DIGITAL DOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED
數字王國集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code : 547)

25TH ANNIVERSARY

ANNUAL REPORT 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Peter CHOU (Chairman)
Mr. WEI Ming (Vice Chairman)
Mr. SEAH Ang (Chief Executive Officer)
Mr. Amit CHOPRA (Chief Operating Officer)

Non-executive Directors
Mr. PU Jian
Dr. SONG Alan Anlan

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

AUDIT COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

REMUNERATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Mr. SEAH Ang
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

NOMINATION COMMITTEE

Mr. DUAN Xiongfei (Chairman)
Mr. SEAH Ang
Ms. LAU Cheong
Mr. WONG Ka Kong Adam

COMPANY SECRETARY

Ms. Fok Lai Yan

STOCK CODE

547

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9/F., Henley Building
No. 5 Queen's Road Central
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
The Belvedere Building, 69 Pitts Bay Road
Pembroke HM08, Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China Limited
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
Citibank India
East West Bank
EverTrust Bank
Industrial and Commercial Bank of China Limited
Royal Bank of Canada

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

SOLICITOR

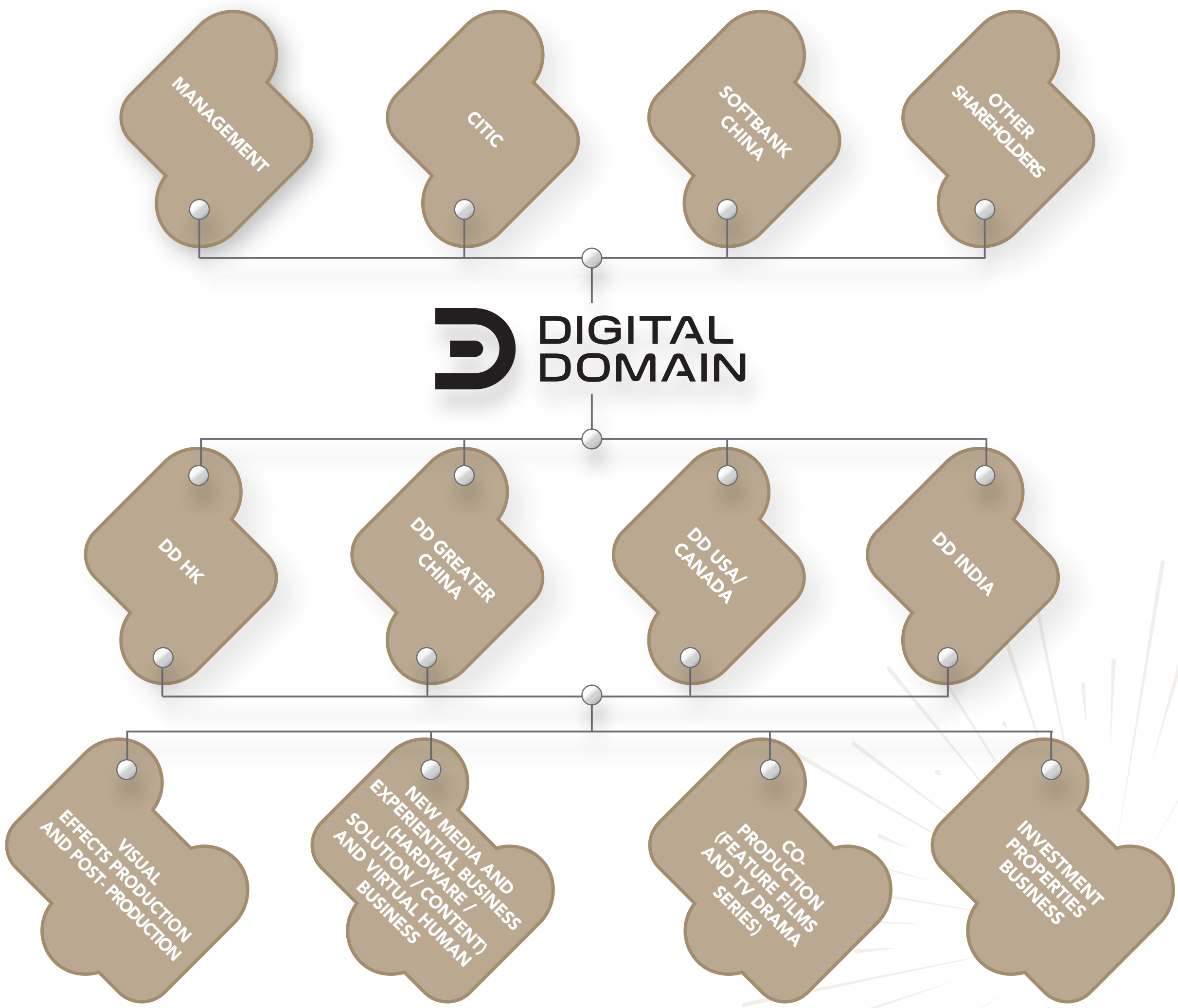
Reed Smith Richards Butler

digitaldomain.com
Digital Domain Holdings
Digital_Domain
DigitalDomain 數字王國

DIGITAL DOMAIN CREATES TRANSPORTIVE EXPERIENCES THAT ENTERTAIN, INFORM AND INSPIRE.

The company is a pioneer in many fields, including visual effects, livestreaming landmark events in 360° virtual reality, building situational awareness applications, creating "virtual humans" for use in films and live events, and developing interactive content. A creative force in visual effects and media applications, Digital Domain and its predecessor entities have brought artistry and technology to hundreds of motion pictures, commercials, video games, music videos and virtual reality experiences. Staff artists have won more than 100 major awards, including Academy Awards, Clios, BAFTA awards and Cannes Lions.

Digital Domain has offices in Los Angeles, Vancouver, Montréal, Hyderabad, Beijing, Shanghai, Shenzhen, Taipei and Hong Kong. The following is a simplified chart of major businesses of the Group.



Note: For details and full names of these businesses/projects/companies, please refer to "Chief Executive Officer's Review" section of this annual report on pages 6 to 35.

CHAIRMAN'S STATEMENT

In the global studio's 26th year, Digital Domain continues its rich history of creating world-class premium visual effects, post-production and animation.

Digital Domain leads the entertainment industry by combining the best digital artistry talent with the most advanced technological innovations.

We are very excited to formally announce our global expansion plans, with the opening of Montréal, Québec. It will be the ninth studio location for Digital Domain, alongside Los Angeles, Vancouver, Beijing, Shanghai, Shenzhen, Hong Kong, Taipei and Hyderabad.

Digital Domain further cemented strong studio partner relationships with all the big entertainment groups, including Warner Brothers, Disney, DC Comics, Marvel Studios, Dark Horse Entertainment, Netflix, STARZ and SONY.

Our digital humans, animation and visual effects teams received international attention for work on Josh Brolin's Thanos character in Marvel Studio's hit film, "*Avengers: Infinity War*" with BAFTA and VES award nominations and stories from major publications. Digital Domain led visual effects, previsualisation, postvisualisation, virtual productions, post-production and/or motion capture for many blockbuster feature films including Steven Spielberg's "*Ready Player One*," Ava DuVernay's "*Wrinkle in Time*," Ryan Coogler's "*Black Panther*," "*Ant-Man and the Wasp*," "*Aquaman*," and "*Shadow*." For episodics, we completed work on several episodes of STARZ's "*Outlander*" and Netflix's "*Lemony Snicket's A Series of Unfortunate Events*."

Digital Domain also completed visual effects and post-production work for some of the world's largest brands, including Google, Dollar Shave Club, Bud Light, NBA and NBC. Our games work is unparalleled, with many major video game publishers calling us for post-production work for their in-game cinematics and marketing materials, including Ubisoft for "*Assassin's Creed Odyssey*", Activision for "*Destiny 2: Forsaken*," and "*Call of Duty: Black Ops 4*," and "*Command & Conquer: Rivals*" for Electronic Arts.

Globally, Digital Domain continued to lead the VR industry in the creation of premium content for Samsung, London Fashion Week, SyFy Network, Redbull, Google and Discovery Network.

Thank you to everyone in the Digital Domain family, including all of our partners around the globe and the thousands of artists and innovators whom call Digital Domain home. It is truly an honor to create more chapters of the Digital Domain legacy with each and every one of you.

Peter CHOU
Chairman

Hong Kong, 29 March 2019

CHIEF EXECUTIVE OFFICER'S REVIEW

FINANCIAL AND BUSINESS REVIEW

During the year ended 31 December 2018, the Group achieved a revenue of HK$600,679,000 (2017: HK$703,004,000), showing a decrease of approximately 15% compared to that of the previous year. The gross profit of the Group amounted to HK$52,956,000 (2017: HK$81,778,000) during the year under review. The decrease in turnover and gross profit were mainly attributable to the media entertainment segment. As at 31 December 2018, the total assets of the Group amounted to HK$2,224,839,000 (as at 31 December 2017: HK$1,893,029,000). The loss attributable to the owners of the Company for the year was HK$518,030,000 (2017: HK$524,893,000). The loss for the year was approximately HK$525,497,000 (2017: HK$544,141,000). The loss for the year was mainly caused by:

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

- (a) equity-settled share-based payments for the share options granted between 2014 and 2017 to the value of HK$7,782,000 (2017: HK$57,428,000);
- (b) additional amortisation and depreciation expenses from the acquisition of 3Glasses Group of HK$30,025,000 (2017: nil);
- (c) additional amortisation expenses from the investment in TV drama series (grouped under “Participation Rights”) of HK$40,512,000 (2017: nil);
- (d) other amortisation and depreciation expenses (besides the two items mentioned above) to the value of HK$80,364,000 (2017: HK$60,219,000); and

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

(iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the year under review, this segment recorded a revenue of approximately HK$595,917,000 (2017: HK$694,718,000). The revenue from this segment accounted for approximately 99% of the Group’s revenue for the year under review. This segment incurred a loss of approximately HK$287,858,000 (2017: HK$277,545,000). The loss included the content development and research and development costs incurred during the year under review relating to virtual reality content and games, 360° and interactive virtual human functionality. The adjusted segment loss (before interest expenses and taxation), taking into account adjustments due to (i) depreciation of property, plant and equipment and (ii) amortisation of intangible assets, was HK$184,573,000 (2017: HK$223,317,000).

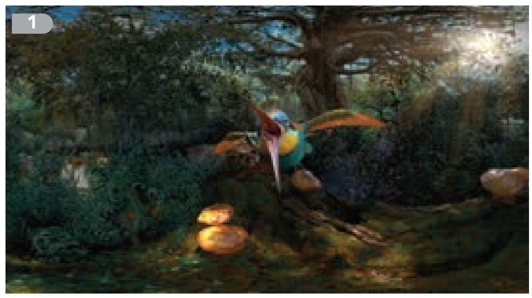
MEDIA ENTERTAINMENT SEGMENT

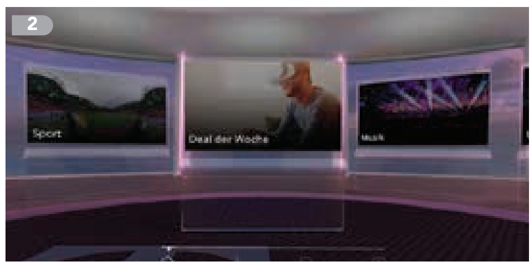
A. VIRTUAL REALITY/AUGMENTED REALITY ("AR"), NEW MEDIA AND EXPERIENTIAL

This segment includes businesses offering augmented, immersive and virtual reality (collectively as "VR") technology services using 360° digital capture technology and computer graphics (CG).

Digital Domain offers a variety of products and services in the emerging VR market. The Company has developed a VR streaming platform and interactive toolset to support an end-to-end solution from concept to consumption of immersive content. Digital Domain teams use proprietary cameras and software for capturing 360° video footage, and their digital artists produce VR experiences in real time and for video on demand (VOD). In addition to using its own app for hosting VR content, Digital Domain technical teams also create custom VR apps for brands and telecommunication entities.

DIGITAL DOMAIN'S VR/AR, NEW MEDIA AND EXPERIENTIAL TEAM EXECUTED SEVERAL LIVESTREAM BROADCASTS, EXPERIENCES AND INSTALLATIONS, INCLUDING FOR THESE IN 2018:



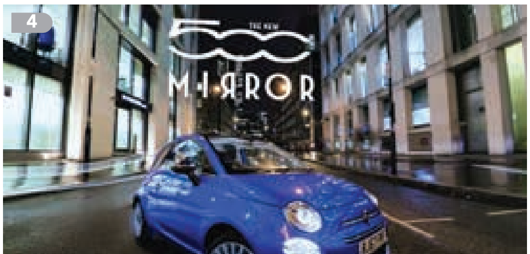


1 ***"Micro Giants" by Digital Domain:***
An original VR creation by Mr. ZHOU Yifu, a creative director of Digital Domain and head of VFX for the Beijing studio, "*Micro Giants*" was featured at the New Frontier exhibition of the 2018 Sundance Film Festival, which recognises the exceptional creativity made possible by advanced VR technology. "*Micro Giants*" beat numerous independent artificial intelligence ("AI"), VR or mixed reality ("MR") entries to become the only original creation from China to be featured. This is also the first original creation from Digital Domain's Greater China team to receive an international honour.

2 ***Magenta VR:***
Digital Domain joined forces with Deutsche Telekom (T-Mobile) to create ***Magenta VR***, an enterprise VR platform experience for entertainment and much more.

Samsung Unpacked 360º:
Samsung and Digital Domain came together again for the 4th year in a row for **Samsung Unpacked 360º**. This broadcast event showcases Samsung's new technologies to the world.

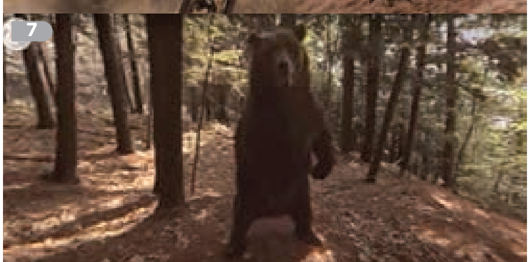
3 ***London Fashion Week 360º:***
The 360º team captured a unique behind-the-scenes experience of London Fashion Week 2018.



4 ***FIAT 500 Mirror 360º:***
For this special ad campaign, Fiat and the British Fashion Council partnered with Digital Domain to create a 360º promotional video for the FIAT 500 Mirror.

5 ***SyFy Expanse 360º:***
In **SyFy Expanse 360º**, viewers were able to tour the amazing spaceship sets of SyFy's hit show, "The Expanse".

6 ***Rampage 2018 with Redbull/AR and 360º Broadcast:***
Redbull tapped Digital Domain to create the first AR/360º portal experience for the Rampage competition in Zion National Park.

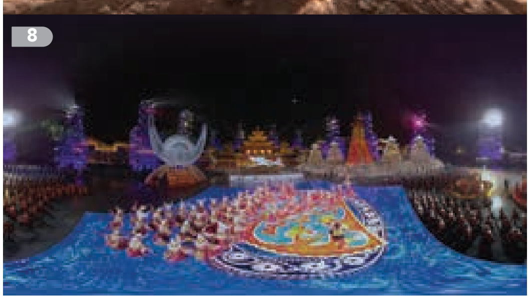


7 ***Wild "With" Google & Discovery:***
Digital Domain created an immersive VR experience putting viewers right in the middle of the wilderness, face-to-face with Grizzly Bear.

Reggie Watts' Crowe's Nest in 360º:
Mr. Reggie WATTS teamed up with Digital Domain to broadcast his improv comedy routine in 360º.

Blockchain Launch Event, Prague 2018 Hologram:
Digital Domain paired up with R&R Partners to create a lifescale hologram concept for their "City of the Future".

In addition to the above projects, the Company also completed several private projects for brands like **Google** and **Apple**.



8 ***2018 CCTV Spring Festival:***
After the first collaboration in 2017 for the Year of Rooster, Digital Domain teamed up with China Central Television (CCTV) Technology Production Center to produce the VR promo video for the Year of Dog in 2018 CCTV Spring Festival Gala's sub-venue in Southeast Guizhou through 360° photographic techniques. 3,000 people performed in the 9-minute VR promo video. Viewers could review the VR content through CCTV and CCTV.com mobile app, and enjoyed the symbols and tradition of the local culture through the 360°, demonstrating the strong emotional connections of people from different ethnic groups.

THE GLOBAL STUDIO PARTICIPATED IN SEVERAL EVENTS, INCLUDING:

9 Head of Research and Development Mr. Doug ROBLE and Head of Digital Humans Mr. Darren HENDLER attended an event at The Academy of Motion Picture Arts and Sciences on **Acting And Performance Capture: A Revolution In Technology And Collaboration** where Doug presented and Darren served as a panelist.

10 ***Siggraph 2018:***
Several of Digital Domain's leading software and research and development team members presented papers for the leading computer graphics conference on subjects such as: "High-quality, Cost-effective Facial Motion Capture Pipeline With 3D Regression", "Avengers: Capturing Thanos' Complex Face" and "Making Space For Cloth Simulations Using Thin Shells". In addition to the papers, we participated in major production panels for films including LAB Designer Mr. Jose ASTACIO for "*Ready Player One*", and VFX Supervisor Mr. Kelly PORT presented for "*Avengers: Infinity War*". And Animation Supervisor Mr. Phil CRAMER presented on "Thanos from Avengers: Infinity War" for the Foundry, a Digital Domain vendor.

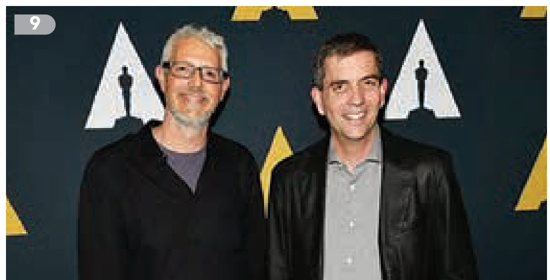
VFX Supervisors Mr. Kelly PORT and Mr. Matthew E. BUTLER were invited to attend and present at **Trojan Horse Was A Unicorn** on their work on "*Avengers: Infinity War*" and "*Ready Player One*" respectively.

