20	787
		74,898
Net current liabilities		**(18,131)**
Total assets less current liabilities		**321,809**
Non-current liabilities		
Obligations under finance leases	19	638
Amount due to a shareholder	20	15,644
Deferred tax liabilities	10	752
		17,034
Net assets		**304,775**
EQUITY		
Capital and reserves		
Share capital	21	78
Reserves		213,334
Equity attributable to owners of the Target Company		213,412
Non-controlling interest		91,363
Total equity		**304,775**

Statement of Financial Position

	Notes	As at 31 January 2013 HK$'000
Non-current assets		
Interests in subsidiaries	1	286,750
Non-current liability		
Amount due to a shareholder	20	15,644
Net assets		**271,106**
EQUITY		
Share capital	21	78
Reserves	22	271,028
Total equity		**271,106**

Consolidated Statement of Changes in Equity

	Share capital *HK$'000* *(Note 21)*	Share premium *HK$'000*	Exchange reserve *HK$'000*	Accumulated loss *HK$'000*	Non-controlling interest *HK$'000*	Total *HK$'000*
Issue of shares	78	271,173	–	–	–	271,251
Contribution from non-controlling interest	–	–	–	–	116,251	116,251
Loss for the Relevant Period	–	–	–	(58,026)	(24,888)	(82,914)
Other comprehensive income	–	–	187	–	–	187
As at 31 January 2013	78	271,173	187	(58,026)	91,363	304,775

Consolidated Statement of Cash Flows

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Cash flows from operating activities	
Loss before taxation	(75,958)
Adjustments for:	
Interest income	(358)
Finance costs	202
Depreciation of property, plant and equipment	14,474
Amortisation of intangible assets	5,421
Operating loss before working capital changes	(56,219)
Increase in trade receivables, deposits and prepayments and other receivables	(46,822)
Decrease in trade payables, other payables and accruals	(60,883)
Increase in deferred revenue	2,440
Increase in amounts due to related companies	787
Net cash used in operating activities	**(160,697)**
Cash flows from investing activities	
Interest received	358
Purchase of property, plant and equipment	(247)
Additions of intangible assets	(5,285)
Consideration paid for business combination	(234,050)
Net cash used in investing activities	**(239,224)**
Cash flows from financing activities	
Interest paid	(202)
Issue of shares	271,251
Contribution from non-controlling interest	116,251
Repayment of obligations under finance lease	(1,747)
Increase in amount due to a shareholder	15,644
Net cash generated from financing activities	**401,197**
Net increase in cash and cash equivalents	**1,276**
Effect of foreign exchange rate changes	131
Cash and cash equivalents at end of the Relevant Period	**1,407**
Analysis of the balances of cash and cash equivalents	
Bank balances	1,407

C. NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND INTERESTS IN SUBSIDIARIES

The Target Company was incorporated as a limited liability company in the BVI on 6 September 2012. Its registered office is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the BVI. During the Relevant Period and up to the date of this report, the principal activity of the Target Company was investment holding.

Interests in subsidiaries	**As at 31 January 2013**
	HK$'000
Unlisted shares, at cost	271,250
Amount due from a subsidiary	15,500
	286,750

At the end of the Relevant Period, amount due from a subsidiary is unsecured, interest-free and is not repayable within twelve months from the end of the Relevant Period. In the opinion of the directors of the Target Company, the amount due from a subsidiary is in substance the Target Company's interest in the subsidiary in the form of a quasi-equity loan.

As at 31 January 2013 and the date of this report, the Target Company has direct or indirect interests in the following subsidiaries, the particulars of which are set out as follows:

Name of subsidiary	**Legal form, date and place of incorporation and operation**	**Paid-up capital**	**Percentage of equity attributable to the Target Company**		**Principal activities**
			Direct	**Indirect**	
Galloping Horse US, LLC	Limited liability company 21 November 2012 The United States of America ("USA")	US$35,000,000	100	–	Investment holding
Galloping Horse – Reliance, LLC	Limited liability company 17 September 2012 USA	US$50,000,000	–	70	Investment holding
Digital Domain 3.0, Inc.	Incorporation 25 September 2012 USA	US$50	–	70	Visual effect production
Digital Domain Productions 3.0 (BC), Ltd.	Limited liability company 25 September 2012 Canada	Nil#	–	70	Visual effect production
Mothership Media, Inc.	Incorporation 25 September 2012 USA	Nil*	–	70	Visual effect production

During the Relevant Period, 100 shares with nil par value were issued.

* During the Relevant Period and as of the date of this report, no capital has been paid up.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Listing Rules.

(b) Basis of measurement and presentation

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

During the Relevant Period, the Target Group incurred a loss of approximately HK$82,914,000 and at the end of the Relevant Period, the Group's current liabilities exceeded the current assets by approximately HK$18,131,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Target Group's ability to continue as a going concern, and therefore the Target Group may not be able to realise assets and discharge liabilities in the normal course of business. The directors of the Target Company consider that it is appropriate to prepare the Financial Information on a going concern basis with due regard to the following factors:

(i) Deferred revenue of approximately HK$2,440,000 as at 31 January 2013 was included in the current liabilities but no cash outflow was expected; and

(ii) The directors of the Target Company carried out a detailed review of the working capital forecast of the Target Group, based on which the directors of the Target Company considered that the Target Group will have necessary liquid funds to finance its working capital requirements in the twelve months from the end of the Relevant Period. In particular, subsequent to the end of the Relevant Period, a project with estimated sum of approximately HK$101,000,000 has been secured, for which the cost and expenses in the aggregate amount of approximately HK$22,420,000 have been charged to the profit or loss for the Relevant Period whilst no revenue has been recognised for the Relevant Period.

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

(c) Functional and presentation currency

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

3. NEW/REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

The following new/revised HKFRSs, potentially relevant to the Financial Information, have been issued, but are not yet effective and have not been early adopted by the Target Group.

HKFRSs (Amendments)	Annual Improvement to HKFRSs 2009-2011 Cycle[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair value Measurement[1]
HKAS 27 (2011)	Separate Financial Statements[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[2]

Effective date:

1 Annual periods beginning on or after 1 January 2013
2 Annual periods beginning on or after 1 January 2014
3 Annual periods beginning on or after 1 January 2015

The Target Group is in the process of making an assessment of the potential impact of these pronouncements. The directors of the Target Company so far concluded that the application of these pronouncements will have no material impact on the Target Group's results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The Financial Information comprises the financial statements of the Target Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Target Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Target Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Target Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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

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

(b) Subsidiaries

Subsidiaries are entities over which the Target Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

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

(c) Property, plant and equipment

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

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

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

Equipment, furniture and fixtures	20% to 50%
Machineries	20% to 33%

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

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

(d) Impairment of non-financial assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

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

(e) Intangible assets

(i) Goodwill

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

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

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

(ii) Acquired intangible assets

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

Proprietary software	3 years
Participation rights	5 years or unit of production method

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

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

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

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

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

(f) Financial instruments

(i) Financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment

Financial assets are assessed for indicators of impairment at the end of the Relevant Period. Financial assets are impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

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

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

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

Effective interest method

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

Derecognition of financial assets

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

(ii) *Financial liabilities*

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

Other financial liabilities

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

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

Effective interest method

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

Derecognition of financial liabilities

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

(g) Cash and cash equivalents

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

(h) Leases

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

The Target Group as lessee

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

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

(i) Provisions and contingent liabilities

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

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

(j) Taxation

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

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

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

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

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

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

(k) Foreign currencies

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

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

For the purpose of presenting the Financial Information, the assets and liabilities of the Target Group's foreign operations are expressed in Hong Kong dollars using exchange rates prevailing at the end of the Relevant Period. Income and expense items are translated at the average exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve. Such translation differences, to the extent attributable to the owners of the Target Company, are recognised in profit or loss in the period when the foreign operations are disposed of.

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

(l) Employees' benefits

Short term benefits

Salaries, annual bonuses and paid annual leaves are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(m) Related parties

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(n) Revenue recognition

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Useful lives of property, plant and equipment and intangible assets

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

Impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the Relevant Period. Indefinite-life intangible assets and goodwill are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, the Target Group must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 January 2013 was HK$69,196,000. Further details are set out in Note 10.

6. REVENUE AND SEGMENT REPORTING

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

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

(a) Geographic information

The following table provides an analysis of the Target 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"):

	Revenue from external customers	**Specified non-current assets**
	HK$'000	*HK$'000*
USA	148,582	313,083
Canada	45,601	21,690
	194,183	334,773

(b) Information about major customers

The Target Group's customer base is diversified and there were two customers with whom transactions have exceeded 10% of the Target Group's revenue.

During the Relevant Period, revenues from the two customers amounted to approximately HK$60,213,000 and HK$31,395,000.

7. LOSS BEFORE TAXATION

This is arrived at after charging:

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Cost of services rendered *(Note)*	183,735
Auditor's remuneration	–
Depreciation of property, plant and equipment *(Note)*	14,474
Amortisation of intangible assets *(Note)*	5,421
Research and development	5,535
Operating lease rentals in respect of rented premises	11,534
Staff costs *(Note):*	
– Directors' remuneration	–
– Other staff costs:	
Salaries, wages and other benefits	204,318
Retirement benefit scheme contribution	4,741
Total staff costs	209,059

Note:

Cost of services rendered include HK$171,520,000 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.