11 VFX Supervisor Mr. Kelly PORT presented at **VFXRio** on "*Avengers: Infinity War*".

Business development executive Mr. Julian RANDALL discussed 360º technology on panels at **IBC Roundtable** and **Microsoft Reactor**.

Executive Producer Mr. John CANNING spoke at **Digital Hollywood, Venice VR, Raindance Film Festival, VRS2018, VR Now, Oculus Connect and Sandbox Interactive** on an array of subjects including interactive storytelling, AR/VR trends and location-based entertainment.

Mr. John CANNING travelled to Taiwan to teach VR Workshops for the **Taipei Film Commission**.



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

Mr. Aruna INVERSIN was a panelist at **Digital Hollywood** talking AR/VR innovations

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

13 ***2018 Sundance Film Festival:***

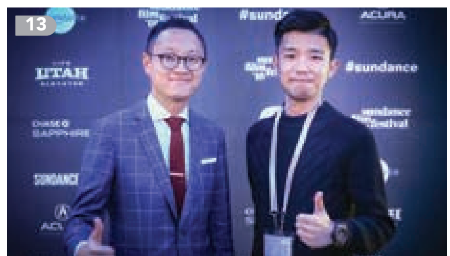
At the 2018 Sundance Film Festival New Frontier exhibition, Digital Domain debuted "*Micro Giants*." This is the second time that Digital Domain has been honoured by the Sundance Film Institute, as the studio was featured by New Frontier in 2015 for the production of "*Evolution of Verse*," directed by Mr. Chris MILK.

14 ***Effects MTL 2018:***

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

15 ***OneTV Award:***

In January 2019, Digital Domain garnered the "**Most Promising Company in VR Development of the Year**" award in OneTV's "Outstanding Enterprise and Leaders" award ceremony to recognize Digital Domain's persistent innovation and active development in VFX and VR.



ACQUISITION OF 3GLASSES GROUP

On 22 March 2018, a wholly-owned subsidiary of the Company (the "Purchaser"), Mr. LIN Che Chu George (the "Vendor"), Lead Turbo Limited (the "Target") and the guarantor entered into the agreement (the "Agreement"), pursuant to which the Purchaser conditionally agreed to acquire (or procure the acquisition of), and the Vendor conditionally agreed to sell, the 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration (including a contingent consideration of RMB90,000,000, equivalent to approximately HK$112,000,000, by two payments) of up to RMB240,000,000 (equivalent to approximately HK$298,000,000), subject to adjustments.

The consideration for the acquisition was arrived at after arm's length negotiations between the parties to the Agreement, having taken into account, among other things, (i) the development potential and future prospects of the Target and its subsidiaries (the "Target Group" or "3Glasses Group") and the VR hardware industry, especially the head-mounted display sector; (ii) the Target Group's existing sales contracts for VR headsets for the year ending 31 December 2018; (iii) the target profit of RMB30,000,000 and RMB50,000,000 for the two years ending 31 December 2018 and 31 December 2019 respectively and the consideration adjustment mechanisms; (iv) the intellectual property rights in relation to VR and AR technologies owned by the Target Group; (v) the Target Group's market position in the VR hardware industry in the PRC; and (vi) the business synergies anticipated to be derived from embedding the Group's VR content and applications into the Target Group's VR headset for distribution. The Group intends to finance the consideration by internal resources and/or equity financing of the Group (including the proceeds from the placing which was the subject of the Company's announcements dated 1 March 2018 and 16 March 2018).

Pursuant to the Agreement, the Vendor and the Guarantor have jointly and severally undertaken to provide a non-interest bearing loan in an

amount of RMB20,000,000 (equivalent to approximately HK$25,000,000), and the Purchaser has undertaken to provide a non-interest bearing loan in an amount of RMB30,000,000 (equivalent to approximately HK$37,000,000), to the Target Group.

The Target Group is principally engaged in the research, development and sale of VR and AR hardware, smart wearable devices, VR software development kit and other related products. The management team of the Target Group has more than 10 years of experiences in VR/AR technology development and is a pioneer in providing VR and AR solutions in the PRC. The major product of the Target Group is the self-developed VR headset, which is a head-mounted display device that provides VR for wearers and is widely used with computer games, simulators and trainers, under the brand name of "3Glasses". 3Glasses has launched China's first (the world's second) VR headset (3Glasses D1) and China's first mixed reality headset (3Glasses Blubur S1, development version for Microsoft). 3Glasses has undertaken more than 200 successful VR projects serving a very broad variety of industry sectors including entertainment, education, tourism, exhibition and display, architecture, design, healthcare, film and television and security.

The Target Group has been collaborating with various famous international corporations in Target Group's products development. The Target Group is one of the Microsoft's Windows mixed reality headset ("Microsoft Headset") partners (others well-known partners for the Microsoft Headset are Samsung, Acer, ASUS, Dell, HP and Lenovo) and cooperating with Microsoft in developing the Microsoft Headset. The Target Group collaborates with Qualcomm in developing Target Group's mobile VR boxes with Qualcomm's processors. According to a market report issued by Canalys, an independent analyst company focusing on technology market, the Target Group ranked the third in terms of VR headset sold by volume (with market share of 9.4% by volume), in the PRC in 2016.

As certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the acquisition are more than 5% but less than 25%, the acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules. For details, please refer to the Company's announcement dated 22 March 2018. The acquisition has been completed on 31 March 2018.

BUSINESS OF 3GLASSES GROUP

As an innovative technology company, 3Glasses possesses a comprehensive range of products and service capabilities covering various aspects such as R&D, production, sales and value-added services in the realms of virtual reality and mixed reality. While maintaining its technological leading edge in the area of hardware products such as VR headset, it also actively expands its solutions services (including of hardware, VR games and content services and industry applications), such as (1) Nanchang VR Park – spacious and thematic VR game experiences and (2) Fujian Province K12 Education Practice Base – content of VR Red Education, Popular Science Education, etc. As at 31 December 2018, 3Glasses Group has applied for 397 VR independent core patents.

From 1 April 2018, the Company has consolidated the financial performance of 3Glasses Group. Additional amortization and depreciation expenses for fair value adjustments of intangible and fixed assets were charged to the Company's consolidated financial statements. The Target has met the "target profit for 2018" requirement mentioned above. Therefore, the Group will pay a contingent consideration of RMB40,000,000 (approximate HK$49,778,000) according to the terms of acquisition. The remaining (second payment) of contingent consideration is RMB50,000,000 (approximately HK$62,222,000) and will be paid in 2020 when "target profit for 2019" being achieved. For details, please refer to the Company's announcement dated 22 March 2018.

▲ Fujian Province K12 Education Practice Base

◀ Nanchang VR Park

MEDIA ENTERTAINMENT SEGMENT

B. VISUAL EFFECTS PRODUCTION AND POST-PRODUCTION BUSINESS

This segment provides visual effects ("VFX") production and post-production services which includes visualisation, previsualisation, postvisualisation, visual effects, computer graphics, animation, motion capture, virtual production and design for major motion picture studios, networks, streaming services, advertisers, brands and games.

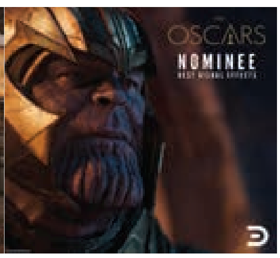
DIGITAL DOMAIN NORTH AMERICA (USA AND CANADA):

The following list of recent award and nominations offers recognition for Digital Domain's artists and technology:

BAFTAS

For the British Academy of Film and Television Arts Awards held on 10 February 2019, Digital Domain received several nominations in the category of Best Special Visual Effects including:

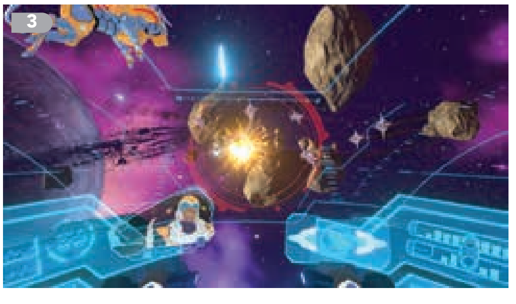
- VFX Supervisor Mr. Matthew E. BUTLER nominated for "*Ready Player One*"
- VFX Supervisor Mr. Kelly PORT nominated for "*Avengers: Infinity War*"
- "*Black Panther*" received a nomination & the award - Digital Domain artists worked on revisualization for the epic third act battle.



OSCARS

For the Academy Awards held on 24 February 2019, Digital Domain received several nominations in the category of Best Visual Effects including:

- VFX Supervisor Mr. Matthew E. BUTLER nominated for "*Ready Player One*"
- VFX Supervisor Mr. Kelly PORT nominated for "*Avengers: Infinity War*"



1 VES

For the Visual Effects Society Awards held on 5 February 2019, Digital Domain received several wins and nominations.

Including two nominations in Outstanding Visual Effects in a Photoreal Feature for:

- VFX Supervisor Mr. Matthew E. BUTLER nominated for "*Ready Player One*"
- VFX Supervisor Mr. Kelly PORT nominated for "*Avengers: Infinity War*", which also received the award.

Digital Domain also received the VES Award for Outstanding Animated Character in a Photoreal Feature for "*Avengers: Infinity War*"/Thanos, an honor shared by Digital Domain and Weta Digital. Head of Digital Humans Mr. Darren HENDLER and Animation Supervisor Mr. Phil CRAMER were named in the award.

2 The 55th Golden Horse Awards at Taipei

Best Visual Effects - "Shadow"

17 November 2018 - Mr. ZHANG Yimou's monochromatic action film, "***Shadow***", collected Best Visual Effects in the 55th Golden Horse Awards race. Digital Domain crafted a full sequence that involved armored umbrellas with heavy environment work for this title.

3 EMMY

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

Hollywood Professional Association (HPA)

Mr. Aladino DEBERT and Mr. Greg TEEGARDEN received an HPA nomination for "Outstanding Visual Effects - Television (Under 13 Episodes)" for work done on "*Outlander (Eye of the Storm)*".

Additional Awards Wins include

International Online Cinema Awards
Best Visual Effects
"Ready Player One"

Hollywood Film Awards
Best Visual Effects
"Avengers: Infinity War"
(VFX Supervisor Kelly Port Wins Award)

Los Angeles Online Film Critics Society
Best Visual Effects
"Avengers: Infinity War"
(VFX Supervisor Kelly Port Wins Award)

St. Louis Film Critics Association
Best Visual Effects *"Avengers: Infinity War"*

San Diego Film Critics Society Awards
Best Visual Effects
"Ready Player One"

Additional Awards Nominations include

Broadcast Critics Association Awards
Best Visual Effects
"Avengers: Infinity War"
"Ready Player One"

Denver Film Critics Society
Best Visual Effects
"Avengers: Infinity War"
"Ready Player One"

Florida Film Critics Circle Awards
Best Visual Effects
"Avengers: Infinity War"
"Ready Player One"

International Online Cinema Awards
Best Visual Effects
"Avengers: Infinity War"

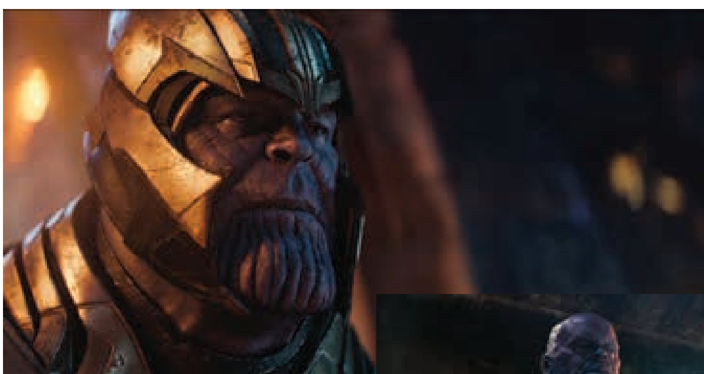
Nevada Film Critics Society
Best Visual Effects
"Avengers: Infinity War"

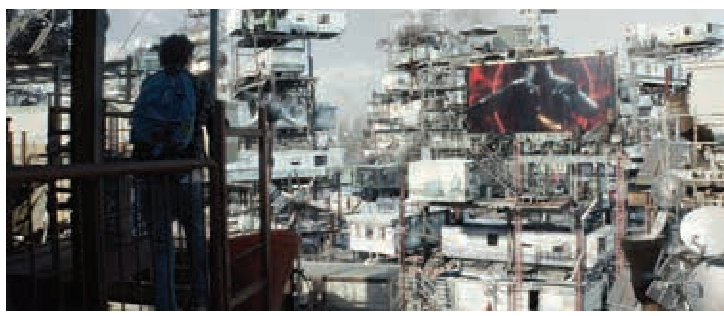
Satellite Awards
Best Visual Effects
"Avengers: Infinity War"
"Ready Player One"

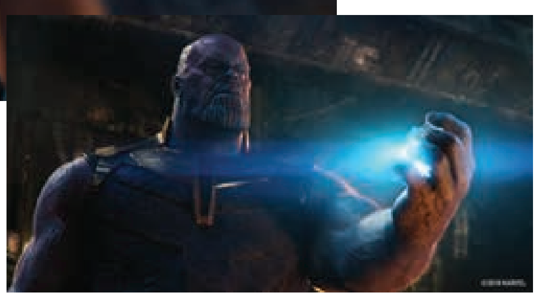
Seattle Film Critics Awards
Best Visual Effects
"Avengers: Infinity War"

LA Online Film Critics Society
Best Visual Effects
"Ready Player One"

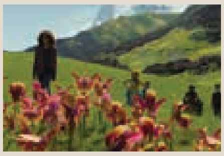
St. Louis Film Critics Association
Best Visual Effects
"Ready Player One"



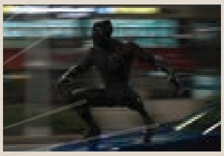




Since 1 January 2018, the artists of Digital Domain 3.0, Inc. ("DD3I", a subsidiary of the Company) have provided VFX services for work including:



"A Wrinkle In Time"
Digital Domain artists worked on three sequences for the film, creating the "wrinkle" transition shots, led by VFX Supervisor Mr. Nikos KALAITZIDIS.



"Black Panther"
Previsualisation for the important third act of the film was completed by Visualisation Supervisor Mr. Scott MEADOWS and team.

"Ready Player One"
VFX Supervisor Mr. Matthew E. BUTLER and his team worked closely with director Mr. Steven SPIELBERG, and handled many of the film's more difficult sequences, including all scenes shot in the real world, a fully digital live action character, the hologram of the character Parzival, the stacks, legacy/war room and X1 boot suit. Digital Domain was also responsible for previsualisation completed by Visualisation Supervisor Mr. Scott MEADOWS and team; and virtual production, completed by Mr. Gary ROBERTS.

"Avengers: Infinity War"
VFX Supervisor Mr. Kelly PORT and his team delivered one of the most photorealistic CG characters of all time for Marvel Studios: the villain, and lead character, Thanos. Thanos drives nearly 40% of the film's total screen time and played a pivotal role in the hugely successful film.

"Ant-Man and The Wasp"
VFX Supervisor Mr. Nikos KALAITZIDIS led a global team of more than 150 artists on this show that encompassed a total of 87 shots for the Marvel film. The bulk of the work was in the Quantum Realm sequence in which Nikos' team took on the complex storms in an unreal environment.

"Aquaman"
VFX Supervisor Mr. Jay BARTON and his team worked on one sequence for the hit film that included the complex environment called Dead King's Island.

"Shadow"
VFX Supervisor Mr. Nikos KALAITZIDIS and his team of over 100 artists completed 60 shots for the film in a 3-month turnaround. The stylistic film required tricky 3D water effects work, CG digi-doubles with up to 200 CG umbrellas, and an array of 3D environments and model elements.

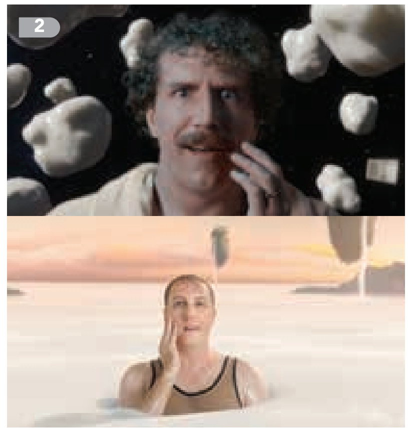
For episodic, Digital Domain's visual effects teams completed work on several episodes for hit television and streaming shows such as:

STARZ Network's *"Outlander"*; and

1 **Netflix Studio's** *"Lemony Snicket's A Series of Unfortunate Events".*

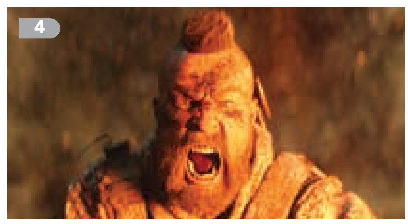
For commercials, we provided VFX services for advertisements, special venue projects and games. Work completed in 2018 includes:

2 For **Dollar Shave Club**, Digital Domain paired with the brand's in-house agency to create two spots called "*Buttery Galaxy*" and "*Buttery Lagoon*".



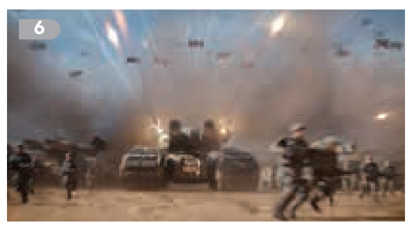
3 Digital Domain provided visual effects on the **Jennifer Lopez** music video "*El Anillo*".