8. OTHER REVENUE AND GAINS

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Bank interest income	358
Exchange difference, net	196
	554

9. FINANCE COSTS

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Interest on finance leases	202

10. TAXATION

(a) The amount of taxation in the consolidated statement of comprehensive income represents:

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Deferred taxation *(Note 10(b))*	6,956

No Hong Kong profits tax or overseas profits tax has been provided as the Target Group has no estimated assessable profit arising in Hong Kong or other overseas jurisdictions for the Relevant Period.

The taxation for the Relevant Period can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Loss before taxation	(75,958)
Taxation at the Hong Kong profits tax rate of 16.5%	(12,533)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(13,781)
Tax effect of revenue not taxable for tax purposes	(32)
Tax effect of expenses not deductible for tax purposes	71
Tax effect of unrecognised tax losses and temporary differences	33,231
Taxation for the period	6,956

(b) Deferred tax

Details of the deferred tax assets/(liabilities) recognised and movements during the Relevant Period are as follows:

	Provisions	**Fair value adjustments arising from business combination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Additions from business combination *(Note 23)*	13,751	(2,402)	11,349
(Charged)/credited to profit or loss *(Note 10(a))*	(8,584)	1,628	(6,956)
Exchange realignment	–	22	22
As at 31 January 2013	5,167	(752)	4,415

As at 31 January 2013, the Target Group has tax losses arising in the USA and Canada of HK$56,701,000 and HK$12,495,000 respectively that are available to be carried forward for 20 years for offsetting against future profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain that taxable profit will be available against which the deductible temporary differences can be utilised. There was no other material unprovided deferred tax at the end of the Relevant Period.

11. LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE TARGET COMPANY

The consolidated loss attributable to owners of the Target Company includes a loss of HK$145,000 which has been dealt with in the financial statements of the Target Company.

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) No remuneration was paid or payable to any directors of the Target Company during the Relevant Period.

(b) Five highest paid individuals

The five highest paid individuals of Target Group during the Relevant Period have not included any director.

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Salaries, allowances and benefits in kind	3,938
Contributions to retirement benefit schemes	112
	4,050

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

Nil to HK$1,000,000	4
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	1

13. DIVIDEND

No dividend was declared and paid during the Relevant Period.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the Relevant Period attributable to owners of the Target Company, and the weighted average number of ordinary shares in issue during the Relevant Period.

The calculation of the basic loss per share is based on the following data:

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
	HK$'000
Loss for the period attributable to the owners of the Target Company	(58,026)

	Period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013
Weighted average number of ordinary shares for the purpose of calculation of basic loss per share	9,122

The Target Company had no potential dilutive ordinary share in issue during the Relevant Period. Accordingly the basic and diluted losses per share are equal.

15. PROPERTY, PLANT AND EQUIPMENT

	Equipment furniture and fixtures	Machineries	Total
	HK$'000	*HK$'000*	*HK$'000*
COST:			
Additions from business combination *(Note 23)*	59,569	11,963	71,532
Additions	247	–	247
Exchange realignment	(27)	(2)	(29)
As at 31 January 2013	59,789	11,961	71,750
ACCUMULATED DEPRECIATION:			
Charge for the period	12,123	2,351	14,474
Exchange realignment	(7)	–	(7)
As at 31 January 2013	12,116	2,351	14,467
NET CARRYING AMOUNT:			
As at 31 January 2013	47,673	9,610	57,283

As at 31 January 2013, the net carrying amount of property, plant and equipment of the Target Group includes equipment items of HK$6,429,000 that were held under finance leases. None of the leases includes contingent rentals.

16. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (a)	*Note (a)*	*Note (b)*	*Note (c)*	
COST:					
Additions from business combination *(Note 23)*	7,152	25,575	40,300	204,600	277,627
Additions	–	–	5,285	–	5,285
Exchange realignment	–	–	(1)	–	(1)
As at 31 January 2013	7,152	25,575	45,584	204,600	282,911
AMORTISATION:					
Amortisation for the period	–	–	5,111	310	5,421
As at 31 January 2013	–	–	5,111	310	5,421
CARRYING AMOUNT:					
As at 31 January 2013	7,152	25,575	40,473	204,290	277,490

Notes:

(a) The Target Group's goodwill and trademarks arise from the business combination as set out in Note 23.

Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. The directors of the Target Company are of the opinion that the Target Group would renew the trademarks continuously and has the ability to do so.

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

The recoverable amount of the visual effect production CGU has been determined by the directors of the Target Company on the basis of a fair-value-less-costs-to-sell calculation with reference to a professional valuation report issued by BMI Appraisals Limited ("BMI"), an independent firm of professionally qualified valuers. The recoverable amount is based on certain key assumptions. The fair-value-less–costs-to-sell calculation uses cash flow projections based on latest financial budgets approved by the Target Group's management covering a period of 5 years with 8% growth rate, and at a post-tax discount rate of 17%. The cash flow projections beyond the 5-year period are extrapolated using a 2% growth rate. Cash flow projections during the budget period are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and the Target Group management's expectations for the market development and future performance of the visual effect production business.

(b) Proprietary software mainly represented internally developed software to produce various visual effects. Proprietary software was acquired through the business combination as set out in Note 23.

(c) Participation rights represented the contractual rights of profit-sharing on pre-determined percentages from movies. Participation rights were acquired through the business combination as set out in Note 23.

17. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS AND OTHER RECEIVABLES

	The Target Group *HK$'000*
Trade receivables	47,062
Deposits and prepayments and other receivables	8,298
	55,360

(i) The directors of the Target Company consider that the carrying amounts of trade receivables, deposits and prepayments and other receivables approximate their fair values as at 31 January 2013.

As at 31 January 2013, none of the Target Group's trade receivables and other receivables were individually determined to be impaired.

(ii) The Target Group normally allows an average credit period of 45 to 60 days to trade customers. The ageing analysis of the Target Group's trade receivables, net of allowance for doubtful debts, based on the due date as of the end of the Relevant Period was as follows:

	The Target Group *HK$'000*
Current	44,785
1 to 30 days	519
31 to 60 days	783
61 to 90 days	–
Over 90 days	975
	47,062

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

	The Target Group *HK$'000*
Less than 1 month past due	519
1 to 3 months past due	783
More than 3 months past due	975
	2,277

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

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

18. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the balance are trade payables of HK$3,971,000. The ageing analysis of the Target Group's trade payables based on invoice date as of the end of the Relevant Period was as follows:

	The Target Group
	HK$'000
1 to 30 days	2,241
31 to 60 days	799
61 to 90 days	575
Over 90 days	356
	3,971

The directors of the Target Company consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 January 2013.

19. OBLIGATION UNDER FINANCE LEASES

	As at 31 January 2013	
	Minimum lease payments	**Present value of minimum lease payment**
	HK$'000	*HK$'000*
Amounts payable under finance leases:		
Within one year	4,577	4,432
In the second to fifth years inclusive	682	638
	5,259	
Less: Future finance charges	(189)	
Present value of lease obligations	5,070	5,070
Less: Amount due within one year		(4,432)
Amount due after one year		638

The Target Group leased certain computer equipment under finance leases. The average lease term is 2 to 3 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates and the average effective borrowing rates ranges from 3.19% to 3.88% per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

20. AMOUNTS DUE TO A SHAREHOLDER AND RELATED COMPANIES

Amounts due to related companies represent trade payables for production costs of HK$787,000, which are repayable within 30 days and represent similar credit terms to those offered by the related companies to their major customers.

Amount due to a shareholder is unsecured and interest-free. The amount is not repayable within twelve months from the end of the Relevant Period.

21. SHARE CAPITAL

	Number of shares	Amount
Authorised:		
Ordinary shares of US$1 each		
At date of incorporation and 31 January 2013	50,000	US$50,000
Issued and fully paid:		
Issue of share on incorporation *(Note)*	1	HK$8
Share allotments	9,999	HK$77,992
	10,000	HK$78,000

Note:

The Target Company was incorporated on 6 September 2012 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. 1 share of US$1 was issued to the subscriber to the memorandum of association at par for the initial capital. During the Relevant Period, 9,999 shares were allotted at an aggregate consideration of HK$271,251,000, of which HK$78,000 and HK$271,173,000 were credited to share capital and share premium respectively.

22. RESERVES

The Target Company

	Share premium	Accumulated loss	Total
	HK$'000	*HK$'000*	*HK$'000*
Issue of shares	271,173	–	271,173
Loss and total comprehensive income for the Relevant Period	–	(145)	(145)
As at 31 January 2013	271,173	(145)	271,028

23. BUSINESS COMBINATION

Pursuant to the asset purchase agreement dated 24 September 2012, the Target Group acquired certain assets and liabilities which constitutes a business under Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" from an auction. The acquisition was made by the Target Group with the aim to commence the business of visual effect production.

The fair values of the identifiable assets and liabilities acquired (collectively the "Business") as at the date of acquisition were as follows:

	Notes	Fair value HK$'000
Property, plant and equipment	15	71,532
Other intangible assets	16	270,475
Deferred tax assets	10	13,751
Prepayments		8,529
Trade payables, other payables and accruals		(120,759)
Obligations under finance leases		(6,865)
Deferred tax liabilities	10	(2,402)
Net assets		234,261
Goodwill	16	7,152
Total consideration		241,413
Total consideration consisted of:		
Cash		234,050
Liabilities of the vendor assumed by the Target Group		7,363
		241,413

The above goodwill, which is not deductible for tax purposes, comprises the acquired workforce.