4 Digital Domain partnered with 72andSunny, **Activision** and **Treyarch** to bring to life both new and iconic characters of "*Call of Duty: Black Ops 4*" for the reveal trailer of the game, as well as in-game cinematics.



5 Digital Domain's team worked directly with client **Ubisoft** to create the 45 seconds of spot for the popular game *"Assassin's Creed Odyssey"*. The team was involved in nearly every aspect of this project including storyboards, concept art, previs and visual effects.

6 Digital Domain created a: 60 reveal trailer for **Electronic Arts**' *"Command & Conquer: Rivals"* which included boards, previs, asset build for a total of 44 shots and 10 seconds of gameplay in the fully CG spot.



Digital Domain created a unique experience at the **Super Bowl** this year when it digitally turned the city of Minneapolis purple in honor of the late musician Prince.

Digital Domain handled effects for NBC's: 60 promo for ***"Brooklyn Nine-Nine"***'s move to the network.

7 For 72andSunny, **Activision** and **Bungie**, we completed an E3 reveal trailer for *"Destiny 2: Forsaken"*, which features a single-shot 360 environment with the story playing out in front of the camera.

Additionally, the department worked on several additional projects for clients such as **Bud Light, National Basketball Association** and **Apple**.

POSSIBLE INDEMNIFICATION

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

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

During 2017, the Claimant filed four separate lawsuits against certain clients of the US Subsidiary relating to the use of the Disputed IP in certain visual effects projects that the US Subsidiary had completed ("Other Lawsuits"). In its production services agreements for these projects, the US Subsidiary agreed to certain indemnification obligations with respect to claims brought against these clients arising from allegations that the technology it used was not properly licensed or acquired. As a result, these clients have requested or may request that the US Subsidiary acknowledges its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits.

The US Subsidiary's clients filed two separate motions to dismiss the lawsuits brought against them. In response to these motions, the court dismissed a significant portion of the claims, but allowed Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. Claimant later voluntarily dismissed several of its claims.

The US Subsidiary has submitted the indemnity requests that it has received from these clients to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company initially acknowledged its obligation to provide a defence to the US Subsidiary's clients, but has recently communicated to US Subsidiary that it was re-evaluating its coverage obligations under the insurance policy. The insurance company has identified its concerns to the US Subsidiary and has solicited the US Subsidiary's response to those concerns. The insurance company and the US Subsidiary are presently in the process of discussing whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits. There has been no material development in relation to these proceedings since Interim Report 2018.

DIGITAL DOMAIN CHINA:

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

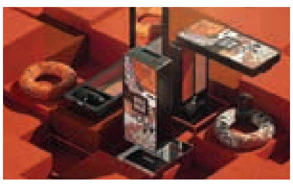
DD China provides VFX production and post-production services for commercials, TV drama series, and feature films in China, including offline and online editing, compositing, colour grading, design, music and audio, CG and VFX production. It also provides production services for the making of commercials,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

Visual effects and color grading projects for feature films and TV drama series include the star-studded "*The Legends Of Monkey King*", "*Hidden Man*" and "*Hello Mr. Billionaire*". Color grading projects also include "*Monster Hunt II*", "*Detective Chinatown II*", "*Operation Red Sea*", "*Animal World*", "*Ever Night*", and "*Sand Sea*".

The Legends Of Monkey King

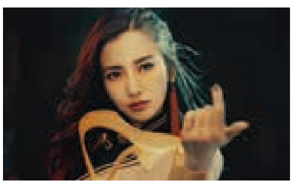
Hidden Man

Hello Mr. Billionaire



Marie Dalgar Eye Shadow

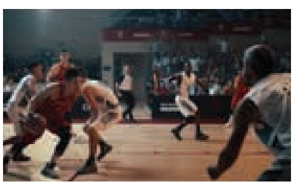
JD.com



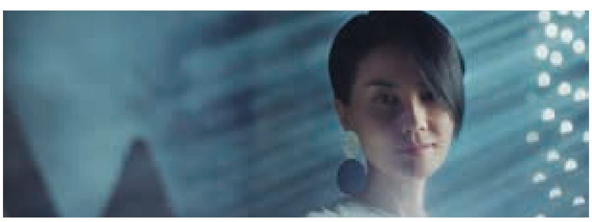
Tencent

NOWNESS

Wu Fang Zhai



NIKE



Hunan Television

In 2018, DD China continued to provide post-production and production (e.g. shooting, editing, color grading, music production etc.) services for various high-profile commercials profiling leading brands like McDonald's Premium Burger, STARBUCKS, M&M's, Snickers, P&G SFG, OLAY × Harper's Bazaar, Adidas Climacool, New Balance 520 V-day Campaign, TRULIVA, Google, Marie Dalgar Eye Shadow, Estée Lauder, YES!IC, YST, Mercedes-Benz Maybach, BMW X3, LEXUS, Ford *Edge & Kuga*, Ford *Mondeo*, Volkswagen, Audi, Jeep, BYD, Yadea Electric Vehicle Micro Film, Lenovo, OPPO, MEIZU Note8, Coca-Cola (*Coke Phase, Coke Rooftop*), Perrier, Tuborg, Mengniu (*Pure, Deluxe Milk, Fruit Milk, YoyiC*), JD.com × Yayoi Kusama video, JD.com × ONESHOW video, Tencent (*KOF, Glory of Kings*), NOWNESS, Wu Fang Zhai, NIKE Jordan (*FY18 Brand Film*), Alibaba (*Taobao F4, Tangeche*), Fendi, C2H4, HLA, Kispa Monster Hunt, Meituan Dianping, RAVE NOW, Jiangsu Television, Hunan Television, BANK OF CHANGSHA, URF (*Urban Revitalization Force*) Theatre X concept video, Henderson Land, Youku VIP advertising video, Midea Group (Sweeper Robot), HUAWEI, vivo, Netease Kaola, Maoyan, and Tencent Animations and Comics.

In August 2018, Digital Domain joined hands with Value Education (Group) Limited to fund a group of Hong Kong college students participating in the "Young Talent Training Programme" to visit the Beijing studio, with Mr. Yifu ZHOU, VFX Supervisor, Vice President and Head of Studio, Beijing, deconstructed the special effects productions of various movies for the students and provided advice and guidance for those who wish to pursue a fulfilling career in the VFX industry.

Value Education Visited Digital Domain Beijing Studio

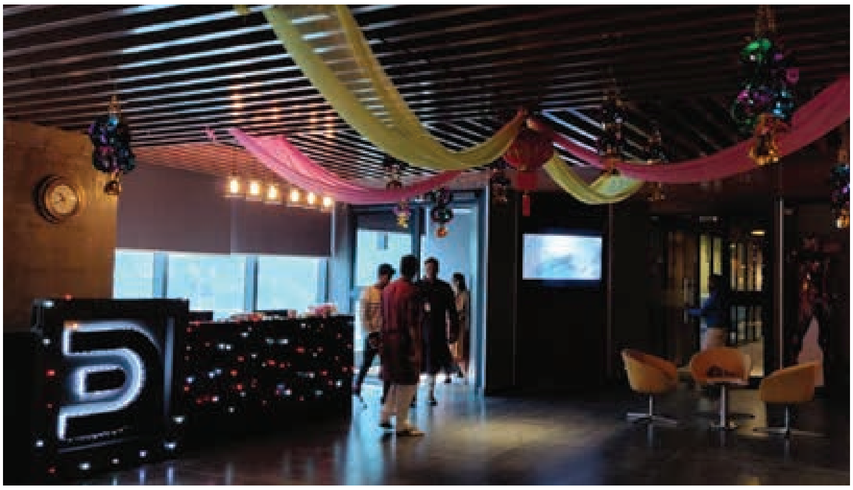
Digital Domain was selected by China Construction Bank ("CCB") to produce a short film of the opening ceremony of *The CCB University*". This short film profoundly explains the core meaning of CCB university, vividly reflects its professional, sharing, scientific and international new era, new finance and new ecological enterprise university's target positioning. It was revealed in the press conference held in Beijing on 17 December 2018, and won wide praise.

DIGITAL DOMAIN INDIA:

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

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

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



MEDIA ENTERTAINMENT SEGMENT

C. VIRTUAL HUMAN BUSINESS

TERESA TENG BUSINESS

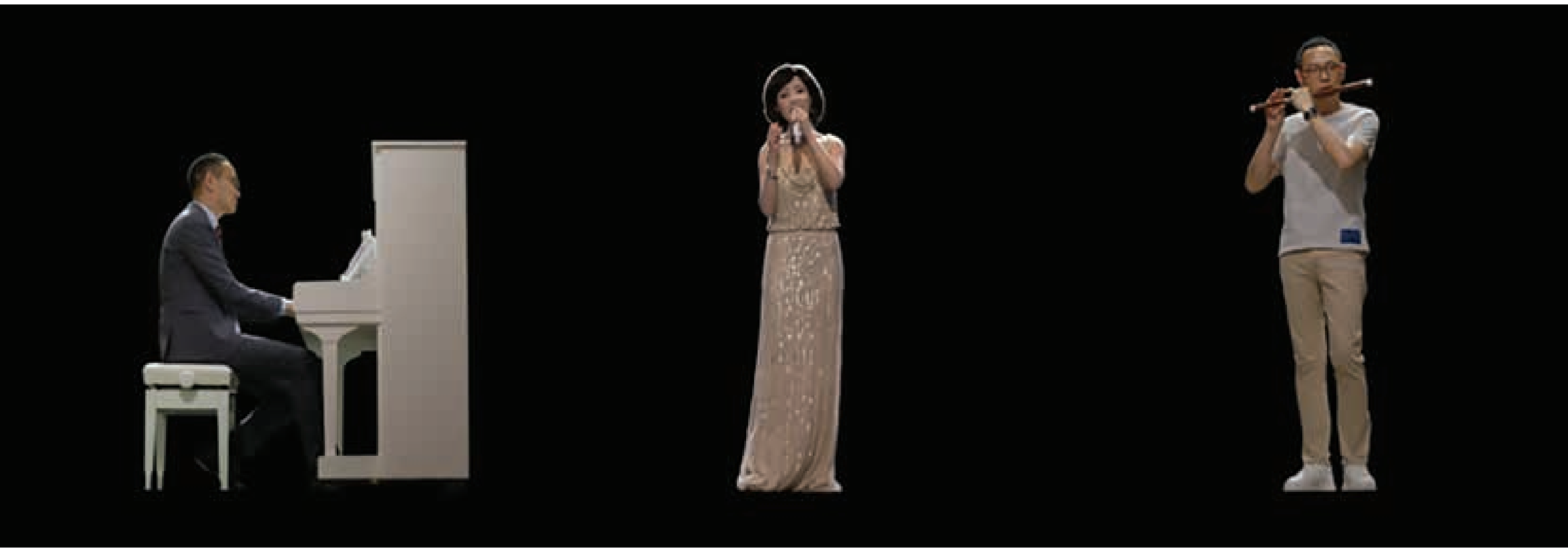
In 2014, Digital Domain Media (HK) Limited ("DDM"), an indirect wholly-owned subsidiary of the Company, and TNT Production Limited ("TNT") entered into a cooperation framework agreement for the formation of a joint venture company to engage in the production and utilisation of 3D hologram technology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

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

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

2 In August, at the 2018 Smart China Expo in Chongqing, we cooperated with China Poly Group to build a holographic theater for Teresa Teng Virtual Human Show, which generated more than 5,000 times of visits in only three days.

3 In October, Virtual Human Teresa Teng appeared in the Yuntai Mountain Scenic Area in Henan Province of China. A Virtual Human Teresa Teng musical show was performed for one-month by combining the beautiful scenery and culture of Yuntai Mountain to bring a wonderful experience to audience.



OTHER VIRTUAL HUMAN BUSINESSES

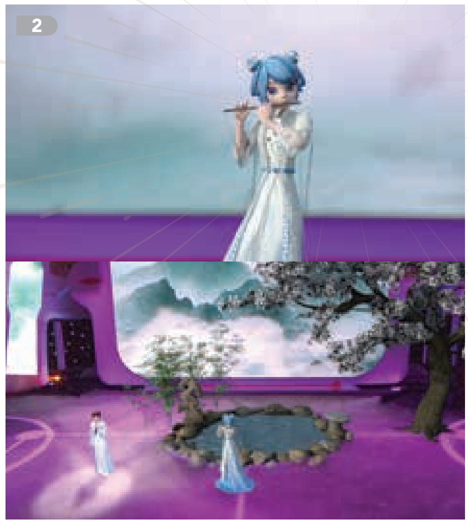
Besides Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (e.g. famous singers/movie stars or corporations). During 2018, the Group created its own Digital Domain's virtual human characters/IPs (e.g. Lydia, STAR). The Group also deployed resources towards research and development for enhancement of the interactive functions between virtual human characters and audience.

We produced or launched other types of virtual human projects, including:

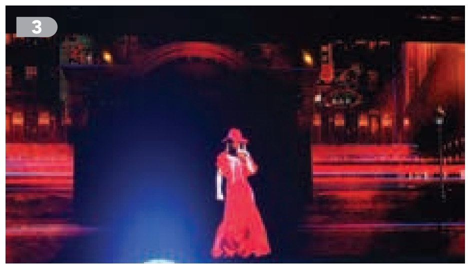
Lydia

1 In August, we staged a record-breaking show at Digital Domain's strategic conference "virtual world - Oasis" that featured most of our virtual human characters, breaking through the limitation of time and space, to enable our virtual human celebrities and performers including Digital Domain CEO Mr. Daniel SEAH, famous producer Mr. WANG Wei-chung, legendary star Miss Teresa TENG, film star Mr. Nicholas TSE and Ms. Ruby LIN, Meitu CEO Mr. WU Xinhong, interact real-time with the Group created virtual idols "Lydia", "STAR" and others, to perform a wonderful holographic musical show together.

2 In September, powered by Digital Domain, "Xi" from "Kilin & Xi", a traditional Chinese style virtual idol of MiGu Culture, made its debut in TV program "*First Lesson in New Term*" at CCTV singing "*Mo Mei*", bringing the audience a cross-dimensional audio-visual feast.



3 In December, we created an unprecedented holographic birthday event for Mr. Charlie HEUNG's birthday dinner in Hong Kong, presenting amazing performances by the virtual human legendary stars Miss Teresa TENG, Mr. Leslie CHEUNG and Miss Anita MUI that also bring fond memories of those artists to the attending VIP.



In order to speed up the business development of virtual human, the Group continues to seek opportunities for financing and collaboration with strategic partners and recruitment of appropriate global talent. In January 2019, the Group invited two strategic investors to invest into the Greater China region virtual human sub-group (exclude the North American virtual human sub-group) and companies within this sub-group will be reclassified as associates of the Group in financial year 2019.

MEDIA ENTERTAINMENT SEGMENT

D. CO-PRODUCTION

FEATURE FILM:

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

TV DRAMA SERIES:

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

During the year under review, there were additional amortization expenses from investment in TV drama series mentioned above (grouped under "Participation Rights") of HK$40,512,000 (2017: nil).

E. INVESTMENT IN HANDY

During the year under review, the Group had its US$25,000,000 (approximately HK$196,213,000) equity investment in Mango International Group Limited ("Mango"), with its flagship product **handy**, is leveraging millions of hotel rooms globally to create a comprehensive travel ecosystem encompassing a traveler's end-to-end journey, from pre-trip to in-destination to post-travel. The strategic investment is to create synergies between Mango's hardware-as-a-service business model and the Group's expertise in VR and virtual human related products, content and services. For annual audit purpose, the Group engages an independent professional valuer to estimate its fair value as at 31 December 2018 and a fair value adjustment (downward) of HK$30,237,000 was made. The fair value adjustment was reflected in consolidated statement of other comprehensive income with items that will not be reclassified to profit or loss. As at 31 December 2018, the investment was classified as financial asset measured at fair value through other comprehensive income.

PROPERTY INVESTMENT SEGMENT

The Group owns two shops on the ground floor and ten car parking spaces in the Citicorp Centre, Causeway Bay, Hong Kong. One shop and certain car parking spaces were leased out in most of the time during the year under review.

During the year under review, the revenue of this segment decreased by approximately 43% to HK$4,762,000 (2017: HK$8,286,000). The revenue accounted for approximately 1% of the Group's overall revenue during the year under review. The profit of this segment decreased during the year under review, amounting to HK$3,602,000 (2017: HK$7,204,000).

With reference to the Hong Kong property market and economic conditions since early 2018, the Group is reviewing the business strategies and property portfolio of this segment and may consider realising value from the property portfolio as and when suitable opportunities arise. As at 31 December 2018, the investment properties were reclassified as assets of a disposal group classified as held for sale. In March 2019, a sale and purchase agreement for disposal of the above mentioned properties was signed, for more details, please refer to the section below named "Events After The Reporting Period".

CORPORATE EVENT

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

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

INTERESTS IN ASSOCIATES

DIGITAL DOMAIN SPACE (VR THEATRE)

In September 2017, Digital Domain announced its collaboration with Poly Capital and Hony Capital, to establish 數字王國空間(北京)傳媒科技有限公司 (Digital Domain Space). During 2018, CITIC Press Group invested in Digital Domain Space as a strategic investor and business partner.

Digital Domain Space's aim is to develop and execute an innovative VR experience with VR theatres opened in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space's VR theatres have already been installed inside and outside cinemas in Beijing, Shanghai, Guangzhou, Xi'an, Wuhan, Changsha, Jilin, Fushun, and elsewhere. While waiting for movies to start, consumers can take a virtual tour of the latest VR technology. Compared to extant domestic VR technologies, Digital Domain Space presents consumers with elevated VR content and total immersion in VR experiences. Leveraging the influence and scale of its brand, store locations and consumer volume, Digital Domain Space offers enhanced product and advertising placement to provide additional and diversified business opportunities. The share of losses from this associate was amounted to approximately HK$19,645,000 (2017: HK$3,763,000).