The Business's contributions to the Target Group's revenue and the Target Group's loss for the period between the date of acquisition and 31 January 2013 are as follows:

	HK$'000
Revenue	194,183
Loss	(82,769)

Had the acquisition taken place at the beginning of the Relevant Period, the Target Group's revenue and loss for the Relevant Period would have been as follows:

	HK$'000
Revenue	194,183
Loss	(82,914)

The acquisition-related costs of HK$3,920,000 have been expensed and are included in administrative expenses.

24. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in this Financial Information, the Target Group entered into the following transactions with related companies:

Related party relationship	**Type of transaction**	*HK$'000*
Companies which are related companies of the Target Group's non-controlling interest	Production costs	3,287

Compensation of key management personnel of the Target Group

Members of key management personnel of the Target Group are directors of the Target Company, the remuneration of which are disclosed in Note 12.

25. OPERATING LEASE COMMITMENTS

As at 31 January 2013, the Target Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Target Group
	HK$'000
Not later than one year	21,762
Later than one year and not later than five years	28,414
	50,176

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

26. FINANCIAL RISK MANAGEMENT

The main risks arising from the Target Group's financial instruments in the normal course of the Target Group's business are credit risk and liquidity risk:

(a) Credit risk

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

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

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate.

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

As at 31 January 2013, the Target Group has a concentration of credit risk as 53% and 95% respectively of the total trade receivables were due from the Target Group's largest customer and the five largest customers respectively.

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

Further quantitative disclosures in respect of the Target Group's exposure to credit risk arising from trade and other receivables are set out in Note 17.

(b) Liquidity risk

The Target Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. Further details are set out in Note 2(b).

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

Target Group	**Carrying amount**	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 year**	**More than 5 years**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables, other payables and accruals	67,239	67,239	67,239	–	–	–
Obligations under finance leases	5,070	5,259	4,577	682	–	–
Amounts due to related companies	787	787	787	–	–	–
Amount due to a shareholder	15,644	15,644	–	15,644	–	–
	88,740	88,929	72,603	16,326	–	–

(c) Fair value

All financial instruments are carried at amounts not materially different from their estimated fair values as at 31 January 2013.

27. SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts of the Target Group's financial asset and financial liabilities as recognised at 31 January 2013 may be categorised as follows:

	As at 31 January 2013
	HK$'000
Financial assets	
Loan and receivables (including cash and cash equivalents), at amortised cost	50,644
Financial liabilities	
Financial liabilities, at amortised cost	88,740

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 January 2013 and up to the date of this report. No dividend or other distribution has been declared, made or paid by the Target Company in respect of any period subsequent to 31 January 2013.

Yours faithfully

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

Lam Siu Fung
Practising Certificate number: P05308

Set out below are the management discussion and analysis on the Target Group for the period from 6 September 2012 (date of incorporation of the Target Company) to 31 January 2013 (the "**Relevant Period**").

Business review

The Target Company was incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the principal asset of the Target Company is the entire issued share capital of Galloping Horse US, which owns 70% of the equity interest in Galloping Horse - Reliance. Galloping Horse - Reliance owns the entire equity interest in Digital Domain. Digital Domain owns the entire equity interest in Digital Domain Production and Mothership Media.

Revenue

During the Relevant Period, the Target Group recorded revenue and other revenue and gains of approximately HK$194,183,000 and HK$554,000 respectively. The revenue is the aggregate proceeds received and receivable from provision of visual effect production in North America. The other revenue and gains consists of bank interest income of approximately HK$358,000 and net exchange difference of approximately HK$196,000.

Costs and expenses

During the Relevant Period, the Target Group recorded cost of sales, selling and distribution expenses, administrative expenses and finance costs of approximately HK$183,735,000, HK$23,577,000, HK$63,181,000 and HK$202,000 respectively. Cost of sales mainly include staff costs, depreciation of property, plant and equipment and amortisation charge for intangible assets.

Gross profit margin

For the Relevant Period, the Target Group recorded a gross profit margin of approximately 5.4%, calculated by the revenue less cost of sales (including direct cost and indirect cost such as amortisation and depreciation), and then divided by the revenue. This low gross profit margin for the Relevant Period in the Accountant's Report is mainly attributable to the effects of the bankruptcy sale by DDMG Group to the Digital Domain Group as all or part of the revenue attributable to certain projects assumed from DDMG Group have been collected up front by DDMG Group as advance cash payment from clients before bankruptcy while certain relevant costs were incurred by the Digital Domain Group. Gross profit margin for new projects taken up by the Digital Domain Group which are currently in production has normalised as these factors no longer apply.

Other comprehensive income

During the Relevant Period, the Target Group recorded currency translation differences of approximately HK$187,000.

Net profit/(loss)

Overall, the Target Group recorded loss before taxation and loss for the period of approximately HK$75,958,000 and HK$82,914,000 respectively for the Relevant Period.

The loss was mainly due to the administrative expenses and cost of sales. The high administrative expenses are associated to staff costs, amortisation of intangible assets and rental. The Digital Domain Group has implemented a series of stringent cost control measures and those cost control measures is expected to gradually reduce the administrative expenses and cost of sale of the Target Group.

Capital structure

Non-current assets

As at 31 January 2013, the Target Group had non-current assets of approximately HK$339,940,000, of which property, plant and equipment were approximately HK$57,283,000, intangible assets were approximately HK$277,490,000 and deferred tax assets were approximately HK$5,167,000. The major component of property, plant and equipment is equipment, furniture and fixtures of approximately HK$47,673,000 and machineries of approximately HK$9,610,000. The intangible assets consist of goodwill of HK$7,152,000, trademarks of approximately HK$25,575,000, proprietary software of HK$40,473,000 and participation rights of approximately HK$204,290,000.

Current assets

As at 31 January 2013, the Target Group had current assets of approximately HK$56,767,000, of which trade receivable, deposits and prepayments and other receivables were approximately HK$55,360,000 and bank balances were approximately HK$1,407,000. The trade receivable, deposits and prepayments and other receivables consist of trade receivables of approximately HK$47,062,000 and deposits and prepayments and other receivables of approximately HK$8,298,000. The Target Group normally allows an average credit period of 45 to 60 days to its trade customers.

Current liabilities

As at 31 January 2013, the Target Group had current liabilities of approximately HK$74,898,000, of which trade payables, other payables and accruals were approximately HK$67,239,000, deferred revenue was approximately HK$2,440,000, current portion of obligations under finance leases were approximately HK$4,432,000 and amount due to related companies were approximately HK$787,000. Included in the trade payables, other payables and accruals are trade payables of approximately HK$3,971,000. The obligations under finance lease derived from leasing certain of its computer equipment under the financial leases. The average lease term is 2 to 3 years. Interest rates underlying all obligations under finance lease are fixed at respective contract dates and the average effective borrowing rates ranges from 3.19% to 3.88% per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments. Amounts due to related companies represent trade payables for production costs of approximately HK$787,000, which are payable within 30 days and represent similar credit terms to those offered by the related companies to their major customers.

Non-current liabilities

As at 31 January 2013, the Target Group had non-current liabilities of approximately HK$17,034,000, of which non-current portion of obligations under finance leases were approximately HK$638,000, amount due to a shareholder was approximately HK$15,644,000 and deferred tax liabilities were approximately HK$752,000. The amount due to a shareholder was unsecured, interest-free and had no fixed terms of repayment.

Gearing ratio

The gearing ratio is determined as the proportion of net debt to equity. Net debt equals to the total bank borrowings and obligations under finance leases minus bank balances. The gearing ratio of the Target Group was 1.20%.

Capital commitments

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

Contingent liabilities

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

Hedging

As at 31 January 2013, no financial instruments are used for hedging.

Acquisition and disposal of subsidiaries and associated companies

On 24 September 2012, Galloping Horse – Reliance entered into the asset purchase agreement, pursuant to which, it acquired certain assets and liabilities, of which constitutes a business and accounted for a business combination of the Target Group.

Save for the aforementioned, there was no material acquisition and disposal of subsidiaries and associated companies during the Relevant Period.

Segmental information

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

Future plans for material investments or capital assets

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

Charges on assets

As at 31 January 2013, the Target Group did not have any assets pledged nor guarantee for any credit facilities.

Treasury policy

As at 31 January 2013, the Target Group has no formal treasury policy.

Exposure of foreign exchange

The Target Group's revenue, cost, assets and liabilities are denominated in U.S. and Canadian dollars. As the financials of Digital Domain Group are reported in U.S. dollars, if the Canadian dollar strengthens relative to U.S. dollar, reported earnings for Canadian portion would increase. At present, the Target Group did not have any hedging measures for the foreign exchange risk. While Hong Kong dollar is pegged with U.S. dollar, the currency risk on such aspect is expected to be minimal.

Employment and remuneration

As at 31 January 2013, there were approximately 716 employees in the Target Group. Total staff costs for the Relevant Period were approximately HK$209,059,000, of which salaries, wages and other benefits were approximately HK$204,318,000 and retirement benefit scheme contribution were approximately HK$4,741,000. The Target Group remunerated its employees based on the job nature, individual performance, working experiences, professional qualification and market trends. As at 31 January 2013, the Target Group did not incur any expense for directors' remuneration.

The following is the text of an accountants' report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

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香港干諾道中111號
永安中心25樓

14 June 2013

The Board of Directors
Sun Innovation Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Sun Innovation Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") in connection with the Group's proposed acquisition (the "Acquisition") of the entire issued share capital of Upfield Sky Limited (the "Target Company", together with its existing subsidiaries are collectively referred to as the "Target Group") and the shareholder's loan due from the Target Company to one of the vendors pursuant to the acquisition agreement dated 27 March 2013, which has been prepared by the directors of the Company, solely for illustrative purpose only, to provide information about how the Acquisition might have affected the financial information of the Group, for inclusion in Appendix IV to the circular of the Company dated 14 June 2013 (the "Circular"). The Target Group together with the Group are hereinafter collectively referred to as the Enlarged Group.

The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix IV to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

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

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

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2012 or any future date.

Opinion

In our opinion:

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

(b) such basis is consistent with the accounting policies of the Group, so far as such policies related to the transactions; and

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

Yours faithfully,

BDO Limited
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction

The accompanying illustrative and unaudited pro forma financial information of the Enlarged Group (defined below) (the "Unaudited Pro Forma Financial Information"), comprising the unaudited pro forma consolidated statement of financial position, has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition (the "Acquisition") of the entire issued share capital of Upfield Sky Limited (the "Target Company", together with its existing subsidiaries are collectively referred to as the "Target Group") and the shareholder's loan due from the Target Company to one of the vendors by Sun Innovation Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") pursuant to the acquisition agreement dated 27 March 2013, as if the Acquisition had been completed on 31 December 2012. The Target Group together with the Group are hereinafter collectively referred to as the Enlarged Group. Terms used herein shall have the same meanings as defined in the circular of the Company dated 14 June 2013 (the "Circular") unless stated otherwise.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on (i) the audited consolidated statement of financial position of the Group as at 31 December 2012 which has been extracted from the audited consolidated financial statements of the Group as set out in the annual report of the Company for the year ended 31 December 2012; (ii) the audited consolidated statement of financial position of the Target Group as at 31 January 2013 as extracted from the accountants' report of the Target Group set out in Appendix II to the Circular, after making unaudited pro forma adjustments that are directly attributable to the Acquisition.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes. Accordingly, as a result of the uncertain nature of the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group, it may not give a true picture of the actual financial position of the Enlarged Group's operations that would have been attained had the Acquisition actually occurred on the date indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position.

2. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	The Group	The Target Group	Unaudited pro forma adjustments		Unaudited pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 2)	*(Note 3)*	
Non-current assets					
Property, plant and equipment	711	57,283	6,267	–	64,261
Investment properties	144,600	–	–	–	144,600
Other intangible assets	–	270,338	38,112	–	308,450
Deferred tax assets	–	5,167	–	–	5,167
Goodwill	–	7,152	159,354	–	166,506
	145,311	339,940	203,733	–	688,984
Current assets					
Trading merchandise goods	12,361	–	–	–	12,361
Trade receivables, other receivables and prepayments	31,205	55,360	–	–	86,565
Tax recoverable	27	–	–	–	27
Bank balances and cash	238,873	1,407	(15,644)	–	224,636
	282,466	56,767	(15,644)	–	323,589
Current liabilities					
Trade payables, other payables and accruals	16,078	67,239	–	6,150	89,467
Deferred revenue	–	2,440	–	–	2,440
Bank borrowings	7,397	–	–	–	7,397
Obligations under finance leases	–	4,432	–	–	4,432
Amounts due to related companies	–	787	–	–	787
Tax payable	108	–	–	–	108
	23,583	74,898	–	6,150	104,631
Net current assets/(liabilities)	258,883	(18,131)	(15,644)	(6,150)	218,958
Total assets less current liabilities	404,194	321,809	188,089	(6,150)	907,942

	The Group	The Target Group	Unaudited pro forma adjustments		Unaudited pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 2)	*(Note 3)*	
Non-current liabilities					
Bank borrowings	63,399	–	–	–	63,399
Obligations under finance leases	–	638	–	–	638
Convertible notes	–	–	320,739	–	320,739
Amount due to a shareholder of the Target Company	–	15,644	(15,644)	–	–
Deferred tax liabilities	999	752	16,902	–	18,653
	64,398	17,034	321,997	–	403,429
Net assets	**339,796**	**304,775**	**(133,908)**	**(6,150)**	**504,513**
Capital and reserves					
Share capital	98,327	78	(78)	–	98,327
Reserves	241,469	213,334	(213,334) 71,261	(6,150)	306,580
	339,796	213,412	(142,151)	(6,150)	404,907
Non-controlling interest	–	91,363	8,243	–	99,606
Total equity	**339,796**	**304,775**	**(133,908)**	**(6,150)**	**504,513**

Notes to the Unaudited Pro Forma Financial Information:

1. Pursuant to the sale and purchase agreement dated 27 March 2013 (the "Agreement") among the Group, the vendors and the guarantor, the consideration of the Acquisition is to be settled by:

   (i) the issue of the Company's convertible notes in the aggregate principal amount of HK$392 million (the "Convertible Notes"); and

   (ii) the assumption of the shareholder's loan outstanding owed by the Target Group as at the completion date subject to the maximum amount of US$3 million (equivalent to approximately HK$23.3 million).

   For the purpose of the preparation of this Unaudited Pro Forma Financial Information, the fair values of the liability component and equity component of the Convertible Notes are determined by the directors of the Company by reference to a professional valuation conducted by Knight Frank Asset Appraisal Limited, an independent firm of professionally qualified valuers, at approximately HK$320,739,000 and HK$71,261,000 respectively.

   The fair values of the Convertible Notes shall be re-assessed on the actual date of their issuance and are therefore subject to change.

2. The adjustments reflect (i) the recognition of the issue of the Convertible Notes and payment of the shareholder's loan of the Target Group; (ii) the elimination of the pre-acquisition reserves and share capital of the Target Group; and (iii) the fair value adjustments to the identifiable assets and liabilities of the Target Group and the recognition of goodwill, as if the Acquisition had been completed on 31 December 2012.

   In the opinion of the directors of the Company, upon the completion of the Acquisition, the identifiable assets and liabilities of the Target Group would be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations". For the purpose of the Unaudited Pro Forma Financial Information, the fair value of identifiable assets and liabilities of the Target Group as at 31 December 2012 was determined by the directors of the Company with reference to the valuation conducted by BMI Appraisals Limited, an independent firm of professionally qualified valuers, based on the following identifiable assets and liabilities of the Target Group as at 31 January 2013:

	Carrying amount *HK\$'000*	**Fair value adjustments** *HK\$'000*	**Fair value** *HK\$'000*
Property, plant and equipment	57,283	6,267	63,550
Other intangible assets	270,338	38,112	308,450
Deferred tax assets	5,167	–	5,167
Trade receivables, other receivables and prepayments	55,360	–	55,360
Bank balances and cash	1,407	–	1,407
Trade payables, other payables and accruals	(67,239)	–	(67,239)
Deferred revenue	(2,440)	–	(2,440)
Obligations under finance leases	(5,070)	–	(5,070)
Amounts due to related companies	(787)	–	(787)
Deferred tax liabilities *(Note)*	(752)	(16,902)	(17,654)
	313,267	27,477	340,744

Note: It represented the deferred tax liabilities arising from the fair value adjustments on certain identifiable assets in the aggregate amount of HK$44,379,000 with reference to the applicable corporate income tax rates of the United States of America and Canada ranging from 25.0% to 38.9%.

Goodwill arising from the Acquisition is calculated as follows:

	HK$'000
Consideration for the Acquisition:	
– Fair value of the Convertible Notes *(Note 1)*	392,000
– Cash payment of the shareholder's loan of the Target Group as at 31 January 2013	15,644
	407,644
Less:	
Fair value of the net identifiable assets and liabilities of the Target Group acquired as at 31 January 2013	340,744
Non-controlling interest (comprising (i) non-controlling interest of the Target Group of HK$91,363,000; and (ii) the 30% non-controlling interest's share of the net effect of fair value adjustments and deferred tax in the amount of HK$27,477,000)	(99,606)
Goodwill	166,506

The fair values of the consideration, the identifiable assets and liabilities of the Target Group and the goodwill derived from the Acquisition are subject to change and shall be re-assessed at time of actual completion of the Acquisition.

For the purpose of this Unaudited Pro Forma Financial Information, the directors of the Company have ensured that the steps taken on the assessment of impairment on goodwill have been properly performed in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" which is consistent with the accounting policy of the Group. Based on the assessment of the directors of the Company on the business plan to be executed and the recoverable amount of the business to be acquired, which is determined with reference to the business valuation of the Target Group prepared by BMI Appraisals Limited. Details of the basis, methodology and assumptions of the business valuation are set out in Appendix V of the Circular. The recoverable amount of the Target Group exceeds the Target Group's net assets value and goodwill and therefore, the directors of the Company consider that there is no impairment on the goodwill arising from the Acquisition as at 31 December 2012 as if the Acquisition had been completed on the same date. On that basis, the directors of the Company concluded that no impairment in the value of goodwill is considered necessary for the purpose of this Unaudited Pro Forma Financial Information.