EVENTS AFTER THE REPORTING PERIOD

DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF COMPANY WHICH OWNS CERTAIN PROPERTIES IN HONG KONG

On 19 March 2019, the vendor (a wholly-owned subsidiary of the Company), the purchaser and the Company (as guarantor of the vendor) entered into the sale and purchase agreement, pursuant to which the vendor conditionally agreed to sell, and the purchaser conditionally agreed to acquire, the entire issued share capital and the shareholder's loans of Sun Innovation HK Properties Holdings Limited and its subsidiaries at cash consideration of HK$216,000,000 (subject to adjustment). The principal business of the above target group is property investment in Hong Kong and its principal assets are the properties.

As certain applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the disposal are more than 5% but less than 25%, the disposal constitutes a discloseable transaction of the Company under Rule 14.06 of the Listing Rules. For details, please refer to the Company's announcement dated 19 March 2019.

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 22 March 2019, the Company entered into the subscription agreement with Poly Culture Group Corporation Limited (a joint stock company incorporated in the People's Republic of China with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 3636), the "Subscriber") in relation to the subscription. Pursuant to the subscription agreement, the Company has conditionally agreed to allot and issue 5,323,600,000 Shares to the Subscriber at the subscription price of HK$0.104 per subscription share. The subscription shares will be allotted and issued pursuant to the general mandate. The subscription shares represent approximately 19.91% of the issued share capital of the Company of 26,732,511,340 shares as at the date of announcement and approximately 16.61% of the issued share capital of the Company of 32,056,111,340 shares as enlarged by the subscription.

The gross proceeds and net proceeds from the subscription will be approximately HK$553,654,000 and HK$553,461,000 respectively, and are intended to be applied towards media entertainment segment and general working capital purposes of the Group. For details, please refer to the Company's announcement dated 22 March 2019.

CAPITAL

SHARES

On 1 March 2018, the Group entered into a placing agreement with Great Roc Capital Securities Limited ("Placing Agent") in relation to the placing, on a best effort basis, of up to 2,175,780,000 placing shares at the placing price of HK$0.19 per placing share ("Placing"). The conditions of the Placing were fulfilled and completion of the Placing took place on 16 March 2018. The Placing Agent has placed an aggregate of 2,175,780,000 Placing shares to two placees, namely Kingkey Enterprise Holdings Limited ("Kingkey Enterprise") (in respect of 2,052,630,000 Placing shares) and Keywise Capital (HK) Ltd ("Keywise Capital") (in respect of 123,150,000 Placing shares), at the Placing price of HK$0.19 per Placing share. Kingkey Enterprise is an investment holding company, while Keywise Capital is principally engaged in the business of asset management. Immediately before the completion of the Placing, Keywise Capital holds 693,060,000 shares, representing approximately 2.84% of the issued share capital of the Company. The Placing shares were allotted and issued pursuant to the general mandate of the Company. The 2,175,780,000 Placing shares in aggregate represent approximately 8.17% of the issued share capital of the Company as enlarged by the Placing (i.e. 26,618,034,094 shares).

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

The gross proceeds and net proceeds from the Placing are approximately HK$413,400,000 and HK$409,139,000 respectively, and are intended to be applied towards media entertainment segment (including possible acquisition of virtual reality hardware business and possible investment in hospitality distribution channel for virtual reality hardware and contents) and as general working capital purposes of the Group. For details, please refer to the Company's announcements dated 1 March and 16 March 2018.

On 28 October 2016, the Company announced that the Company had entered into an agreement with Nevada-based Micoy Corporation ("Micoy") in the US to acquire from the latter all its intellectual property covering a portfolio of patents in relation to its interactive entertainment technology business and related trademarks at an aggregate consideration of US$5,500,000. US$4,500,000 of the aggregate consideration would be satisfied by the issue and allotment of 57,172,131 Company shares at an issue price of HK$0.61 per share in four tranches within a three-year period. For the third tranche, 12,704,918 shares were issued on 7 December 2018, being the business day before the second anniversary of the date of completion of acquisition of assets in Micoy. For details, please refer to the Company's announcements dated 28 October 2016, 9 December 2016, 8 December 2017 and 7 December 2018.

On 28 December 2018, being the business day before the third anniversary of the closing date of the acquisition of further shareholding interests in Immersive Ventures Inc. ("Immersive"), the Company issued an aggregate of 100,772,328 shares (comprising 74,128,860 deferred consideration shares and 26,643,468 option consideration shares). Pursuant to the terms of the secured notes, 74,128,860 deferred consideration shares being issued was the final tranche of the deferred consideration shares. In respect of the payment to 30 holders for forfeiture of their Immersive options, the Company issued 26,643,494 option consideration shares on 31 December 2015, 26,643,487 option consideration shares on 30 December 2016, 26,643,487 option consideration shares on 29 December 2017 and 26,643,468 option consideration shares (final tranche) on 28

December 2018. The initial consideration shares, the deferred consideration shares and the option consideration shares were issued at the issue price of HK$0.554 (approximately US$0.071) per share. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015, 30 December 2016, 29 December 2017 and 28 December 2018.

As at 31 December 2018, the total number of the Company shares of HK$0.01 each in issue (the "Shares") was 26,731,511,340 shares.

SHARE OPTIONS

On 28 May 2014, a total of 980,060,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 980,060,000 new shares at an exercise price of HK$0.098 per share. For details, please refer to the Company's announcements dated 28 May 2014 and 23 July 2014, and the circular dated 2 July 2014. During the year under review, 500,000 share options were exercised. No share options were cancelled or have lapsed during the year under review. 40,570,000 share options were exercised and 140,760,000 share options were cancelled or have lapsed since the grant-date (28 May 2014).

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

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

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

On 29 July 2016, a total of 50,000,000 share options were granted under the Company's share option scheme to the grantees. The share options entitle the grantees to subscribe for up to a total of 50,000,000 new shares at an exercise price of HK$0.566 per share. For details, please refer to the Company's announcement dated 29 July 2016. During the year under review, no share options were exercised and 1,766,665 share options were cancelled or have lapsed. No share options were exercised and 13,199,986 share options were cancelled or have lapsed since the grant-date (29 July 2016).

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

USE OF PROCEEDS FOR EQUITY FUNDRAISING ACTIVITIES

DATE OF ANNOUNCEMENT	FUNDRAISING ACTIVITY	NET PROCEEDS RAISED	PROPOSED USE OF PROCEEDS	ACTUAL USE OF THE NET PROCEEDS UP TO 31 DECEMBER 2018
19 October 2017 and 30 October 2017	Placing of an aggregate of 1,866,660,000 Shares	Approximately HK$414.67 million	(1) Media entertainment segment and (2) General working capital for the Group	(1) Media entertainment segment: approximately HK$357.91 million; (2) General working capital (including but not limited to salary and rental): approximately HK$56.76 million; and (3) Remaining net proceeds: (i) as at 31 December 2017: approximately HK$113.48 million (ii) as at 31 December 2018: nil
1 March 2018 and 16 March 2018	Placing of an aggregate of 2,175,780,000 Shares	Approximately HK$409.13 million	(1) Media entertainment segment and (2) General working capital for the Group	(1) Media entertainment segment: approximately HK$345.77 million; and (2) General working capital (including but not limited to salary and rental): approximately HK$63.36 million

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

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

In 2018, the Company has banking facilities from a bank in Hong Kong amounted to approximately HK$193,409,000. The banking facilities included instalment loans (HK$58,609,000), credit limits for issuing standby letters of credit and standby overdraft facilities. These banking facilities were secured by the Group's investment properties with the aggregate net book value of HK$208,300,000 as at 31 December 2018 and a pledged time deposit of US$3,000,000 (approximately HK$23,495,000). The Group also had working capital loans in amount of RMB9,730,000 (approximately HK$11,079,000) and US$9,000,000 (approximately HK$70,484,000). Each working capital loan was secured by a standby letter of credit issued by the bank in Hong Kong mentioned above.

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

As at 31 December 2018, the Group also had obligations under finance leases of US$3,301,000 (approximately HK$25,855,000). These obligations relate to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. The term of these obligations were 30 months. Interest rates underlying all obligations were fixed at respective contract dates. All obligations were on a fixed repayment basis and no arrangements were entered into for contingent rental payments.

The Group had six other loans of approximately HK$350,927,000 as at 31 December 2018. One indirect wholly-owned subsidiary has a loan in amount of US$3,500,000 (approximately HK$27,065,000), which is unsecured, interest-free and is not repayable within 13 months from 31 December 2018. One indirect wholly-owned subsidiary also had two term loan facilities of US$10,000,000 (approximately HK$78,316,000) and HK$50,000,000, with a guarantee provided by the Company. The subsidiaries drew down the facility in 2015 and 2018. The outstanding balance of these shareholder's loans as at 31 December 2018 was US$10 million (approximately HK$78,316,000) and HK$50,000,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and is not repayable within 13 months from 31 December 2018. The Company has an other loan in amount of HK$80,000,000. This loan was secured by two share charges of shares of two indirect wholly-owned subsidiaries which hold the Group's investment properties mentioned above, with a fixed interest rate and to be repaid in April 2019. During 2018, the Group arranged an other loan with a pledge of the guaranteed returns from the two co-productions of TV drama series mentioned above. The facility was in amount of HK$92,774,000 with a fixed interest rate and to be repaid in June 2019. There is an other loan in amount of RMB20,000,000 (approximately HK$22,772,000) from a minority shareholder of the 3Glasses Group. The loan was provided according to the terms and conditions in the sale and purchase agreement. This loan is unsecured, interest-free and due in February 2020.

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive. As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. ("DDVR"). The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by DDVR. As at 31 December 2018, the outstanding value of secured notes on the book is US$7,579,000 (approximately HK$59,358,000) and scheduled to be paid in February 2019. In February 2019, the secured notes were refinanced and scheduled to be paid in June 2019. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015, 30 December 2016, 29 December 2017 and 28 December 2018 respectively.

The total cash and bank balance as at 31 December 2018 was approximately HK$75,926,000. As at 31 December 2018, the Group had banking facilities of approximately HK$198,318,000. These bank loans were set at a floating interest rate. Of these bank loans, loans amounting to HK$62,125,000 are denominated in Hong Kong dollars, loans amounting to approximately HK$70,484,000 are denominated in United States dollars and loans amounting to approximately HK$11,079,000 are denominated in Renminbi. During the year under review, all of the Group's bank loans (except the Five Year Loan and instalment loans with a repayment on demand clause ("Instalment Loans") mentioned above which are fully classified as current liabilities) were classified as either current liabilities or non-current liabilities according to the agreed scheduled repayment dates. According to the agreed scheduled repayment dates, the maturity profile of the Group's bank borrowings (except the Five Year Loan) as at 31 December 2018 was spread over a period of 19 years, with approximately 27% repayable within one year, 36% repayable between one to two years, 6% repayable between two to five years and 31% repayable after five years.

The Group's current assets (include "assets of a disposal group classified as held for sale") were approximately HK$472,787,000 while the current liabilities (include "liabilities of a disposal group classified as held for sale") were approximately HK$556,172,000 as at 31 December 2018. As at 31 December 2018, the Group's current ratio was 0.9 (as at 31 December 2017: 1.1). The ratio was adversely affected by two factors: (a) the Instalment Loans which were fully classified as a current liability (the non-current portion according to agreed scheduled repayment dates is HK$54,789,000) and (b) the contingent consideration payable (current portion is HK$43,468,000) related to the acquisition of 3Glasses Group. If these two factors being taken out, the adjusted current liabilities were approximately HK$457,915,000 and the adjusted current ratio was 1.03.

As at 31 December 2018, the Group's gearing ratio, representing the Group's financial liabilities (i.e., if any, bank loans, other loans, convertible notes, obligations under finance leases, secured notes and promissory notes) divided by the equity attributable to owners of the Company was 47% (as at 31 December 2017: 21%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

Save as disclosed under "Possible Indemnification" of Media Entertainment Segment above, as at 31 December 2018, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2018, the total headcount of the Group was 897. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

PROSPECT

The Group will continue to leverage its extensive experience in the VFX industry and proactively seek new projects and business opportunities despite the highly competitive market environment. Through the establishment of Digital Domain China, the Group is proactively exploring opportunities to develop its Greater China market in the VFX, VR, computer graphic, virtual human and immersive entertainment businesses. The Group has already set up Digital Domain India with its own studio in Hyderabad, India for VFX and VR productions. The Group is planning to set up a studio in Montréal, Québec, Canada which can provide additional production capacity and the Montréal Studio can also enjoy the tax and other benefits provided by the Québec provincial/Canadian federal governments. The Group will continue evaluating the cost structure and operation of each studio. We expected the Group can increase the working capacity and reduce production costs in the long run. With the above mentioned strategies being implemented, the effectiveness and efficiency of VFX business will be improved in the coming years.

Building on the patents acquired and self-developed, Digital Domain Group is uniquely positioned to play a key role in the VR market (from content to hardware and from a standalone product to an one-stop total solution for clients' projects). Following years of experience creating visual effects for Hollywood feature films, advertisements, and video games, in 2018, the Company produced different types of virtual reality experiences for audiences in the North American region and Mainland of China.

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

Following the successful performance of the holographic virtual human concert "*Teresa Teng • The Legend*" in Hangzhou in August 2018 and other virtual human projects, like Mr. Wayne LIM Jun Jie's (JJ LIN) concerts in Taipei in early 2019. The Group will continue to explore new virtual human business opportunities with strategic investors by developing new technologies which will enhance the interactivity between virtual humans and the audience in social-networking platform and entertainment business.

Similar to most advanced technology companies, the Group will continue to deploy substantial financial and human resources in continuing research and development in virtual human and VR technologies. The Group will continue to seek opportunities for financing and collaboration with strategic partners/investors on Group level or business project/subsidiary level. The Group will recruit and retain appropriate global talents to support the Group's future development. With these continuing efforts and policies, it will enhance our VFX ecosystem and expand our VR ecosystem, virtual human ecosystem and other capabilities.

Looking ahead, the Group will continue to build on its strengths and strive to provide quality services and products to our valued clients. At the same time, the Group will try to maximise benefits for our important stakeholders (strategic partners, shareholders, staff and management) in the coming years.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and practices with an emphasis on integrity, transparency and independence. The board of directors of the Company (the "Directors" and the "Board" respectively) believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CORPORATE GOVERNANCE PRACTICES

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

During the financial year of 2018, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were four Board meetings held for addressing ad hoc issues. The Company also sought for the Board's approval on the issues by circulating the written resolutions. The Board considered that sufficient meetings had been held during the year and business operation and development of the Group had been communicated on the Board;

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

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

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

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions.

To the specific enquiry by the Company, all Directors have confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. It has carried out an annual review of the existing implemented systems and procedures, including control measures of financial, operational and compliance and risk management functions of the Group. Since the Group's corporate and operation structure is simple for diverting resources to establish a separate internal audit department, during the year, the Company engaged external independent consultants to assess the design, implementation and monitoring of the risk management and internal control systems of Lead Turbo Limited (66.88% indirect interest owned by the Company) and its subsidiaries, which were acquired by a wholly-owned subsidiary of the Company in March 2018. For details, please refer to the section named "Acquisition of 3Glasses Group" under chief executive officer's review on page 12. Based on the assessment, weakness and potential risks on internal control and risk management procedures have been identified in certain areas including sales and marketing, human capital, finance and accounting and information technology system. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function and considered they are adequate. The Board were not aware of any material internal control defects, and considered such systems effective and adequate.

THE BOARD

Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive Directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders ("Shareholders").

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Company and the Group which give a true and fair view of the Group's affairs in accordance with statutory requirements and applicable accounting standards. The statement by the independent auditor of the Company about its reporting responsibilities for the consolidated financial statements of the Company is set out on pages 69 to 73 in the independent auditor's report.

CORPORATE GOVERNANCE REPORT

THE BOARD (continued)

Responsibilities (continued)

All Directors have full and timely access to all relevant information as well as the advice and service of the company secretary of the Company ("Company Secretary") to ensure Board procedures and all applicable rules and regulations are followed.

Composition

The Board has in its composition a balance of skills, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs.

The Board currently comprised ten members, including four executive Directors, two non-executive Directors and four independent non-executive Directors, as follows:

Executive Directors

Mr. Peter Chou	*(Chairman)*
Mr. Wei Ming	*(Vice-Chairman)*
Mr. Seah Ang	*(Chief Executive Officer) (the "CEO")*
Mr. Amit Chopra	*(Chief Operating Officer)*

Non-executive Directors

Mr. Pu Jian
Dr. Song Alan Anlan

Independent Non-executive Directors

Mr. Duan Xiongfei
Ms. Lau Cheong
Mr. Wong Ka Kong Adam
Mr. John Alexander Lagerling

Biographical details of the current Directors are set out in the directors' report on pages 49 to 51. Save as disclosed in the aforesaid biographical details of the Directors, none of the Directors has any financial, business, family or other material/relevant relationships between the Board members.

THE BOARD (continued)

Composition (continued)

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive directors represented at least one-third of the board.

In accordance with the code provision A.4.3 of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Mr. Duan Xiongfei has served as an independent non-executive Director for more than 9 years and his further appointment will be subject to a separate resolution to be approved by Shareholders at the forthcoming annual general meeting of the Company. As an independent non-executive Director, Mr. Duan did not participate in the day-to-day management of the Company. However, he has developed an in-depth understanding of the business of the Company and remains in a position to provide an independent view and guidance to the Company over the years.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors (including Mr. Duan Xiongfei who has served as an independent non-executive Director for more than 9 years and is eligible for re-election at the forthcoming annual general meeting of the Company) to be independent in accordance with the independence guidelines set out in the Listing Rules.

The Bye-laws require that one-third (if the number is not a multiple of three, the number nearest to but not less than one-third) of the Directors (including executive and non-executive Directors) shall retire by rotation at each annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and those of the other Directors who have been longest in office since their last re-election or appointment. A retiring Director is eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting and be eligible for re-election. Any Director appointed pursuant to the aforesaid Bye-law shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

CORPORATE GOVERNANCE REPORT

THE BOARD (continued)

Board Meetings and General Meetings

During the year ended 31 December 2018, six Board meetings and the annual general meeting of the Company for the year 2018 ("AGM") were held with details of the Directors' attendance set out below:

	Attendance/Number of Meetings	
Directors	**Board Meetings**	**AGM**
Executive Directors		
Mr. Peter Chou *(Chairman)*	6/6	0/1
Mr. Wei Ming *(Vice-Chairman)*	0/6	0/1
Mr. Seah Ang *(CEO)*	6/6	1/1
Mr. Amit Chopra *(Chief Operating Officer)*	4/6	1/1
Non-executive Directors		
Mr. Pu Jian	2/6	0/1
Dr. Song Alan Anlan	5/6	0/1
Independent Non-executive Directors		
Mr. Duan Xiongfei	6/6	1/1
Ms. Lau Cheong	4/6	0/1
Mr. Wong Ka Kong Adam	5/6	1/1
Mr. John Alexander Lagerling	5/6	1/1

Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and the Guide on Directors' Duties issued by the Companies Registry in Hong Kong to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements.

The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials.

During the year of 2018, all Directors were provided with reading materials on the relevant rules and regulating updates.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear segregation of roles between the Chairman and the CEO so as to ensure a balance of power and authority. The Chairman's responsibility is to manage the Board and the CEO's responsibility is to manage the businesses of the Group. The duties of the Chairman and the CEO are carried out respectively by Mr. Peter Chou and Mr. Seah Ang. None of them has any financial, business, family or other material/relevant relationships between the Chairman and the CEO.

DELEGATION BY THE BOARD

The Directors are aware of their collective and individual responsibilities to the Shareholders for the well-being and success of the Company.

To enhance the effectiveness of the management of the Company, the Board has established four committees, namely, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee corresponding aspects of the Company's affairs. All Board committees of the Company have defined written terms of reference.

BOARD COMMITTEES

Executive Committee

The Executive Committee comprises all executive Directors and it assists the Board in discharging its duties and dealing with routine business of the Company and enhances the effectiveness and efficiency of day-to-day operation of the Company. There is no minimum meeting requirement and this Committee shall meet as and when necessary for proper discharge of its duties.

Audit Committee

The Audit Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors.

The main duties of the Audit Committee are to consider the appointment, re-appointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process and to discuss with the external auditor the nature and scope of the audit. It is also responsible for reviewing: (i) the interim and annual financial statements before submission to the Board and (ii) the Company's financial control, risk management and internal control systems and the internal audit programme (where appropriate). It also needs to discuss problems and reservations arising from the interim and final audits and to consider the major findings of internal investigations and management's response.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Audit Committee (continued)

The Audit Committee shall meet at least twice a year according to its terms of reference. There were four meetings held during the year under review, details of attendance are set out below:

Audit Committee Members	Attendance/Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	4/4
Ms. Lau Cheong	3/4
Mr. Wong Ka Kong Adam	4/4

During the year under review, the Audit Committee had considered, reviewed and discussed any areas of concerns prior to the commencement of annual audit and during the audit process, the compliance of company policy, the internal control procedures and the corporate governance of the Group and had approved the annual audited consolidated financial statements and the interim financial statements respectively.

Nomination Committee

The Nomination Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The main duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and to identify individuals suitably qualified to become board members. It is also responsible for assessing the independence of independent non-executive Directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors. The recommendations of the Nomination Committee are then put forward for consideration and adoption, where appropriate, by the Board.

The Nomination Committee shall meet at least once per year according to its terms of reference. One Nomination Committee meeting was held during the year under review, details of attendance are set out below:

Nomination Committee Members	Attendance/Number of Meeting
Mr. Duan Xiongfei *(Chairman)*	1/1
Ms. Lau Cheong	1/1
Mr. Wong Ka Kong Adam	1/1
Mr. Seah Ang	1/1

BOARD COMMITTEES (continued)

Nomination Committee (continued)

During the year under review, the Nomination Committee had reviewed the structure, size and composition of the Board, the assessment of the independence of the independent non-executive Directors and the retirement and re-appointment arrangement of the Directors.

Remuneration Committee

The Remuneration Committee currently consists of Mr. Duan Xiongfei (Chairman), Ms. Lau Cheong and Mr. Wong Ka Kong Adam, the independent non-executive Directors and Mr. Seah Ang, the executive Director.

The major responsibilities of the Remuneration Committee are to make recommendation to the Board on the Company's policy and structure for remuneration of the Directors and senior executives of the Company. The Committee shall determine, with delegated responsibility, the individual remuneration package of each executive Director (including the Chairman) and senior management including benefits in kind and pension rights (including allocation of share options, annual bonus plans) and compensation payments (including any compensation payable for loss or termination of their office or appointment) subject to the contractual terms, if any. When determining remuneration packages of the executive Directors and senior management of the Company, the Remuneration Committee takes into consideration factors such as market forces and remuneration packages of executive directors of similar companies in comparable industries both in Hong Kong and overseas.

The Remuneration Committee shall meet at least once per year according to its terms of reference. One Remuneration Committee meeting was held during the year under review, details of attendance are set out below:

Remuneration Committee Members	Attendance/Number of Meeting
Mr. Duan Xiongfei *(Chairman)*	1/1
Ms. Lau Cheong	1/1
Mr. Wong Ka Kong Adam	1/1
Mr. Seah Ang	1/1

During the year under review, the Remuneration Committee had reviewed the existing remuneration policy of the Company, the remuneration structure for the Directors and adjustment in emolument of an executive Director.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board has set measurable objectives and selection of candidates for Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and review this policy, as appropriate, to ensure its effectiveness from time to time.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(i) to develop and review the Group's policies and practices on corporate governance and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

(v) to review the Group's compliance with the code of corporate governance and disclosure requirements in the corporate governance report.

During the year under review, the Board reviewed and approved the corporate governance report contained in the annual report of the Company for the year 2017.

INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2018 are set out as follows:

Type of services	*HK$'000*
Audit services:	
Audit of annual financial statements	1,680
Non-audit services:	
Agreed upon procedures	268

COMPANY SECRETARY

The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to professional training during the year under review.

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58 of the Bye-laws, a special general meeting may be convened by the Board upon requisition by any Shareholder holding not less than one-tenth of the paid up capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal regarding any specified transaction/ business and its supporting documents.

The Board shall arrange to hold such general meeting within 2 months after the receipt of such written requisition. Pursuant to Bye-law 59 of the Bye-laws, the Company shall serve requisite notice of the general meeting, including the time and place of the general meeting and particulars of resolutions to be considered at the general meeting and the general nature of the business.

If within 21 days of the receipt of such written requisition, the Board fails to proceed to convene such general meeting, the Shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (continued)

Putting Forward Proposals at General Meetings

A Shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company in Hong Kong, specifying the shareholding information and contact details of the Shareholder and the proposal the Shareholder intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with their contact details, such as postal address, email address or facsimile number, addressing to the head office of the Company in Hong Kong at the following address or facsimile number or via email:

9/F., Henley Building,
No. 5 Queen's Road Central,
Central, Hong Kong

Fax: (852) 2907 9898
Email: ir@ddhl.com

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically on the enquiries collected. The executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the executive Directors' review and approval. The Company Secretary shall then be authorised by the executive Directors to reply all enquiries in writing.

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the media entertainment business and property investment business.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group as at 31 December 2018 are set out in the consolidated financial statements and their accompanying notes on pages 74 to 206. No interim dividend was paid or declared in respect of the year ended 31 December 2018 (2017: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 26 to the consolidated financial statements respectively.

In view of the losses sustained by the Company, distributable reserves of the Company as at 31 December 2018 amounted to HK$594,690,000 solely comprised of contributed surplus.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 are set out in note 29 to the consolidated financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years is set out in the section headed "Five Years Financial Summary" on page 207 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the consolidated financial statements.

DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/ INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 14 to the consolidated financial statements.

Investment properties were valued at their open market value as at 31 December 2018 by Cushman & Wakefield Limited, an independent firm of professionally qualified valuers. The valuation gave adjustment to fair value loss amounted to HK$4,200,000 (2017: fair value gain HK$1,900,000).

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2018 are set out in notes 25 and 27 to the consolidated financial statements respectively.

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are:

Executive Directors

Peter Chou
Wei Ming
Seah Ang
Amit Chopra

Non-executive Directors

Pu Jian
Song Alan Anlan

Independent Non-executive Directors

Duan Xiongfei
Lau Cheong
Wong Ka Kong Adam
John Alexander Lagerling

In accordance with Bye-law 87(1) of the Bye-laws, Mr. Seah Ang, Mr. Duan Xiongfei and Mr. Wong Ka Kong Adam will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company. Under code provision A.4.3 of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Mr. Duan Xiongfei has served as an independent non-executive Director for more than 9 years and his re-election at the annual general meeting of the Company will be subject to a separate resolution to be approved by Shareholders.

None of the Directors, including those Directors who are proposed for re-election at the forthcoming annual general meeting of the Company, has an unexpired service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

The independent non-executive Directors have no specific term of office but their service contracts have a termination notice requirement of one month. They are subject to retirement by rotation and will be eligible for re-election at the annual general meeting of the Company in accordance with the Bye-laws.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are as shown below:

Executive Directors

Peter CHOU, aged 62, was appointed as an executive Director on 31 August 2015 and was appointed as the Chairman of the Board on 11 September 2015. He is the chairman of the executive committee of the Company as well. Mr. Chou holds a Bachelor Degree in Electronic Engineering from National Taiwan Ocean University and a Master Degree of Business Administration from National Chengchi University in Taiwan. He also completed the Advanced Management Program at Harvard Business School. In addition, Mr. Chou holds an Honorary Engineering Ph. D from National Taiwan Ocean University. Mr. Chou has over 30 years of experience in the information technology industry. He is one of the founders of HTC Corporation. Prior to joining this, he was a director of server platform design division of Digital Equipment Corporation, a major American company in the computer industry from the 1960s to the 1990s.

WEI Ming, aged 44, joined the Group in January 2017 and was appointed as executive Director and Vice Chairman of the Board as well as a member of the executive committee of the Company on 5 July 2017. Mr. Wei is also a supervisor of Sichuan Xunyou Network Technology Co. Ltd.* (四川迅遊網絡科技股份有限公司), the shares of which are listed on the ChiNext of Shenzhen Stock Exchange. He was formerly a VR fund partner of 1 Verge Group. Mr. Wei was also the digital entertainment business unit general manager of Alibaba Group and the business group co-president of Youku Tudou Inc. In addition, he spent over eight years at Youku.com, last serving as president. Prior to joining that, Mr. Wei worked for Sohu.com. Mr. Wei holds a Bachelor's Degree in Computer Science and Technology in Southwest China Normal University (now known as Southwest University) and an Executive Master of Business Administration in Cheung Kong Graduate School of Business.

SEAH Ang, aged 34, joined the Group in 2013 as an executive vice president and was appointed as executive Director and the chief executive officer of the Company on 29 September 2014. He was the chairman of the Board during the period from 12 January 2015 to 10 September 2015 as well. Mr. Seah is presently a member of the executive committee, the nomination committee and the remuneration committee of the Company, and the authorised representative of the Company for the acceptance of service of any process or notice required to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). He is also a director of most of the subsidiaries and an officer of certain subsidiaries of the Company. Mr. Seah graduated from Peking University with a Master Degree of Law (major in international politics) and Bachelor of Arts Degree in Law. He previously worked as an investment banker at Barclays and has extensive experience in the financial industry with expertise in securities, options, fund management and international businesses development. His in-depth knowledge of the private equity markets in Greater China and global markets enabled him to focus on business development around the world. From May 2010 to March 2013, Mr. Seah was also a senior management of United Simsen Securities Limited (now known as Huarong International Securities Limited), a company which provides brokerage services on securities, foreign exchange, gold bullion, futures and mutual funds. From June 2012 to March 2013, Mr. Seah was a non-executive director of King Stone Energy Group Limited (stock code: 663), a company whose shares are listed on the Stock Exchange.

(* for identification purpose only)

DIRECTORS' REPORT

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Executive Directors (continued)

Amit CHOPRA, aged 44, joined the Group in 2012 and was appointed as an executive Director and the chief operating officer of the Company as well as a member of the executive committee of the Company on 18 May 2015. Mr. Chopra was the executive vice president of the Company. He is also a director and an officer of certain subsidiaries of the Company respectively. Mr. Chopra holds a Master of Business Administration from Pepperdine University and a Bachelor of Science degree in finance and accounting from California State University, Northridge. He brings over 19 years of experience in accounting, finance and operations, with focused expertise in corporate restructuring. Prior to joining the Group, he spent about four years at Reliance MediaWorks Limited ("RMW"), last serving as vice president of finance of its US operation. RMW is one of India's leading media and entertainment companies, with a presence across several businesses including theatrical exhibition of films, film and media services and television content production and distribution. Before that Mr. Chopra held financial controller and other senior level financial and accounting positions at companies in the entertainment, semiconductor, logistics, IT consulting and software industries.

Non-executive Directors

PU Jian, aged 60, was appointed as non-executive Director on 5 July 2017. He was formerly executive director, vice president, a member of the executive committee and a vice chairman of strategy and investment management committee of CITIC Limited (stock code: 267), the shares of which are listed on the main board of the Stock Exchange, executive director and a vice president of CITIC Group Corporation and CITIC Corporation Limited respectively, vice president of CITIC Securities Co., Ltd, vice chairman of China Offshore Helicopter Co., Ltd, president of CITIC Offshore Helicopter Co., Ltd, director of CITIC Group, and president and chairman of CITIC Trust Co., Ltd. Mr. Pu has held management positions in the financial industry and the general aviation industry for years, and has over 20 years' experience in financial institutions, particularly in the securities and trust fields. He holds a Master's Degree in Business Administration in Fordham University in the United States of America.

SONG Alan Anlan, aged 62, was appointed as non-executive Director on 5 July 2017. Dr. Song is currently one of the managing partners of SB China Venture Capital ("SBCVC"). He is also a director of Shanghai Precise Packaging Co., Ltd.* (上海普麗盛包裝股份有限公司), the shares of which are listed on the ChiNext of Shenzhen Stock Exchange, and a director of both Shenzhen Easou Technology Co., Ltd.* (深圳宜搜天下科技股份有限公司) and Shanghai YiFang Rural Technology Holdings Co., Ltd.* (上海奕方農業科技股份有限公司), the shares of which are quoted on the National Equities Exchange and Quotations (the "NEEQ"). In addition, Dr. Song serves as the special advisor for China Association of Small and Medium Enterprises. He was formerly the chairman of the supervisory board of Dehong International Cashmere Co., Ltd* (德泓國際絨業股份有限公司), the shares of which are quoted on the NEEQ. Prior to joining SBCVC, Dr. Song was a member of UTStarcom's founding team and worked as the director of information technology. He was also the chief technical officer of MDC Telecom, and a founder and director of Global Data Solutions Limited. Prior to that, Dr. Song was an assistant professor of School of Engineering at the University of Connecticut in the United States of America. He has rich experiences in both investment and entrepreneurship and in-depth knowledge in a broad range of technologies. Dr. Song holds a Bachelor Degree and a Master Degree in Department of Automation from Tsinghua University and a Ph.D. Degree from School of Economics and Management of Tsinghua University.

(* for identification purpose only)

BIOGRAPHICAL DETAILS OF DIRECTORS (continued)

Independent Non-executive Directors

DUAN Xiongfei, aged 50, was appointed as an independent non-executive Director on 21 July 2009 and is presently the chairman of the audit committee, the nomination committee and the remuneration committee of the Company. He is currently an independent non-executive director, the chairman of the nomination and corporate governance committee and a member of the audit committee of Pantronics Holdings Limited (stock code: 1611), the shares of which are listed on the main board of the Stock Exchange. Mr. Duan holds a Master's Degree in Economics from Renmin University of China and a Master's Degree in Business Administration from The University of Chicago. He has over 20 years of experience in securities trading and the investment industry. Mr. Duan is currently the investment manager of MIE Holdings Corporation, a company listed on the Stock Exchange (stock code: 1555). He joined Atlantis Investment Management as Fund Manager in 2010 and registered as a Commodity Trading Advisor (CTA) in the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC) in 2004.

LAU Cheong, aged 35, was appointed as an independent non-executive Director on 21 July 2009 and is presently a member of the audit committee, the nomination committee and the remuneration committee of the Company. Ms. Lau holds a Master's Degree in Public Policy and Management and a Bachelor's Degree in Business Administration from University of Southern California. She obtained three broker qualifications in the United States of America and previously worked in Morgan Stanley & Co. Incorporated. She is currently the chief executive officer of Sino Jet Management Limited and the president of Ponticello International Group Incorporated.

WONG Ka Kong Adam, aged 52, was appointed as an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company on 9 August 2013. Mr. Wong holds a Master's Degree in Business Administration from The Hong Kong Polytechnic University. He is a member and a practising certificate holder of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 25 years' experience in auditing, commercial finance and accounting operation. He previously held various senior positions in listed companies with business in Hong Kong, Greater China and overseas. He currently holds a senior executive position in conglomerate listed on the main board of the Stock Exchange.