It is the responsibility of the directors of the Company to ensure that the Company is adopting and will continue to adopt consistent accounting policies and ensure that the principal assumptions of the business valuation for assessment of the impairment of the Enlarged Group's goodwill are consistent for those adopted in the annual audited financial statements of the Enlarged Group in the future.

3. The adjustment reflects the estimated legal and professional expenses of approximately HK$6,150,000 that are directly attributable to the Acquisition which is recognised in the profit or loss of the Enlarged Group and the payable amount is included in trade payables, other payables and accruals.

   This adjustment will not have continuing profit or loss effect to the Enlarged Group.

The following is the text of a report prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 31 January 2013 of the market value of the 100% equity interest in Upfield Sky Limited and its subsidiaries.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

14 June 2013

The Directors
Sun Innovation Holdings Limited
Rooms 1818-23, 18th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Sun Innovation Holdings Limited (referred to as the "Company") for us to provide our opinion on the market value of the 100% equity interest in Upfield Sky Limited (referred to as "Upfield Sky") and its subsidiaries (together referred to as "Upfield Sky Group") as at 31 January 2013.

This report presents the basis of valuation, the background of Upfield Sky Group, an industry overview, the source of information, the scope of work and the valuation assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

BASIS OF VALUATION

This valuation has been carried out on the basis of market value. Market value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND OF UPFIELD SKY GROUP

Upfield Sky Limited

Upfield Sky Limited was incorporated in the British Virgin Islands with limited liability on 6 September 2012, with 10,000 shares being issued and fully paid up. Upfield Sky Limited is engaged in four main business segments, which are feature films, commercial production, co-production and digital human business, through its 70% indirectly held equity interest in Digital Domain 3.0, Inc. (referred to as "Digital Domain").

Digital Domain

Digital Domain is a corporation incorporated in the state of Delaware, U.S. The principal assets of Digital Domain are the entire issued share capital in each of Digital Domain Productions 3.0 (BC), Ltd. (referred to as "Digital Domain Production"), which is principally engaged in the VFX production for feature films and commercial production, and Mothership Media, Inc. (referred to as "Mothership Media"), which is principally engaged in the commercial production (together referred to as "Digital Domain Group").

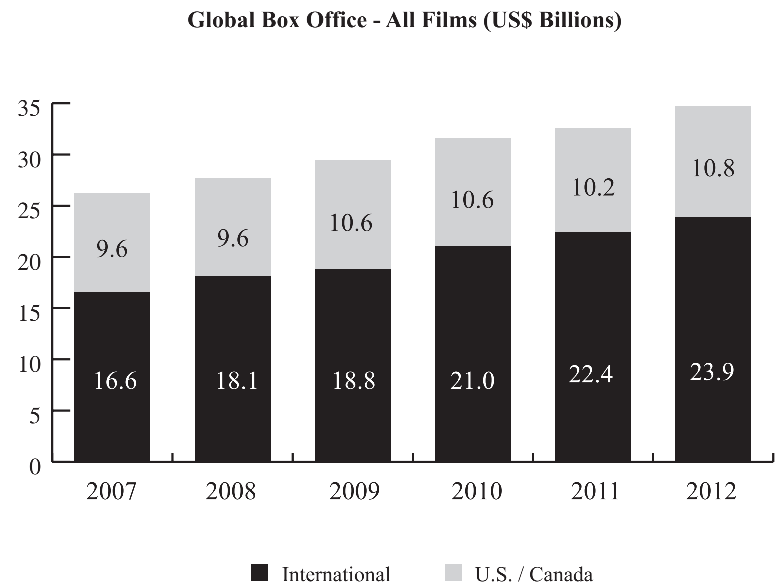
Currently, Digital Domain Group has four business segments: (i) feature films; (ii) commercial production; (iii) co-production; and (iv) digital human business.

INDUSTRY OVERVIEW

International Theatrical Market Overview

The international movie market recorded a modest growth in 2012. According to the report "Theatrical Market Statistics 2012" by Motion Picture Association of America, the global box office reached US$34.7 billion in 2012, representing annual growth rate of 6%. The international box office (the global box office excluding the US and Canada box office) accounted for about 69% of the global box office and the U.S. and Canada market contributed the remaining.

Figure 1: Global Box Office (2007 to 2012)



Source: Theatrical Market Statistics 2011 and 2012 by Motion Picture Association of America

The more developed and mature U.S. and Canada theatrical market recorded modest compounded annual growth rate (CAGR) of 2.4% between 2007 and 2012 while the international theatrical market, which includes the fast growing emerging economies such as the People's Republic of China (the PRC), Brazil and Russia, achieved a relative higher CAGR of 7.6% in the same period.

To further look into the major segments of the international market, Europe, Middle East & Africa (EMEA) are the largest segments which together reached US$10.7 billion box office in 2012. Asia Pacific and Latin America contributed US$10.4 billion and US$2.8 billion to the international box office respectively. The economic growth of the European Union was slack due to the implementation of austerity measures by the indebted countries. The box office from EMEA declined by about 1% in 2012 which is attributed to declines in certain European markets, including France, Italy and Spain. Asia Pacific and Latin America have been the main growth drivers in the global box office, increased by 60% and 100% respectively from 2007 to 2012.

Figure 2: International Box Office by Region – All Films (US$ Billions)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**% change 2012 vs 2007**
EMEA	$8.7	$9.7	$9.9	$10.4	$10.8	$10.7	23.0%
Asia Pacific	$6.5	$6.8	$7.2	$8.5	$9.0	$10.4	60.0%
Latin America	$1.4	$1.6	$1.7	$2.1	$2.6	$2.8	100.0%
Total:	**$16.6**	**$18.1**	**$18.8**	**$21.0**	**$22.4**	**$23.9**	**44.0%**

Source: Theatrical Market Statistics 2011 and 2012 by Motion Picture Association of America

With its robust economic growth, the PRC has contributed significantly to the international theatrical market. The box office in the PRC grew at 35% and 36% in 2011 and 2012 respectively and it has become the largest international market ahead of Japan. With growing disposable income of citizens and its sustainable economic growth, the PRC is expected to be the main growth driver of the global theatrical market in the coming years.

Figure 3: Top 5 International Box Office Markets in 2011 and 2012 – All Films (US$ billions)

Country	Box Office in 2012	Box Office in 2011
China	2.7	2.0
Japan	2.4	2.3
U.K.	1.7	1.7
France	1.7	2.0
India	1.4	1.4

Source: Theatrical Market Statistics 2011 and 2012 by Motion Picture Association of America

SOURCE OF INFORMATION

We have been furnished with information provided by the senior management of the Company. The valuation required the consideration of pertinent factors, including, but not limited to, the following:

- The nature of Upfield Sky Group including the industry sector and geographical location;
- The information provided by the senior management of the Company; and
- Other factors that will materially affect the operation of Upfield Sky Group.

SCOPE OF WORK

The following processes have been conducted by us in the course of our valuation:

- Interviewed with the senior management of the Company and obtained information in respect of Upfield Sky Group;
- Examined the information provided by the senior management of the Company;
- Prepared the valuation based on accepted valuation procedures and practices; and
- Presented the basis of valuation, the background of Upfield Sky Group, an industry overview, the source of information, the scope of work, the valuation assumptions, the valuation methodology and our conclusion of value in this report.

VALUATION ASSUMPTIONS

The following assumptions have been adopted in the valuation:

- All licenses issued by any authorized entity that will materially affect the operation of Upfield Sky Group have been obtained or can be obtained upon request;
- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where Upfield Sky Group operates or will operate;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The core operation of Upfield Sky Group will not differ materially from those of present or expected;
- Future business plans of the Upfield Sky Group will be successfully implemented and the financial projection will be materialized as expected by the senior management of Upfield Sky Group;
- The financial and operational information and profit forecast in respect of Upfield Sky Group have been prepared after due and careful consideration by the senior management of the Company; and
- There will be no human disruptions or natural disasters that will materially affect the operation of Upfield Sky Group.

VALUATION METHODOLOGY

The Valuation Approaches

The following valuation approaches have been considered in the valuation:

1. The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset;
2. The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the assets; and
3. The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing a substitute asset with equal utility as the subject asset.

The income approach was considered to be the most appropriate valuation approach as it takes the future growth potential and company specific issues of Upfield Sky Group into consideration.

Under the income approach, the Discounted Cash Flow (DCF) method was adopted. In applying the DCF method, the free cash flows for each year in the future were determined. The results were then discounted using a discount rate to determine the present value of the free cash flows.

$$FCF = NI + NCE + Int\ (1 - T_{int}) - NCI - InvFA - InvWC$$

Where:

FCF	=	*free cash flow*
NI	=	*net income*
NCE	=	*non-cash expenses*
Int	=	*interest expense*
T_{int}	=	*tax rate applied to interest expense*
NCI	=	*non-cash incomes*
InvFA	=	*investment in capital expenditure*
InvWC	=	*investment in net working capital*

The Profit Forecast

The market value of Upfield Sky Group was determined with reference to the profit forecast of Digital Domain Group for the period from 2013 to 2017 which was approved by the senior management of Digital Domain Group. The five year profit forecast was adopted in our valuation as forecast beyond five years is considered less reliable and explicit. The profit forecast was made up by five business segments of Digital Domain Group, which were feature films, commercial production, co-production, digital human business and cooperation with Beijing Galloping Horse Media Co., Ltd. (referred to as the "Beijing Galloping Horse").