John Alexander LAGERLING, aged 42, was appointed as an independent non-executive Director on 5 July 2017. Mr. Lagerling was the vice president of business development for mobile and product partnerships of Facebook, Inc. In June 2017, he joined Mercari, Inc., the shares of which are listed on the Market of the High-growth and Emerging Stocks (Mothers) of Tokyo Exchange, Inc. in June 2018, and is currently an executive director and chief executive officer US and global chief business officer of Mercari, Inc. He is also a non-executive director and a member of the remuneration committee of Modern Times Group MTG AB, the class A and class B shares of which are listed on Nasdaq Stockholm's Large Cap list. Mr. Lagerling was the co-founder and board member of Cronologics Corporation, acquired by Google in 2016. In addition, he spent over seven years at Google, last serving as director of Android Global Partnerships. Prior to joining that, he worked for NTT DOCOMO, INC. Mr. Lagerling holds a Master of Science Degree in Economics, Marketing and International Business in Stockholm School of Economics.

DIRECTORS' REPORT

SHARE OPTION SCHEME

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

(1) Purpose

The purpose of the Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole.

(2) Participants

Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(3) The total number of Shares available for issue

The total number of Shares which may be issued upon exercise of options to be granted under the Option Scheme and any other share option schemes of the Company shall not, in the absence of Shareholders' approval, exceed 2,241,869,571 Shares, representing approximately 8.39% of the Shares in issue as at the date of this annual report.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will exceed the aforesaid 30% limit.

(4) The maximum entitlement of each participant under the Option Scheme

The total number of Shares issued and to be issued upon the exercise of the options granted and to be granted to each participant of the Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue.

Any further grant of options would result in the Shares issued and to be issued upon exercise in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such grantee and his close associates (or his associates if such grantee is a connected person) abstaining from voting and the requirements prescribed under the Listing Rules from time to time.

SHARE OPTION SCHEME (continued)

(5) The period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Option Scheme at any time during the 10-year period from the date of grant.

(6) The minimum period for which an option must be held before it can be exercised

The Board is empowered to impose, at its discretion, any minimum period that an option must be held at the time of granting any option.

(7) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

Acceptance of the option must be made within 28 days from the date of grant and HK$1.00 must be paid as a consideration for the grant of option.

(8) The basis of determining the exercise price

The exercise price of the option shall be such price determined by the Board at its absolute discretion and notified to the participant in the offer but shall be no less than the highest of:

(a) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

(9) The remaining life of the Option Scheme

The Option Scheme is valid and effective for a period of 10 years commencing after the date of its adoption.

DIRECTORS' REPORT

SHARE OPTION SCHEME (continued)

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

	Number of Options							
Name and category of participant	At 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2018	Date of grant	Exercise period	Exercise price per Share (HK$)
Directors								
Seah Ang	100,000,000 *(Notes 2 and 3)*	–	–	–	100,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Amit Chopra	48,000,000 *(Note 2)*	–	–	–	48,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	5,000,000 *(Note 4)*	–	–	–	5,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	33,333,334 *(Notes 5 and 6)*	–	–	–	33,333,334	29/01/2016	29/01/2016 to 28/01/2026	0.413
	33,333,333 *(Notes 5 and 6)*	–	–	–	33,333,333	29/01/2016	29/01/2017 to 28/01/2026	0.413
	33,333,333 *(Notes 5 and 6)*	–	–	–	33,333,333	29/01/2016	29/01/2018 to 28/01/2026	0.413
Wei Ming	300,000,000 *(Note 9)*	–	–	–	300,000,000	13/02/2017	13/02/2017 to 12/02/2027	0.469
Employees of the Group								
Zhou Jian	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
Fan Lei	150,000,000 *(Notes 2 and 3)*	–	–	–	150,000,000	28/05/2014	28/05/2017 to 27/05/2024	0.098

SHARE OPTION SCHEME (continued)

Name and category of participant	Number of Options: At 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2018	Date of grant	Exercise period	Exercise price per Share (HK$)
Other employees, in aggregate	351,230,000 *(Note 2)*	–	(500,000)	–	350,730,000	28/05/2014	28/05/2017 to 27/05/2024	0.098
	20,990,000 *(Note 4)*	–	–	–	20,990,000	06/05/2015	06/05/2015 to 05/05/2025	1.320
	20,000,000 *(Note 4)*	–	–	–	20,000,000	06/05/2015	06/05/2016 to 05/05/2025	1.320
	19,000,000 *(Note 4)*	–	–	–	19,000,000	06/05/2015	06/05/2017 to 05/05/2025	1.320
	93,166,677 *(Note 5)*	–	–	–	93,166,677	29/01/2016	29/01/2016 to 28/01/2026	0.413
	83,166,665 *(Note 5)*	–	–	–	83,166,665	29/01/2016	29/01/2017 to 28/01/2026	0.413
	77,833,326 *(Note 5)*	–	–	(333,333)	77,499,993	29/01/2016	29/01/2018 to 28/01/2026	0.413
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/06/2017 to 21/06/2026	0.495
	50,000,000 *(Note 7)*	–	–	–	50,000,000	22/06/2016	22/06/2018 to 21/06/2026	0.495
	16,666,692 *(Note 8)*	–	–	–	16,666,692	29/07/2016	29/07/2016 to 28/07/2026	0.566
	11,699,998 *(Note 8)*	–	–	–	11,699,998	29/07/2016	29/07/2017 to 28/07/2026	0.566
	10,199,989 *(Note 8)*	–	–	(1,766,665)	8,433,324	29/07/2016	29/07/2018 to 28/07/2026	0.566
Total	1,666,953,347	–	(500,000)	(2,099,998)	1,664,353,349			

DIRECTORS' REPORT

SHARE OPTION SCHEME (continued)

Notes:

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

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

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

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

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

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

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

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares and underlying Shares (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) as recorded in the register required to be kept under Section 352 of the SFO; or (b) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Interests and short positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,625,681,442	–	2,625,681,442 (Long position)	9.82%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.25%
Seah Ang	Interest of controlled corporation and beneficial owner *(Notes 3 and 4)*	2,458,171,442	100,000,000	2,558,171,442 (Long position)	9.57%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.88%
Amit Chopra	Interest of controlled corporation and beneficial owner *(Notes 5 and 6)*	2,458,171,442	163,000,000	2,621,171,442 (Long position)	9.81%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	1.88%
Wei Ming	Beneficial owner *(Note 7)*	–	300,000,000	300,000,000 (Long position)	1.12%

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (continued)

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

Notes:

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

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

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

4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

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

6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

7. Mr. Wei Ming holds 300,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2018, which may also constitute connected transactions under the Listing Rules, are disclosed in note 37 to the consolidated financial statements.

During the year, the above-mentioned connected transactions, if applicable, have been complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2018, so far as is known to any Director or chief executive of the Company, the following persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Interests and short positions in the Shares and underlying Shares

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Kabo Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 1)*	2,458,171,442	–	2,458,171,442 (Long position)	9.20%
	Beneficial owner *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.25%
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,625,681,442	–	2,625,681,442 (Long position)	9.82%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	2.25%
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 3)*	2,458,171,442	–	2,458,171,442 (Long position)	9.20%
	Beneficial owner *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.88%
Seah Ang	Interest of controlled corporation and beneficial owner *(Notes 3 and 4)*	2,458,171,442	100,000,000	2,558,171,442 (Long position)	9.57%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.88%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 5)*	2,458,171,442	–	2,458,171,442 (Long position)	9.20%
	Beneficial owner *(Note 5)*	502,134,789	–	502,134,789 (Short position)	1.88%
Amit Chopra	Interest of controlled corporation and beneficial owner *(Notes 5 and 6)*	2,458,171,442	163,000,000	2,621,171,442 (Long position)	9.81%
	Interest of controlled corporation *(Note 5)*	502,134,789	–	502,134,789 (Short position)	1.88%
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner *(Note 7)*	2,458,171,442	–	2,458,171,442 (Long position)	9.20%
Bright Ace Holdings Limited	Interest of controlled corporation *(Note 7)*	2,458,171,442	–	2,458,171,442 (Long position)	9.20%
Zhou Jian	Interest of controlled corporation and beneficial owner *(Notes 7, 8 and 9)*	2,685,395,180	150,000,000	2,835,395,180 (Long position)	10.61%
Fortune Source International Limited	Beneficial owner *(Note 10)*	1,672,035,000	–	1,672,035,000 (Long position)	6.25%
Zhang Xiaoqun	Interest of controlled corporation *(Note 10)*	1,672,035,000	–	1,672,035,000 (Long position)	6.25%
Jade Link Holdings Limited	Beneficial owner *(Note 11)*	5,037,200,000	–	5,037,200,000 (Long position)	18.84%
Tang Elaine Yilin	Interest of controlled corporation *(Note 11)*	5,037,200,000	–	5,037,200,000 (Long position)	18.84%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Name	Capacity	Number of Shares held	Number of underlying Shares held	Total interests (Long/short positions)	Approximate percentage of the issued share capital
CITIC Limited	Interest of controlled corporation *(Note 12)*	2,281,818,182	–	2,281,818,182 (Long position)	8.54%
CITIC Group Corporation	Interest of controlled corporation *(Note 12)*	2,281,818,182	–	2,281,818,182 (Long position)	8.54%
SBCVC Digital Fund, L.P.	Beneficial owner *(Note 13)*	2,281,818,182	–	2,281,818,182 (Long position)	8.54%
SBCVC Management V, L.P.	Interest of controlled corporation *(Note 13)*	2,281,818,182	–	2,281,818,182 (Long position)	8.54%
Kingkey Enterprise Holdings Limited	Beneficial owner *(Note 14)*	2,052,630,000	–	2,052,630,000 (Long position)	7.68%
Chen Jiarong	Interest of controlled corporation *(Note 14)*	2,052,630,000	–	2,052,630,000 (Long position)	7.68%
Chen Jiajun	Interest of controlled corporation *(Note 14)*	2,052,630,000	–	2,052,630,000 (Long position)	7.68%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Notes:

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

2. Mr. Peter Chou was deemed to be interested in 167,510,000 Shares held by Honarn Inc., which is 100% controlled by Mr. Peter Chou.

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

4. Mr. Seah Ang holds 100,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

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

6. Mr. Amit Chopra holds 163,000,000 Options granted under the Option Scheme, particulars of which are set out in the above section headed "Share Option Scheme".

7. Wise Sun Holdings Limited was deemed to be interested in 2,458,171,442 Shares by holding 600,280,118 Shares, 75,320,000 Shares and 75,320,000 Shares of which were held by Cosmic Power Holdings Limited and Jameson Global Investments Limited respectively, and by having a security interest in 1,857,891,324 Shares under section 317 of the SFO. Cosmic Power Holdings Limited and Jameson Global Investments Limited are wholly-owned by Wise Sun Holdings Limited and Wise Sun Holdings Limited is wholly-owned by Bright Ace Holdings Limited. Mr. Zhou Jian was deemed to be interested in 2,458,171,442 Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited under section 317 of the SFO.

8. Mr. Zhou Jian was deemed to be interested in 152,223,738 Shares and 75,000,000 Shares held by Ultra Gain Development Limited and Union Fortune Investment Limited respectively, which are 100% controlled by Mr. Zhou Jian.

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (continued)

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

Notes: (continued)

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

11. Jade Link Holdings Limited is wholly-owned by Tang Elaine Yilin. Tang Elaine Yilin was deemed to be interested in the 5,037,200,000 Shares held by Jade Link Holdings Limited.

12. CITIC Group Corporation was deemed to be interested in 2,281,818,182 Shares held by Master Time Global Limited. Such Shares were owned by Master Time Global Limited which in turn is wholly owned by Dynasty One Investments Limited while Dynasty One Investments Limited is wholly owned by CITIC Limited. CITIC Limited is 32.53% and 25.60% controlled by CITIC Polaris Limited and CITIC Glory Limited respectively which are 100% controlled by CITIC Group Corporation.

13. SBCVC Digital Fund, L.P. is controlled by SBCVC Management V, L.P. SBCVC Management V, L.P. was deemed to be interested in 2,281,818,182 Shares held by SBCVC Digital Fund, L.P.

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

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any other interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	1.1%
– five largest suppliers combined	4.1%
Sales	
– the largest customer	20.0%
– five largest customers combined	40.0%

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the Company's number of issued share) had an interest in the major suppliers or customers noted above.

DIRECTORS' REPORT

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

There was a banking facility (the "Facility") with the principal amount of HK$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the "Subsidiary"), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary ("Intermediate Holding Company"). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 31 December 2018, the outstanding loan principal of this Facility amounted to approximately HK$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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

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

PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out on pages 36 to 46 of this annual report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws or the laws of Bermuda.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporation, the Group plays an important role in protecting our environment and is committed to minimize our impact on the environment and natural resources.

The Company adopted effective environmental protection by introducing e-communication with our Shareholders and non-registered holders. The Company encourages investors to read the Company's corporate communication published on the websites of the Company and the Stock Exchange so as to reduce paper consumption.

The Group installed video conference and telephone conference facilities for convening board meetings, committee meetings and management meetings. It encourages attendees to attend the meetings without frequent travelling so as to reduce the energy consumption.

The Group encourages and educates staff to save energy and reduce of paper use. It also encourages environmental practices such as utilizing emails for internal and external communication, adopting e-filing in server, double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off lightings and electrical appliances when not in use.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements. The Group is committed to safeguarding Shareholders' rights and enhancing corporate governance standard by establishing the audit committee, nomination committee and remuneration committee of the Company.

The Group has registered or is registering its intellectual property, including but not limited to trademarks, patents and copyright in the Greater China region, USA, Canada, India and other relevant jurisdictions and takes all appropriate actions to protect and enforce its intellectual property rights.

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

For further details, please refer to Environmental, Social and Governance Report which will be published as a separate report.

DIRECTORS' REPORT

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement" on pages 4 to 5 and "Chief Executive Officer's Review" on pages 6 to 35 of this annual report. An analysis of each of the Group's capital risk management and financial risk management is provided in notes 40 and 41 to the consolidated financial statements.

The Company believes that employees are the valuable assets. The Group provides competitive remuneration package, benefit and opportunities for promotion to attract and motivate the employees.

The Group also understands that it is important to maintain good relationship with business partners, suppliers and customers. The management has kept good communication and exchanged ideas with them so as to achieve its long-term goals.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, the following Director is considered to have interests in businesses apart from the Group's businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules on the Stock Exchange.

Mr. Peter Chou ("Mr. Chou") held shareholding or interests and/or directorship in private companies involved in virtual reality and media entertainment ("Such Companies").

However, the Board is independent from the boards of directors of Such Companies and none of the Directors can personally control the Board. Such Companies are managed by its independent management and administration. Further, Mr. Chou is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and its Shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Such Companies.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors in writing an annual confirmation of his/her independence for the year pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent (including Mr. Duan Xiongfei who has served as an independent non-executive Director for more than 9 years and is eligible for re-election at the forthcoming annual general meeting of the Company).

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Group has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

EMOLUMENT POLICY

The employees of the Group are remunerated on a performance-related basis.

The emoluments of the executive Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market standards.

The Company has adopted a share option scheme as incentive and rewards to encourage participants (including directors and employees). Details of the Option Scheme are set out under "Share Option Scheme" of this report and in note 27 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

On 1 March 2018, the Group entered into a placing agreement with Great Roc Capital Securities Limited ("Placing Agent") in relation to the placing, on a best effort basis, of up to 2,175,780,000 placing shares at the placing price of HK$0.19 per placing share ("Placing"). The conditions of the Placing were fulfilled and completion of the Placing took place on 16 March 2018. The Placing Agent has placed an aggregate of 2,175,780,000 Placing shares to two placees, namely Kingkey Enterprise Holdings Limited ("Kingkey Enterprise") (in respect of 2,052,630,000 Placing shares) and Keywise Capital (HK) Ltd ("Keywise Capital") (in respect of 123,150,000 Placing shares), at the Placing price of HK$0.19 per Placing share. Kingkey Enterprise is an investment holding company, while Keywise Capital is principally engaged in the business of asset management. Immediately before the completion of the Placing, Keywise Capital holds 693,060,000 shares, representing approximately 2.84% of the issued share capital of the Company. The Placing shares were allotted and issued pursuant to the general mandate of the Company.

The gross proceeds and net proceeds from the Placing are approximately HK$413,400,000 and HK$409,139,000 respectively, and are intended to be applied towards media entertainment segment (including possible acquisition of virtual reality hardware business and possible investment in hospitality distribution channel for virtual reality hardware and contents) and as general working capital purposes of the Group. Further details of the Placing are set out in the sub-section headed "Shares" under "Capital" on page 29.

Save as disclosed above and under the section headed "Share Option Scheme" above and note 27 to the consolidated financial statements, no equity-linked agreement was entered into by the Company during the financial year or subsisted at the end of the financial year.

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rules 13.51B(1) of the Listing Rules, changes in the Directors information since the disclosure made in the interim report of the Company for six months ended 30 June 2018 are set out as follows:

(1) Mr. Pu Jian, the non-executive Director, resigned from all positions in CITIC Limited, CITIC Group Corporation and CITIC Corporation Limited with effect from 21 February 2019.

(2) Mr. Duan Xiongfei, the independent non-executive Director, was appointed as an independent non-executive director, the chairman of the nomination and corporate governance committee and a member of the audit committee of Pantronics Holdings Limited (stock code: 1611), the shares of which are listed on the main board of the Stock Exchange, with effect from 11 October 2018.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited consolidated financial statements for the year.

INDEPENDENT AUDITOR

The consolidated financial statements for the year have been audited by BDO Limited who will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the independent auditor of the Company.

On behalf of the Board

Seah Ang
Executive Director and Chief Executive Officer

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Digital Domain Holdings Limited (the "Company") and its subsidiaries (thereafter referred to as the "Group") set out on pages 74 to 206, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of goodwill and intangible assets

As at 31 December 2018, the Group had intangible assets of HK$1,460,853,000 (including goodwill of HK$854,831,000) which in total represented approximately 65.7% of the total assets of the Group.