Feature Film

Digital Domain Group is one of the largest VFX providers in the entertainment industry. The talented and experienced creative and technical teams of Digital Domain Group have over a decade of experience in VFX production for feature films. Digital Domain Group is capable of managing the entire process of development and production of VFX for large-scale action motion pictures and it also carries out some short-term contract work. The revenue forecast of the feature film segment was provided by the senior management of Digital Domain Group by considering existing contracts for VFX production and future VFX production projects. The contribution of feature film segment to the total revenue of Digital Domain Group is ranging from 54.7% to 64.1%.

Commercial Production

Digital Domain Group's commercial production aims at the advertising market, including provision of VFX and/or animation for all advertising media such as television commercials and campaigns of related commercials and online interactive advertising; and marketing solutions focused on the development, creation, production and implementation of marketing solutions for brand advertisers and advertising agency clients. The revenue forecast of the commercial production segment was provided by the senior management of Digital Domain Group by considering the estimated future project numbers in each year and the relevant size of these projects. The contribution of commercial production segment to the total revenue of Digital Domain Group is ranging from 18.2% to 19.2%.

Co-production

Digital Domain Group has entered into an investment and production agreement with Ender's Game Holdings LLC and Odd Lot Entertainment, LLC to provide financing and production services to co-produce the VFX action movie Ender's Game. This is the first time Digital Domain Group has been engaged in the co-production of film business. Digital Domain Group is expected to continuously engage in co-production of film business in the future. The revenue forecast of co-production segment was provided by the senior management of Digital Domain Group by considering the expected revenue from existing contract for the movie "Ender's Game" as well as other co-production opportunities in the future. The contribution of co-production segment to the total revenue of Digital Domain Group is ranging from 4.2% to 22.6%.

Digital Human Business

Digital Domain Group has developed the digital human technology and by using this technology, Digital Domain Media Group, Inc. introduced a new form of entertainment when the late rap star Tupac Shakur appear live at an outdoor music festival in California, U.S. in April 2012 and gave an original performance to 90,000 fans. Digital Domain Group is expected to lease out the technology in 2014. The revenue forecast of digital human business segment was provided by the senior management of Digital Domain Group by considering the expected license fee from leasing out of the technology. The contribution of digital human business segment to the total revenue of Digital Domain Group is ranging from 2.6% to 2.7%.

Cooperation with Beijing Galloping Horse

Digital Domain Group has entered into a letter of intent of cooperation with Beijing Galloping Horse, a film and television show producer in the PRC. Pursuant to the letter of intent of cooperation, Beijing Galloping Horse has an intention to exclusively appoint Digital Domain Group to provide VFX production services on all feature films, television shows and commercials that Beijing Galloping Horse produces or invests in. The revenue forecast of cooperation with Beijing Galloping Horse segment was provided by the senior management of Digital Domain Group by considering the expected revenue from providing VFX services to Beijing Galloping Horse. The contribution of cooperation with Beijing Galloping Horse segment to the total revenue of Digital Domain Group is ranging from 4.5% to 12.6%.

The forecasted revenue of Digital Domain Group is shown as follows:

(All figures in US$ million)	***2013***	***2014***	***2015***	***2016***	***2017***
Total Revenue	**144.81**	**150.76**	**168.40**	**181.34**	**196.27**

According to theatrical market statistics published by Motion Picture Association of America, the global box office reached US$34.7 billion in 2012, up by 6.0%. The U.S. and Canada theatrical market, which is more developed and mature, recorded modest compounded annual growth rate ("CAGR") of about 2.4% between 2007 and 2012 while the international theatrical market, which includes the rapidly growing emerging markets such as the PRC, Brazil and Russia, attained a relatively higher CAGR of 7.6% in the same period. Among the international market, the PRC recorded a robust growth over the past few years. It has surpassed Japan and become the largest theatrical market in the international market. It recorded a CAGR of about 38.7% between 2007 and 2012. The total revenue forecast of Digital Domain Group has an implied 5-year CAGR from 2012 to 2017 of 13.0%. The growth was mainly sourced from the addition of new business segments including co-production, digital human and cooperation with Beijing Galloping Horse as well as expected rapid future growth in the PRC market. About 50.3% of the forecasted revenue in 2013 was derived from the existing signed VFX production contracts and the signed investment and production agreement of Ender's Game. The forecasted revenue from the signed VFX production contract is expected to be fully recognized in 2013 while majority of the forecasted revenue from the signed investment and production agreement of Ender's Game is expected to be recognized in 2013 and the remaining is expected to be recognized in 2014. The remaining forecasted revenue in 2013 was mainly derived from (i) the future VFX production projects of which Digital Domain Group is currently bidding, accounting for 27.0% of 2013 forecasted revenue; (ii) the estimated number of future projects of commercial production in 2013, accounting for 18.2% of 2013 forecasted revenue and (iii) future VFX production projects which is currently under negotiation with Beijing Galloping Horse, accounting for 4.5% of 2013 forecasted revenue. The implied CAGR over the forecast period from 2013 to 2017 is around 7.9%.

Cost of Sales

The cost of sales forecast was provided by the senior management of Digital Domain Group. The future cost of sales includes the direct labor cost, relevant production expenses in each segment, the spare production labor cost, sales related cost and the maintenance costs of software and equipment. The cost of sales forecasts of feature film segment and commercial production segment were determined with reference to their respective historical gross profit margin before the bankruptcy of Digital Domain Media Group, Inc. (referred to as "DDMG"). The cost of sales forecast of Digital Domain Group was projected by considering the effect of implementing a series of stringent cost control and outsourcing measures, including among others, (i) reducing the number of unutilized production employees without jeopardizing the fluency of workflow; (ii) dismissing employees who have unsatisfactory performance, (iii) in the next five years, outsourcing gradually the relatively low technique VFX production to China and India, which are fast-growing in the graphic and animation designing sector and have much lower average wages; and (iv) cost control in other expenditures such as equipment purchases and office supplies. In 2013, Digital Domain Group has outsourced a small part of VFX production to an Indian company as its pilot program for the cost reduction and has efficiently reduced its production cost by nearly 40%. It is planned that around 30% of the relatively low-tech level of job will be gradually outsourced to China and India in the coming years.

The gross profit margins are ranging from 20.1% to 30.5% in the forecast period, which is in line with the gross profit margins of the Comparable Companies (referred to in the section "The Comparable Companies" below) of Upfield Sky Group ranging from 22.1% to 46.8%.

Selling and Administrative Expenses

The future selling and administrative expenses include administrative expenses and general overhead expenses of Digital Domain Group. The future selling and administrative expenses were determined with reference to historical level of selling and administrative expenses before the bankruptcy of DDMG, and projected by considering the implementation of a series of stringent cost control measures. The future selling and administrative expenses are projected to grow at 5% annually in the forecast period.

Corporate Tax

The business of Digital Domain Group is subject to the US tax jurisdiction and subject to the US tax rate of 40% on profit before tax.

Net Income

The net income of Digital Domain Group was calculated based on the following formula:

$$NI = Rev - COS - SA - Tax$$

Where:

NI	=	*net income*
Rev	=	*revenue*
COS	=	*cost of sales*
SA	=	*selling and administrative expenses*
Tax	=	*corporate tax*

Non-cash Expenses

The future non-cash expenses include the depreciation and amortisation of existing and expected future property and equipment, and intangible assets of Digital Domain Group. The depreciation and amortisation expenses in the forecast period are ranging from US$9.4 million to US$16.1 million. The increase in depreciation and amortisation expenses is mainly due to the future investment in capital expenditure which mainly includes the purchase of equipment.

Interest Expenses

No interest expenses were projected.

Non-cash Incomes

No non-cash incomes were projected.

Investment in Capital Expenditure

The future investment in capital expenditure mainly includes the purchase of equipment, including computer, workstation, media system and animation software upgrade.

Investment in Net Working Capital

The future investment in working capital was determined with reference to the historical account receivable turnover ratio and account payable turnover ratio of Digital Domain Group.

As a result, the forecasted free cash flows of Digital Domain Group in the forecast period are shown as follows:

(All figures in US$ million)	*2013*	*2014*	*2015*	*2016*	*2017*
Free Cash Flow of Digital Domain Group	**14.78**	**10.10**	**14.50**	**16.06**	**17.20**

The free cash flows of Digital Domain Group were discounted at the discount rate of 17.17% of Upfield Sky Group to determine the present values of the free cash flows. The present values of discounted free cash flows in the forecast period are shown as follows:

(All figures in US$ million)	*2013*	*2014*	*2015*	*2016*	*2017*
Discounted Free Cash Flow of Digital Domain Group	**12.60**	**8.07**	**9.89**	**9.35**	**8.54**

Terminal Value

Gordon Growth Model, which assumes the free cash flow beyond the forecasted 5 years will grow in perpetuity at a long-term growth rate, was applied to determine the terminal value. The long-term growth rate of 2.4%, which was determined with reference to the 10-year average of historical inflation rate in the U.S., was adopted. It is common practice to adopt inflation rate as long-term growth rate. The formula of the Gordon Growth Model is shown as follows:

$$Gordon\ Growth\ Model = FCF_t * (1 + g)/(WACC - g)$$

Where:

FCF_t	=	*final year free cash flow in the forecast period*
g	=	*long-term growth rate*
$WACC$	=	*weighted average cost of capital*

The present value of the terminal value is US$59.01 million.

Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. The discount for lack of marketability reflects the fact that there is no ready market for shares in a privately held company. Ownership interests in privately held companies are typically not readily marketable as compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company. In the valuation, the discount for lack of marketability of 25% was determined with reference to the *EVCA Guidelines* issued by European Private Equity & Venture Capital Association by considering the marketability of Digital Domain Group.

The Comparable Companies

The market value of Upfield Sky Group was determined with reference to publicly listed companies that are considered to be comparable to Upfield Sky Group (referred to as the "Comparable Companies"). Details of the Comparable Companies are as follows:

	List of the Comparable Companies	Bloomberg Ticker
1.	DreamWorks Animation SKG, Inc.	DWA US
2.	Technicolor	TCH FP
3.	Point. 360	PTSX US
4.	Forestlight Entertainment AB	FORE SS
5.	DHX Media Ltd.	DHX CN
6.	DQ Entertainment PLC	DQE LN
7.	Lions Gate Entertainment Corporation	LGF US
8.	Entertainment One Ltd.	ETO LN

The Comparable Companies were selected based on the following criteria:

– the companies were principally engaged in the motion picture and related businesses;
– the companies' shares were actively traded in the market;
– the companies have sufficient relevant financial information which is publicly available for our valuation.

For income approach, the Comparable Companies were selected to reflect the systematic risk of the industry that Digital Domain Group involves in. The company specific risks were considered by adding other risk premiums including size premium and specific risk premium.

The Discount Rate

The Weighted Average Cost of Capital (WACC) was adopted as the discount rate. The WACC comprises two components: the cost of equity and the cost of debt.

The WACC was computed using the following formula:

$$WACC = R_e\,(E / V) + R_d\,(D / V)\,(1 - T_c)$$

Where:

WACC	=	*weighted average cost of capital*
R_e	=	*cost of equity*
R_d	=	*cost of debt*
E	=	*value of equity*
D	=	*value of debt*
V	=	*sum of values of equity and debt*
T_c	=	*corporate tax rate*

The cost of equity was determined using the Capital Asset Pricing Model (CAPM).

The CAPM was computed using the following formula:

$$R_e = R_f + \beta * MRP + RP_s$$

Where:

R_e	=	*cost of equity*
R_f	=	*risk-free rate*
β	=	*beta coefficient*
MRP	=	*market risk premium*
RP_s	=	*risk premium for size and other company specific risks*

The yield rate of the 10-year United States Treasury Bonds of 1.98% was adopted as the risk-free rate which is generally adopted to represent the long term return for a risk free investment.

The market risk premium of 6.14% was determined by the market risk premium of the United States which was based on information from the SBBI Valuation Edition 2012 Yearbook by Ibbotson & Associates.

The beta coefficient of 0.738 was determined by the median of the unlevered betas of the Comparable Companies, then being relevered based on the specific corporate tax rate and the weight of debt applied to Upfield Sky Group.

By considering the size of Upfield Sky Group, a size premium of 6.10% was adopted which represents the return in excess of CAPM for the companies of similar size as Upfield Sky. In addition, a company specific premium of 10.00% was adopted by considering risk associated with the forecasted revenue growth rate and the margin improvement. As a result, the cost of equity was calculated as 22.61%.

The Upfield Sky Group's cost of debt of 3.25% was determined with reference to the prime rate offered by major U.S. banks. The after-tax cost of debt of 1.95% was calculated by multiplying one minus the corporate tax rate of the United States of 40% by the cost of debt.

The weight of debt of 26.35% was determined by the median of the weights of debt of the Comparable Companies, and the weight of equity of 73.65% was calculated as one minus the weight of debt.

As a result, the WACC of Upfield Sky Group was calculated as 17.17%.

REMARKS

For the purpose of our valuation, we have been furnished with information provided by the senior management of the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made or liability assumed for the accuracy of any data, opinions or estimates identified as being furnished by others, which have been used in formulating our analysis.

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK$).

CONCLUSION OF VALUE

Our conclusion of value is based on accepted valuation procedures and practices that rely on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to uncertainties and contingencies that are beyond the control of the Company, Upfield Sky Group or us.

Based on our investigation and analysis outlined in this report, it is our opinion that the market value of the 100% equity interest in Upfield Sky Group as at 31 January 2013 was **HK$426,000,000 (HONG KONG DOLLARS FOUR HUNDRED AND TWENTY SIX MILLION ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Company, Upfield Sky Group or the result reported.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc, MUD, MBA(Finance), MSc(Eng), PhD(Econ),
FCIM, FSOE, FRSM, SICME, SIFM, MIPA, MCIAb, AFA,
MASCE, MIET, MIEEE, MASME, MIIE, MASHRAE, MAIC,
CPA UK, MRI, MRGS, MRES
Managing Director

Note:

Dr. Tony C. H. Cheng is a member of the Institute of Public Accountants, Australia, the Chairman of Institute of Mechanical Engineers, China, a member of the American Society of Civil Engineers, a member of the American Society of Mechanical Engineers and a member of Institute of Industrial Engineers (U.K.). He has about 10 years' experience in valuing similar assets or companies as that of Upfield Sky Group worldwide.

Set out below are texts of the reports from BDO Limited and United Simsen Securities Limited in connection with the cash flow forecast underlying the valuation on the Target Group as at 31 January 2013 prepared by BMI Appraisals Limited for the purpose of inclusion in this circular.

A. REPORT FROM BDO LIMITED

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香港干諾道中111號
永安中心25樓

The Board of Directors
Sun Innovation Holdings Limited

14 June 2013

Dear Sirs

SUN INNOVATION HOLDINGS LIMITED (the "Company")

UNDERLYING CASH FLOW FORECAST OF THE VALUATION ON UPFIELD SKY LIMITED AND ITS SUBSIDIARIES (collectively referred to as the "Target Group")

INDEPENDENT ASSURANCE REPORT

In accordance with our agreed terms of engagement, we have examined the arithmetical accuracy of the calculations of the underlying cash flow forecast of the valuation on the Target Group as at 31 January 2013 (hereinafter referred to as the "Underlying Forecast") which is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Underlying Forecast is set out in Appendix V to the Company's circular dated 14 June 2013 (the "Circular").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND OURSELVES

The directors of the Company (the "Directors") are responsible for the preparation of the Underlying Forecast and the reasonableness and validity of the assumptions based on which the Underlying Forecast is prepared (the "Assumptions").

It is our responsibility to form a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to report our conclusion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation.

The Assumptions include hypothetical assumptions about future events as detailed in the Appendix V to the Circular and management actions that cannot be confirmed or verified in the same way as past results, and these assumptions may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. We have examined the arithmetical accuracy of the calculations of the Underlying Forecast. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation on any entity within the Target Group.

CONCLUSION

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the Underlying Forecast has been properly compiled in accordance with the Assumptions made by the Directors as set out in the Appendix V to the Circular.

Yours faithfully
BDO Limited
Certified Public Accountants
Hong Kong

B. REPORT FROM UNITED SIMSEN SECURITIES LIMITED

天行聯合證券有限公司
United Simsen Securities Limited

The Board of Directors
Sun Innovation Holdings Limited
Rooms 1818-1823, 18th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

14 June 2013

Dear Sir

We refer to the circular of Sun Innovation Holdings Limited (the "**Company**") dated 14 June 2013 in relation to the Acquisition (the "**Circular**"). Unless otherwise defined or if the context otherwise requires, all terms defined in the Circular shall have the same meaning when used in this letter.

United Simsen Securities Limited ("**United Simsen**") hereby confirms that it has reviewed and discussed with the Company, the valuation method, the bases, the assumptions, the underlying cash flow forecast together with key parameters adopted in the calculation of business enterprise value of the Target Group prepared by BMI Appraisals Limited, the independent valuer of the Company (the "**Independent Valuer**") which constitute a profit forecast (the "**Profit Forecast**") in the course of their work. During our review, we have discussed the bases and assumptions together with the Independent Valuer, the reporting accountant and the Company. We have satisfied ourselves that the valuation method, the bases, the assumptions and the underlying cash flow forecast together with key parameters adopted have been made with due care and objectivity, and on a reasonable basis and that the Profit Forecast has been made by the Directors after due and careful enquiry.

We have not independently verified the computations leading to the Independent Valuer's determination of the calculated value of business enterprise of Target Group (the "**Calculated Value**"). We have had no role or involvement and have not provided and will not provide any assessment of the Calculated Value. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the Calculated Value as determined by the Independent Valuer and set out in the valuation report issued by the Independent Valuer or otherwise.

United Simsen further confirms that the assessment, review and discussion carried out by it as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that it has, in arriving at its views, relied on information and materials supplied to it by the Independent Valuer, the Group and the Target Group and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and the Target Group. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Circular, for which the Directors are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by United Simsen on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to United Simsen at the time of this letter, would have altered our respective assessment and review. Further, while the qualifications, bases and assumptions adopted by the Independent Valuer are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Independent Valuer.