For the purpose of assessing impairment, these assets were allocated to cash generating units ("CGUs"), and the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement with respect to the discount rate and underlying cash flows, in particular future revenue growth was used. Management has concluded that there is no impairment in respect of the intangible assets and goodwill.

We focused on this area due to the significance of the intangible assets (including goodwill) to the Group and the level of the subjectivity associated with the judgement and assumptions used in estimating the value-in-use of the CGUs.

Refer to "Impairment of non-financial assets" in summary of significant accounting policies in note 4, critical accounting estimates and judgements in note 5 and disclosure of intangible assets (including goodwill) in note 15 to the consolidated financial statements.

Our response:

Our audit procedures in relation to management's impairment assessment included:

- Evaluated the methodology used by the Group in performing impairment assessment;

- Challenged the reasonableness of key assumptions based on our knowledge of the business and industry; and

- Reconciled input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company (the “Directors”) are responsible for the other information. The other information comprises the information included in the Company’s annual report, but does not include the consolidated financial statements and the auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS’ RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for overseeing the Group’s financial reporting process. The Audit Committee assists the Directors in discharging their responsibility in this regard.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of Bermuda Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Pak Tak Lun
Practising Certificate number: P06170

Hong Kong, 29 March 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	600,679	703,004
Cost of sales and services rendered		(547,723)	(621,226)
Gross profit		52,956	81,778
Other income and gains	7	36,845	9,828
Selling and distribution expenses		(22,881)	(32,705)
Administrative expenses and other net operating expenses		(540,525)	(579,513)
Finance costs	9	(30,546)	(21,598)
Fair value (losses)/gains on investment properties	14	(4,200)	1,900
Share of losses of associates	16	(19,645)	(3,763)
Share of (losses)/profits of joint ventures	17	(7)	14
Loss before taxation		(528,003)	(544,059)
Taxation	11(a)	2,506	(82)
Loss for the year	8	(525,497)	(544,141)
Loss attributable to:			
– Owners of the Company		(518,030)	(524,893)
– Non-controlling interest	30	(7,467)	(19,248)
		(525,497)	(544,141)
Loss per share:	12		
Basic and diluted		HK cents (1.971)	HK cents (2.458)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Loss for the year		(525,497)	(544,141)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(7,689)	10,364
Share of other comprehensive income of associates	*16*	(13,346)	16,802
Share of other comprehensive income of joint ventures	*17*	(38)	40
Net other comprehensive income that may be reclassified subsequently to profit or loss		(21,073)	27,206
Items that will not be reclassified to profit or loss:			
Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax		(30,237)	–
Net other comprehensive income that will not be reclassified to profit or loss		(30,237)	–
Other comprehensive income for the year, net of tax		(51,310)	27,206
Total comprehensive income for the year		(576,807)	(516,935)
Total comprehensive income attributable to:			
– Owners of the Company		(565,237)	(499,719)
– Non-controlling interest		(11,570)	(17,216)
		(576,807)	(516,935)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	13	106,917	124,251
Investment properties	14	–	212,500
Intangible assets	15	1,460,853	1,165,046
Interests in associates	16	5,705	15,102
Interests in joint ventures	17	16	62
Financial asset measured at fair value through other comprehensive income	18	165,976	–
Deposits and prepayments	19	12,585	31,908
		1,752,052	1,548,869
Current assets			
Inventories		16,253	142
Trade receivables, other receivables and prepayments	19	164,394	118,684
Contract assets	20	7,731	–
Bank balances and cash	21	75,926	225,334
		264,304	344,160
Assets of a disposal group classified as held for sale	14	208,483	–
Current liabilities			
Trade payables, other payables and accruals	22	138,441	126,668
Contract liabilities	20	28,892	–
Deferred revenue		–	16,218
Borrowings	23	328,829	152,646
Obligations under finance leases	24	13,982	12,139
Contingent consideration payable	31	43,468	–
Tax payable		2,465	1,978
		556,077	309,649
Liabilities of a disposal group classified as held for sale	14	95	–
Net current (liabilities)/assets		(83,385)	34,511
Total assets less current liabilities		1,668,667	1,583,380

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Borrowings	*23*	225,142	105,218
Obligations under finance leases	*24*	11,873	25,801
Contingent consideration payable	*31*	55,075	–
Deferred tax liabilities	*11(b)*	66,621	49,330
		358,711	180,349
NET ASSETS		1,309,956	1,403,031
Capital and reserves			
Share capital	*25*	267,314	244,418
Reserves		964,160	1,133,055
Equity attributable to owners of the Company		1,231,474	1,377,473
Non-controlling interest	*30*	78,482	25,558
TOTAL EQUITY		1,309,956	1,403,031

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Seah Ang
DIRECTOR

Peter Chou
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

		Attributable to owners of the Company												
	Notes	Share capital HK$'000 (Note 25)	Share premium HK$'000 (Note 26(i))	Convertible notes – equity component HK$'000 (Note 26(ii))	Land and buildings revaluation reserve HK$'000 (Note 26(iii))	Contributed surplus HK$'000 (Note 26(iv))	Share options reserve HK$'000 (Note 26(v))	Deferred shares reserve HK$'000 (Note 26(vi))	Exchange fluctuation reserve HK$'000 (Note 26(vii))	Other reserve HK$'000 (Note 26(viii))	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2017		126,187	1,603,052	96,630	7,355	49,510	118,107	123,712	(3,997)	–	(1,097,902)	1,022,654	42,774	1,065,428
Recognition of equity-settled share-based payment	27	–	–	–	–	–	51,033	6,395	–	–	–	57,428	–	57,428
Issue of shares on placement, net of expenses	25	18,667	396,072	–	–	–	–	–	–	–	–	414,739	–	414,739
Issue of shares for being consideration of acquisition of subsidiaries completed in previous years	25	1,036	56,371	–	–	–	–	(57,407)	–	–	–	–	–	–
Issue of shares for acquisition of intangible assets completed in previous years	25	127	7,593	–	–	–	–	(7,750)	–	–	–	(30)	–	(30)
Issue of shares on exercise of share options	27	401	3,526	–	–	–	(1,378)	–	–	–	1,378	3,927	–	3,927
Issue of shares upon conversion of convertible notes	25	98,000	377,116	(96,630)	–	–	–	–	–	–	–	378,486	–	378,486
Share premium balance transferred to contributed surplus pursuant to the capital reorganisation		–	(1,603,052)	–	–	1,603,052	–	–	–	–	–	–	–	–
Contributed surplus set off against accumulated losses pursuant to the capital reorganisation		–	–	–	–	(1,057,872)	–	–	–	–	1,057,872	–	–	–
Release on dissolution of joint ventures		–	–	–	–	–	–	–	(12)	–	–	(12)	–	(12)
Loss for the year		–	–	–	–	–	–	–	–	–	(524,893)	(524,893)	(19,248)	(544,141)
Currency translation differences		–	–	–	–	–	–	–	8,332	–	–	8,332	2,032	10,364
Share of other comprehensive income of associates	16	–	–	–	–	–	–	–	194	16,608	–	16,802	–	16,802
Share of other comprehensive income of joint ventures	17	–	–	–	–	–	–	–	40	–	–	40	–	40
Total comprehensive income for the year		–	–	–	–	–	–	–	8,566	16,608	(524,893)	(499,719)	(17,216)	(516,935)
As at 31 December 2017		244,418	840,678	–	7,355	594,690	167,762	64,950	4,557	16,608	(563,545)	1,377,473	25,558	1,403,031

	Notes	Attributable to owners of the Company												
		Share capital HK$'000 *(Note 25)*	Share premium HK$'000 *(Note 26(i))*	FVOCI reserve HK$'000 *(Note 42(b))*	Land and buildings revaluation reserve HK$'000 *(Note 26(iii))*	Contributed surplus HK$'000 *(Note 26(iv))*	Share options reserve HK$'000 *(Note 26(v))*	Deferred shares reserve HK$'000 *(Note 26(vi))*	Exchange fluctuation reserve HK$'000 *(Note 26(vii))*	Other reserve HK$'000 *(Note 26(viii))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
As at 1 January 2018		244,418	840,678	–	7,355	594,690	167,762	64,950	4,557	16,608	(563,545)	1,377,473	25,558	1,403,031
Recognition of equity-settled share-based payment	*27*	–	–	–	–	–	1,387	6,395	–	–	–	7,782	–	7,782
Issue of shares on placement, net of expenses	*25(b)*	21,757	387,382	–	–	–	–	–	–	–	–	409,139	–	409,139
Issue of shares for being consideration of acquisition of subsidiaries completed in previous years	*25(c)*	1,007	54,790	–	–	–	–	(55,828)	–	–	–	(31)	–	(31)
Issue of shares for acquisition of intangible assets completed in previous years	*25(d)*	127	7,593	–	–	–	–	(7,750)	–	–	–	(30)	–	(30)
Issue of shares on exercise of share options	*27*	5	44	–	–	–	(17)	–	–	–	17	49	–	49
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	2,329	–	2,329	1,153	3,482
Additions from business combination		–	–	–	–	–	–	–	–	–	–	–	63,341	63,341
Loss for the year		–	–	–	–	–	–	–	–	–	(518,030)	(518,030)	(7,467)	(525,497)
Currency translation differences		–	–	–	–	–	–	–	(3,586)	–	–	(3,586)	(4,103)	(7,689)
Share of other comprehensive income of associates	*16*	–	–	–	–	–	–	–	(606)	(12,740)	–	(13,346)	–	(13,346)
Share of other comprehensive income of joint ventures	*17*	–	–	–	–	–	–	–	(38)	–	–	(38)	–	(38)
Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax	*42*	–	–	(30,237)	–	–	–	–	–	–	–	(30,237)	–	(30,237)
Total comprehensive income for the year		–	–	(30,237)	–	–	–	–	(4,230)	(12,740)	(518,030)	(565,237)	(11,570)	(576,807)
As at 31 December 2018		267,314	1,290,487	(30,237)	7,355	594,690	169,132	7,767	327	6,197	(1,081,558)	1,231,474	78,482	1,309,956

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Loss before taxation		(528,003)	(544,059)
Adjustments for:			
Depreciation of property, plant and equipment		55,582	31,387
Amortisation of intangible assets		95,319	28,832
Loss on disposal of property, plant and equipment		946	2,487
Equity-settled share-based payment expenses		7,782	57,428
Net exchange gains		(1,841)	(5,384)
Fair value losses/(gains) on investment properties		4,200	(1,900)
Share of losses of associates		19,645	3,763
Share of losses/(profits) of joint ventures		7	(14)
Gain on deemed disposal of an associate		(3,994)	–
Reversal of impairment loss on amounts due from joint ventures		–	(3,343)
Impairment loss on trade receivables and contract assets		3,399	2,009
Impairment loss on inventories		268	164
Interest income		(21,184)	(489)
Finance costs		30,546	21,598
Operating loss before working capital changes		(337,328)	(407,521)
(Increase)/decrease in trading merchandise goods		(2,023)	331
Increase in trade receivables, other receivables and prepayments		(25,149)	(5,848)
Decrease in contract assets		9,997	–
(Decrease)/increase in trade payables, other payables and accruals		(77,257)	23,367
Increase in contract liabilities		10,515	–
Increase in deferred revenue		–	5,362
Cash used in operations		(421,245)	(384,309)
Income tax paid		(852)	(267)
Interest paid		(25,992)	(11,250)
Net cash used in operating activities		(448,089)	(395,826)
Cash flows from investing activities			
Interest received		21,214	511
Purchases of property, plant and equipment		(19,085)	(56,829)
Proceeds from disposal of property, plant and equipment		99	852
Additions to intangible assets		(63,687)	(148,143)
Advance to joint ventures		–	(736)
Advance to associates		(19,601)	(2,063)
Proceeds from dissolution of joint ventures		–	10,416
Decrease/(increase) in bank deposits with more than three months to maturity when placed or pledged		7,659	(7,659)
Investment in financial asset measured at fair value through other comprehensive income		(196,213)	–
Net cash flow from business combination	31	(119,158)	–
Net cash used in investing activities		(388,772)	(203,651)

	2018 HK$'000	2017 HK$'000
Cash flows from financing activities		
Proceeds from issue of ordinary shares, net of issuing expenses	409,078	414,709
Proceeds from exercise of share options	49	3,927
Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder	3,482	–
Repayment of obligations under finance leases	(12,173)	(2,017)
New borrowings	58,152	88,831
Repayment of borrowings	(7,749)	(121,701)
Repayment of promissory note	–	(35,000)
New inception of other loans	285,546	–
Repayment of other loans	(40,000)	–
Net cash generated from financing activities	696,385	348,749
Net decrease in cash and cash equivalents	(140,476)	(250,728)
Effect of foreign exchange rate changes	(1,169)	2,565
Cash and cash equivalents at beginning of the year	217,675	465,838
Cash and cash equivalents at end of the year	76,030	217,675
Represented by:		
Bank balances and cash	75,926	225,334
Bank balances included in a disposal group	104	–
	76,030	225,334
Bank deposits with more than three months to maturity when placed or pledged	–	(7,659)
	76,030	217,675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. ORGANISATION AND OPERATIONS

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

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 29.

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018

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

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

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

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

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

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

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

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

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

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

The impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves, accumulated losses and non-controlling interest ("NCI") as of 1 January 2018, if any, was not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 9 – Financial Instruments (continued)

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

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS39, except for financial liabilities designated at fair value through profit or loss ("FVTPL") where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

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

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 9 – Financial Instruments (continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 9 – Financial Instruments (continued)

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

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

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39**	**Carrying amount as at 1 January 2018 under HKFRS 9**
			HK$'000	HK$'000
Trade and other receivables	Loans and receivables *(note 2a(ii))*	Amortised cost	103,749	103,749
Bank balances and cash	Loans and receivables *(note 2a(ii))*	Amortised cost	225,334	225,334

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit loss ("ECL") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised cost, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

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

Measurement of ECLs

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

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 9 – Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs (continued)

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

Presentation of ECLs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 9 – Financial Instruments (continued)

(ii) *Impairment of financial assets (continued)*

Impact of the ECL model

(a) *Impairment of trade receivables and contract assets*

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts lifetime ECLs for all trade receivables and contract assets. To measure the ECLs, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade receivables. The impact of loss allowance for trade receivables and contract assets upon the transition to HKFRS 9 as of 1 January 2018 was not significant. Applying the ECLs model resulted in the recognition of ECLs of HK$3,398,000 for trade receivable and of HK$1,000 for contract assets for the year ended 31 December 2018.

(b) *Impairment of other financial assets*

The Group's other financial assets at amortised cost include other receivables. No ECLs has been recognised on 1 January 2018 and for the year ended 31 December 2018 as these amounts were not significant.

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

(iii) *Transition*

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

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 9 – Financial Instruments (continued)

(iii) Transition (continued)

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

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

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

(iv) Hedge accounting

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

HKFRS 15 – Revenue from Contracts with Customers

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 15 – Revenue from Contracts with Customers (continued)

The impact, net of tax, of transition to HKFRS 15 on the opening balances of accumulated losses and NCI as at 1 January 2018, if any, was not significant.

The following tables summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018.

Impact on the consolidated statement of financial position as of 31 December 2018 debit/(credit):

	HK$'000
Assets	
Current assets	
Contract assets	7,731
Trade and other receivables	(7,731)
Total current assets and total assets	–
Liabilities	
Current liabilities	
Deferred revenue	28,892
Contract liabilities	(28,892)
Total current liabilities and total liabilities	–

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

HKFRS 15 – Revenue from Contracts with Customers (continued)

Total current liabilities and total liabilities

There was no material impact on the Group's consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flow for the year ended 31 December 2018.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

(a) Adoption of new/revised HKFRSs – first effective on 1 January 2018 (continued)

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

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

The adoption of these amendments has no impact on these consolidated financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

Amendments to HKAS 40 – Transfers of Investment Property

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

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

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

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

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

The adoption of these amendments has no impact on these consolidated financial statements as the Group has not paid or received advance consideration in a foreign currency.

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

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

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

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
Amendments to HKAS 3	Amendments to Definition of a Business[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

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

HKFRS 16 – Leases

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

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

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

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

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

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

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

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at FVOCI if specified conditions are met – instead of at FVTPL.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Amendments to HKAS 1 and HKAS 8 – Amendments to Definition of Material

The amendments clarify the definition of material and align the definition used across the standards. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Amendments to HKAS 3 – Amendments to Definition of a Business

The amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

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

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

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

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

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

3. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement and going concern assumption

These consolidated financial statements have been prepared under the historical cost basis and except for certain properties and financial instruments which are measured at fair value, as explained in the accounting policies set out below.

During the year, the Group has incurred a loss of HK$525,497,000 and at the end of reporting period, its current liabilities exceeded its current assets by HK$83,385,000. Nevertheless, the directors of the Company ("the Directors") plans to strengthen the Group's financial positions by disposal of assets and to seek for other possible source of funding. Subsequent to the end of the financial year, the Directors (i) entered into sales and purchase agreement to dispose of investment properties and (ii) entered into share subscription agreement with an independent third party. Further details on these transactions refer to notes 14 and 39. In the opinion of the Directors, upon the completion of these transactions, the consolidated financial positions of the Group shall be significantly improved. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively the "Group") made up to 31 December each year.

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

All inter-company transactions and balances within the Group together with unrealised profits are eliminated in full on consolidation.

Business combination

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

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination (continued)

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

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

Subsidiaries

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

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

– Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

– Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

– The structure of the joint arrangement;

– The legal form of joint arrangements structured through a separate vehicle;

– The contractual terms of the joint arrangement agreement; and

– Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition changes in the joint ventures' net assets except that losses in excess of the Group's interests in joint ventures are not recognised unless there is an obligation to make good those losses.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

Furniture, fixtures and equipment	10% to 55%
Machineries	20% to 33%

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation but not held for sale. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the 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.