United Simsen is acting as financial adviser to the Company in reviewing the Profit Forecast and will receive fees for such advice. United Simsen and its directors and affiliates will, neither jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the review of the Profit Forecast, nor will United Simsen, its directors or affiliates, whether jointly or severally, owe any responsibility to anyone other than the Company.

Nothing in this letter should be construed as an opinion or view as to the Calculated Value or any other value of Target Group or as an opinion or recommendation to any person as to whether they should acquire Shares or as to how to vote on the Acquisition or other incidental or ancillary documents. Shareholders are recommended to read the Circular with care.

A copy of this letter in its entirety may be reproduced in the Circular on the basis that none of the Company, the Independent Valuer or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without our prior written consent. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Yours Faithfully,
United Simsen Securities Limited

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in Shares, underlying shares and debentures

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

Name of Director	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company *(%)*
Mr. Zhou	Interest in controlled corporation *(Note)*	2,610,395,180 long position	26.55

Note:

Mr. Zhou held 2,610,395,180 Shares through Wise Sun Holdings Limited, a company wholly-owned by Bright Ace Holdings Limited, a company beneficially owned by him.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the Share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which: (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and other persons' interests in Shares and underlying shares

As at the Latest Practicable Date, the interests and short positions of persons, other than a Director or chief executive of the Company, who had interests or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, were as follows:

Name of Shareholder	**Capacity**	**Number of Shares held**	**Approximate percentage or attributable percentage of shareholding** *(%)*
Fortune Source International Limited	Beneficial owner *(Note 1)*	1,125,000,000	11.44
Zhang Xiaoqun	Interest in controlled corporation *(Note 1)*	1,125,000,000	11.44
Long Gate Limited	Beneficial owner *(Note 2)*	845,500,000	8.60
Kwok Ho Wan	Interest in controlled corporation *(Note 2)*	845,500,000	8.60
Gegen Tana	Beneficial owner *(Note 3)*	5,037,200,000	51.23
Che Fung	Interest in controlled corporation *(Note 4)*	4,762,800,000	48.44
Ever Union Capital Limited	Interest in controlled corporation *(Note 4)*	4,762,800,000	48.44
Harmony Energy Limited	Beneficial owner *(Note 4)*	4,762,800,000	48.44

Notes:

1. Fortune Source International Limited is wholly-owned by Mr. Zhang Xiaoqun.

2. Long Gate Limited is wholly-owned by Mr. Kwok Ho Wan.

3. Ms. Gegen Tana is one of the vendors under the Sale and Purchase Agreement pursuant to which she will be issued the Convertible Notes in accordance with the terms and conditions thereof.

4. Harmony Energy Limited is one of the vendors under the Sale and Purchase Agreement pursuant to which it will be issued the Convertible Notes in accordance with the terms and conditions thereof. Harmony Energy Limited is a wholly-owned subsidiary of Ever Union Capital Limited, which is in turn wholly-owned by Mr. Che.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other persons, other than a Director or chief executive of the Company, who had interests or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

Material contracts entered into by the Group

(a) the agreement dated 13 July 2012 entered by Ever Union Medical Services Group Limited, a wholly-owned subsidiary of the Company, as the purchaser, 深圳市新和科技發展有限公司 (Shenzhen Xinhe Technology Development Company Limited*) and 北京京佰奇資產管理有限公司 (Beijing Jingbaiqi Asset Management Company Limited*), as the vendors, and Mr. Tan Zhenyu and Mr. Qin Zhiming, as guarantors, pursuant to which Ever Union Medical Services Group Limited agreed to purchase the entire registered capital of 深圳市拓和投資發展有限公司 (Shenzhen Tuohe Investment Development Company Limited*) at a total consideration of RMB77,000,000 (the "Agreement");

(b) the supplemental agreement dated 10 August 2012 entered by the parties thereto the Agreement to amend certain terms of the Agreement (the "Supplemental Agreement");

(c) the deed of termination dated 26 October 2012 entered by the parties thereto to terminate the Agreement as supplemented by the Supplemental Agreement;

(d) the MOU; and

(e) the Sale and Purchase Agreement.

* *for identification purpose only*

Material contracts entered into by the Target Group

(a) Asset Purchase Agreement dated 24 September 2012 among Galloping Horse – Reliance (in its former name of Galloping Horse America, LLC), Digital Domain Media Group, Inc. and the subsidiaries of Digital Domain Media Group, Inc.

4. DIRECTORS' SERVICE CONTRACT

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

5. DIRECTORS' INTERESTS IN THE ENLARGED GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE ENLARGED GROUP

As at the Latest Practicable Date, none of the Directors or proposed Directors, directly or indirectly, had any interest in any assets which had since 31 December 2012 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. LITIGATION

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

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

8. EXPERTS

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

Name	Qualification
BDO Limited ("BDO")	Certified Public Accountants
BMI Appraisals Limited ("BMI")	Business valuer
GF Capital (Hong Kong) Limited ("GF Capital")	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity as defined under the SFO
Knight Frank Asset Appraisal Limited ("Knight Frank")	Valuer for the Convertible Notes
United Simsen Securities Limited ("United Simsen")	a corporation licensed to carry on business in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, each of BDO, BMI, GF Capital, Knight Frank and United Simsen did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2012, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of BDO, BMI, GF Capital, Knight Frank and United Simsen was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of BDO, BMI, GF Capital, Knight Frank and United Simsen has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which it respectively appears.

9. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Enlarged Group.

(b) As at the Latest Practicable Date, no Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2012, the date to which the latest published audited consolidated financial statements of the Group were made up.

(c) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the head office and principal place of business in Hong Kong is at Rooms 1818-1823, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

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

(e) The company secretary of the Company is Ms. Chow Fung Ling, who is an associate member of the Institute of Chartered Secretaries and Administrators.

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

10. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Rooms 1818-1823, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

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

(b) the material contracts referred to in the Section headed "Material contracts" in this Appendix;

(c) the letter from Independent Financial Adviser to the Shareholders, the text of which is set out on pages 39 to 68 of this circular;

(d) the written consents of experts referred to in the Section headed "Experts" in this Appendix;

(e) the accountants' report prepared by BDO on the Target Group, the text of which is set out in Appendix II;

(f) the accountants' report prepared by BDO in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the valuation report on the Target Group prepared by BMI, the text of which is set out in Appendix V to this circular;

(h) the report prepared by BDO in connection with the forecasts underlying the valuation on the Target Group, the text of which is set out in Appendix VI;

(i) the report prepared by United Simsen in connection with the profit forecasts underlying the valuation on the Target Group, the text of which is set out in Appendix VI;

(j) the valuation report of Convertible Notes prepared by Knight Frank;

(k) the annual reports of the Company for each of the two financial years ended 31 December 2012; and

(l) this circular.

SUN INNOVATION HOLDINGS LIMITED

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

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Sun Innovation Holdings Limited ("Company") will be held at the Conference Room, Room 1818, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong on Wednesday, 3 July 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

"**THAT**:

(1) the transactions contemplated under the conditional sale and purchase agreement (the "Agreement") dated 27 March 2013 entered into between the Company, Harmony Energy Limited and Ms. Gegen Tana (the "Vendors"), as vendors, Digital Domain Enterprise Limited, a wholly-owned subsidiary of the Company, as purchaser (the "Purchaser") and Mr. Che Fung (as the guarantor of Harmony Energy Limited) as amended by a side letter between the same parties on 23 May 2013 in relation to, inter alia, the sale by the Vendors and purchase by the Purchaser of (i) the entire issued share capital of Upfield Sky Limited ("Target") at a consideration of HK$392 million to be satisfied by the issue of the Convertible Notes (as defined below) to the Vendors and (ii) the shareholder's loan due from the Target to Harmony Energy Limited (the "Loan") at a consideration equal to an amount of the Loan subject a maximum amount of US$3 million unless otherwise agreed by the Purchaser in accordance with the terms of the Agreement (a copy of the Agreement has been produced to the meeting marked "A" and signed by the Chairman of the meeting for the purpose of identification), be and are hereby approved;

(2) the issue of the convertible notes ("Convertible Notes") by the Company to the Vendors in the aggregate principal amount of HK$392 million to be apportioned as to the principal amount of HK$190.512 million to Harmony Energy Limited and HK$201.488 million to Ms. Gegen Tana entitling holders thereof to convert the principal amount thereof into ordinary shares of the Company (the "Conversion Share(s)") at an initial conversion price of HK$0.04 per Conversion Share (subject to adjustments) and the issue and allotment of the Conversion Shares upon an exercise of the conversion rights attaching to the Convertible Notes be and are hereby approved; and

(3) the directors of the Company be and are hereby authorized to exercise all the powers of the Company and take all steps as might in their opinion be desirable, necessary or expedient to give effect to or in connection with the Agreement including without limitation to:

(a) the execution, amendment, supplement, delivery, submission and/or implementation of any further documents or agreements in relation to the Agreement, the issue of the Convertible Notes and the issue and allotment of the Conversion Shares; and

(b) the taking of all necessary actions to implement the transactions contemplated under the Agreement."

By Order of the Board
SUN INNOVATION HOLDINGS LIMITED
Zhou Jian
Chairman

Hong Kong, 14 June 2013

Notes:

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

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

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

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

(5) A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

(6) The resolution is to be voted by way of poll.

(7) The instrument appointing a proxy is enclosed.