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.

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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired in accordance with accounting policy on "Impairment of non-financial assets".

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

(i) Goodwill (continued)

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 year, the CGU to which allocated goodwill is tested for impairment before the end of that financial year. 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. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent period.

(ii) Acquired intangible assets

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

Proprietary software	3 years
Participation rights	3 to 5 years
Patents	3 to 15 years
Virtual human know-how	10 years
Backlog contracts	2 years
Licences for intellectual property rights	3 to 10 years
Other licences	Over the term of the relevant licensing agreements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

(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 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 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.

Financial Instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payments of principle and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(i) Financial assets (continued)

Debt instruments (continued)

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(ii) Impairment loss on financial assets and contract assets

The Group recognises loss allowances for ECL on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(ii) Impairment loss on financial assets and contract assets (continued)

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(iii) Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including trade payables, other payables and accruals, borrowings, obligations under finance leases and contingent consideration payables, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

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

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (a) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in (ii) above; and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied from 1 January 2018) (continued)

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Financial Instruments (accounting policies applied until 31 December 2017)

Financial assets

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

Financial assets (continued)

(ii) Impairment

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtor's financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

Financial assets (continued)

(ii) Impairment (continued)

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

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

(iii) Effective interest method

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

(iv) Derecognition of financial assets

The 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

Financial liabilities and equity issued by the Group

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 and an equity instrument.

(i) *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(ii) *Other financial liabilities*

The 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.

(iii) *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.

(iv) *Derecognition of financial liabilities*

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

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

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.

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 Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the relevant lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

Provisions and contingent liabilities

Provisions are recognised when the 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.

Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 Investment Property. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sales of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in joint ventures except where the 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 Group intends to settle its current tax assets and liabilities on a net basis.

Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in HK$ which is the functional currency of the Company.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currencies (continued)

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

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

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

Employees' benefits

Short term benefits

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

Retirement benefit scheme

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

Termination benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

For equity-settled share-based payment transactions, the Group shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the Group shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

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

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

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

Related parties

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

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

(ii) has significant influence over the Group; or

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

(i) The entity and the 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 Group or an entity related to the Group.

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (accounting policies applied from 1 January 2018) (continued)

(i) Services of visual effects production and post production

Revenue from the provision of services of visual effects production and post production is recognised over time, using the input method to measure progress towards complete satisfaction of the service, because the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs.

HKFRS 15 did not result in significant impact on the Group's accounting policies on revenue recognition on services of visual effects production and post production in comparison with the comparative year. However, upon the adoption of HKFRS 15, the Group has to made reclassification from trade and other receivables to contract assets since under HKFRS 15, if there is any satisfied performance obligation but where the entity does not have an unconditional right to consideration, an entity should recognise a contract asset.

(ii) Sales of goods

Revenue from the sales of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sales of goods provide customers with rights of return. The rights of return give rise to variable consideration.

Right of return:

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of–return assets (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (accounting policies applied from 1 January 2018) (continued)

(iii) Sales of hardware and solution service

The Group provides solution service that is sold bundled together with the sales of hardware to a customer. The hardware and solution service are highly interdependent and interrelated.

Contracts for bundled sales of hardware and solution service are comprised of only a single performance obligation because the promises to transfer the hardware and provide solution service are not distinct or separately identifiable. Accordingly, allocation of the transaction price is not applicable because the contract has only one performance obligation.

Revenue from sales of hardware and solution service is recognised at the point in time when control of the asset is transferred to the customer, generally on customer's acceptance of the hardware and solution service.

(iv) Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(v) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(vi) Profit-sharing from participation rights in movies and TV dramas are recognised in accordance with the terms and substances of the relevant agreement.

Revenue recognition (accounting polices applied until 31 December 2017)

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

(i) Rental income is recognised in accordance with the Group's accounting policy for leases.

(ii) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

(iii) Income from provision of services of visual effects production and post 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (accounting polices applied until 31 December 2017) (continued)

(iv) Income from other services is recognised when the services are rendered.

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

(vi) Profit-sharing from participation rights in movies is recognised in accordance with the terms and substances of the relevant agreement.

Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Contract assets (accounting policies applied from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (accounting policies applied from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

Revenue Recognition

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Identifying performance obligation in a bundled sales of hardware and solution service

The Group provides solution service that is sold bundled together with the sales of hardware to a customer. The Group determined that the hardware and solution service are not distinct or separately identifiable. The fact that the Group only sells solution service bundled together with the sales of hardware to a customer indicates that the customer can benefit from solution service only in conjunction with the hardware. The Group also determined that the promises to transfer the hardware and to provide solution service are not distinct within the context of the contract. The hardware and solution service are inputs to a combined item in the contract. The Group is providing a significant integration service because the presence of the hardware and solution service together in the contract results in additional or combined functionality and the hardware and solution service modifies or customises the other. Consequently, allocation of the transaction price is not applicable because the contract has only one performance obligation.

Determining the method to estimate variable consideration and assessing the constraint for the sales of goods

Certain contracts for the sales of goods include a right of return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sales of goods with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and judgements (continued)

Impairment of non-financial assets (including goodwill)

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

Deferred tax

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

Provision for ECLs on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances. The Group's historical credit loss experience may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 20 and 41(a) to the consolidated financial statements.

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and judgements (continued)

Useful lives of property, plant and equipment and intangible assets

The 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 Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Fair value measurements

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, and/or disclosure of, fair value.

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

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

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

The Group measures investment properties and financial asset measured at FVOCI at fair value as detailed in notes 14 and 18 respectively.

6. REVENUE AND SEGMENT REPORTING

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

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of		
– visual effects production service	438,197	606,550
– post production service	19,694	34,940
– 360 degree digital capture technology application, sales of hardware and solution service	138,026	53,228
	595,917	694,718
Revenue from other source		
Rental income	4,762	8,286
	600,679	703,004

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

6. REVENUE AND SEGMENT REPORTING (continued)

Disaggregation of revenue from contracts with customers

Segments	For the year ended 31 December 2018 Media entertainment HK$'000	 Property investment HK$'000
Types of goods or services		
Provision of		
– visual effects production service	438,197	–
– post production service	19,694	–
– 360 degree digital capture technology application, sales of hardware and solution service	138,026	–
Rental income	–	4,762
Total	595,917	4,762
Geographical markets		
Hong Kong (place of domicile)	1,977	4,762
The People's Republic of China (the "PRC")	156,809	–
The United States of America ("USA")	201,126	–
Canada	201,723	–
United Kingdom	31,976	–
Other countries/regions	2,306	–
Total	595,917	4,762
Timing of revenue recognition		
A point in time	130,405	–
Over time	465,512	4,762
Total	595,917	4,762

6. REVENUE AND SEGMENT REPORTING (continued)

(a) Reportable segments

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

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

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

– Property investment

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

6. REVENUE AND SEGMENT REPORTING (continued)

(a) Reportable segments (continued)

	Media entertainment		Property investment		Consolidated	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Revenue from external customers	595,917	694,718	4,762	8,286	600,679	703,004
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	595,917	694,718	4,762	8,286	600,679	703,004
Reportable segment (loss)/profit	(287,858)	(277,545)	3,602	7,204	(284,256)	(270,341)
Additions to non-current assets	448,682	261,562	–	–	448,682	261,562
Depreciation and amortisation	(103,285)	(54,228)	–	–	(103,285)	(54,228)
Losses on disposal of property, plant and equipment	(800)	(837)	–	–	(800)	(837)
Impairment loss on inventories	(268)	(164)	–	–	(268)	(164)
Taxation credited/(charged)	2,506	(82)	–	–	2,506	(82)
Reportable segment assets	1,659,970	1,329,294	208,483	215,768	1,868,453	1,545,062
Reportable segment liabilities	589,041	347,917	95	2,902	589,136	350,819

6. REVENUE AND SEGMENT REPORTING (continued)

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

	2018 HK$'000	2017 HK$'000
Loss before taxation		
Reportable segment loss	(284,256)	(270,341)
Reversal of impairment loss on amounts due from joint ventures	–	3,343
Impairment loss on trade receivables and contract assets	(3,399)	(2,009)
Loss on disposal of unallocated property, plant and equipment	(146)	(1,650)
Fair value (losses)/gains on investment properties	(4,200)	1,900
Share of losses of associates	(19,645)	(3,763)
Share of (losses)/profits of joint ventures	(7)	14
Auditor's remuneration	(1,948)	(1,690)
Depreciation of unallocated property, plant and equipment and amortisation of unallocated intangible assets	(47,616)	(5,991)
Professional fees	(27,443)	(42,000)
Finance costs	(30,546)	(21,598)
Equity-settled share-based payment expenses	(7,782)	(57,428)
Unallocated rental expenses	(7,070)	(13,088)
Unallocated other income and gains	31,670	5,943
Other unallocated corporate expenses*	(125,615)	(135,701)
Consolidated loss before taxation	(528,003)	(544,059)
Assets		
Reportable segment assets	1,868,453	1,545,062
Unallocated bank balances and cash	33,377	174,067
Unallocated corporate assets	323,009	173,900
Consolidated total assets	2,224,839	1,893,029
Liabilities		
Reportable segment liabilities	589,136	350,819
Tax payable	2,465	1,978
Deferred tax liabilities	66,621	49,330
Unallocated borrowings	62,125	64,515
Unallocated corporate liabilities	194,536	23,356
Consolidated total liabilities	914,883	489,998

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

6. REVENUE AND SEGMENT REPORTING (continued)

(c) Geographic information

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

(i) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Hong Kong (place of domicile)	6,739	8,286
The PRC	156,809	100,573
USA	201,126	236,865
Canada	201,723	328,088
United Kingdom	31,976	21,738
Other countries/regions	2,306	7,454
	600,679	703,004

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

(ii) Specified non-current assets

	2018 HK$'000	2017 HK$'000
Hong Kong (place of domicile)	208,238	232,835
The PRC	585,600	290,275
Other regions of Asia	18,074	54,518
USA and Canada	940,140	971,241
	1,752,052	1,548,869

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

6. REVENUE AND SEGMENT REPORTING (continued)

(d) Major customers

The Group's customer base is diversified and there was one customer (2017: three customers) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenues as follows:

	2018 HK$'000	2017 HK$'000
Customer A	120,240	N/A
Customer B	N/A	79,238
Customer C	N/A	72,547
Customer D	N/A	70,596

(e) Revenue

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

	31 December 2018 HK$'000	1 January 2018 HK$'000
Trade receivables	51,679	55,477
Contract assets	7,731	17,728
Contract liabilities	28,892	16,218

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

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

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for the year ended 31 December 2018

6. REVENUE AND SEGMENT REPORTING (continued)

(e) Revenue (continued)

The Group has applied the practical expedient to its sales contracts for Media Entertainment services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for Media Entertainment services that had an original expected duration of one year or less.

7. OTHER INCOME AND GAINS

	2018 HK$'000	2017 HK$'000
Profit sharing in pre-determined percentage from participation rights in movies *(Note 15(d))*	5,176	3,745
Interest income	21,184	489
Gain on deemed disposal of an associate	3,994	–
Government subsidies	3,173	–
Others	3,318	5,594
	36,845	9,828

8. LOSS FOR THE YEAR

	2018 HK$'000	2017 HK$'000
This is arrived at after charging/(crediting):		
Cost of sales and services rendered *(Note)*	547,723	621,226
Loss on disposal of property, plant and equipment	946	2,487
Reversal of impairment loss on amounts due from joint ventures	–	(3,343)
Impairment loss on trade receivables and contract assets	3,399	2,009
Impairment loss on inventories	268	164
Exchange differences, net	1,854	(8,655)
Auditor's remuneration:		
– audit services	1,680	1,520
– non-audit services	268	170
Depreciation of property, plant and equipment *(Note)*	55,582	31,387
Amortisation of intangible assets *(Note)*	95,319	28,832
Research and development	78	4,061
Operating lease rentals in respect of:		
– rented premises	51,329	54,081
– rented equipment	18,624	18,971
Staff costs *(Note)*:		
– Directors' remuneration *(Note 10)*	18,395	27,414
– Other staff costs:		
Salaries, wages and other benefits	627,971	710,235
Retirement benefit scheme contributions	4,355	3,624
Equity-settled share-based payment expenses	7,442	50,919
Total staff costs	658,163	792,192

Note:

Cost of sales and services rendered include HK$444,666,000 (2017: HK$478,800,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Imputed interest on:		
Convertible notes	–	8,213
Promissory note	–	686
Contingent consideration payable	2,731	–
Interest on:		
Bank and other loans	20,383	7,297
Secured note	2,380	4,732
Finance leases	5,052	670
	30,546	21,598

Convertible notes were converted and promissory note was repaid in the prior year.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The Directors' remuneration is analysed as follows:

	2018 HK$'000	2017 HK$'000
Fees:		
Independent non-executive directors	2,035	1,232
Other emoluments paid to executive directors:		
Salaries and other benefits	16,001	17,169
Discretionary bonus	–	2,486
Equity-settled share-based payment expenses	341	6,509
Retirement benefit scheme contributions	18	18
	16,360	26,182
	18,395	27,414

No directors waived any remuneration in respect of the years ended 31 December 2018 and 2017.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Directors' remuneration (continued)

	2018 HK$'000	2017 HK$'000
Peter Chou		
– Salaries and other benefits	8,338	8,285
– Discretionary bonus	–	486
	8,338	8,771
Seah Ang		
– Salaries and other benefits	3,530	3,510
– Discretionary bonus	–	1,000
– Equity-settled share-based payment expenses	–	908
– Retirement benefit scheme contributions	18	18
	3,548	5,436
Amit Chopra		
– Salaries and other benefits	2,949	3,153
– Discretionary bonus	–	1,000
– Equity-settled share-based payment expenses	341	5,601
	3,290	9,754
Wei Ming		
– Salaries and other benefits	1,184	2,221
Pu Jian		
– Salaries and other benefits	–	–
Song Alan Anlan		
– Salaries and other benefits	–	–
John Alexander Lagerling		
– Fee	1,567	764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Directors' remuneration (continued)

	2018 HK$'000	2017 HK$'000
Lau Cheong		
– Fee	156	156
Duan Xiongfei		
– Fee	156	156
Wong Ka Kong Adam		
– Fee	156	156

Five highest paid employees

The five highest paid individuals of the Group included two (2017: four) executive directors of the Company, details of whose remuneration are set out above. The remuneration of the remaining three (2017: one) highest paid employee, other than the Directors, is as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	9,699	4,775
(Reversal)/recognition of equity-settled share-based payment expenses	(234)	2,325
Retirement benefit scheme contributions	18	18
	9,483	7,118

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Five highest paid employees (continued)

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

	2018	2017
HK$2,500,001 to HK$3,000,000	1	–
HK$3,000,001 to HK$3,500,000	1	–
HK$3,500,001 to HK$4,000,000	1	–
HK$7,000,001 to HK$7,500,000	–	1

11. TAXATION

		Note	2018 HK$'000	2017 HK$'000
(a)	Taxation (credited)/charged to the consolidated income statement represents:			
	Current taxation – Hong Kong profits tax		–	–
	Current taxation – Overseas tax			
	– provision for the year		2,295	616
	– (over)/under-provision in respect of prior years		(881)	44
	Deferred taxation	*11(b)*	(3,920)	(578)
			(2,506)	82

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. TAXATION (continued)

Taxation for the years can be reconciled to accounting loss as follows:

	2018 HK$'000	2017 HK$'000
Loss before taxation	(528,003)	(544,059)
Taxation calculated at applicable rates of Hong Kong profits tax (2017: 16.5%)	(87,120)	(89,769)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(18,970)	(47,666)
Tax effect of expenses not deductible for tax purposes	24,949	36,737
Tax effect of non-taxable income	(7,808)	(1,859)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(2,511)	(430)
Tax effect of unrecognised tax losses and temporary differences	89,835	103,024
(Over)/under-provision in respect of prior years	(881)	45
Taxation for the year	(2,506)	82

11. TAXATION (continued)

(b) Deferred taxation

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

	Notes	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Fair Value arising from business combination HK$'000	Total HK$'000
As at 1 January 2017		(6,215)	6,215	(46,267)	(46,267)
(Charged)/credited to profit or loss for the year	*11(a)*	(359)	359	578	578
Exchange realignment		–	–	(3,641)	(3,641)
As at 31 December 2017		(6,574)	6,574	(49,330)	(49,330)
Addition from business combination *(Note 31)*		–	–	(25,026)	(25,026)
(Charged)/credited to profit or loss for the year	*11(a)*	(165)	44	4,041	3,920
Exchange realignment		2	–	3,813	3,815
As at 31 December 2018		(6,737)	6,618	(66,502)	(66,621)

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

	2018 HK$'000	2017 HK$'000
Deferred tax liabilities	(66,621)	(49,330)
Deferred tax assets	–	–
	(66,621)	(49,330)

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11. TAXATION (continued)

(b) Deferred taxation (continued)

At the end of reporting period, the Group had unused tax losses of HK$1,344,544,000 (2017: HK$1,275,576,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$39,582,000 (2017: HK$39,848,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,304,962,000 (2017: HK$1,235,728,000) due to the unpredictability of future profit streams. As at 31 December 2018, included in unrecognised tax losses are losses of HK$117,825,000 (2017: HK$26,486,000) that will expire in 5 years from the respective dates of incurrence and tax losses of HK$19,568,000 (2017: nil), HK$24,117,000 (2017: nil) and HK$918,291,000 (2017: HK$1,063,391,000) that will expire in 8 years, 10 years and 20 years from the respective dates of incurrence. Other tax losses may be carried forward indefinitely.

12. LOSS PER SHARE

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

	Year ended 31 December	
	2018	**2017**
	HK$'000	HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(518,030)	(524,893)

	Number of shares	
	2018	**2017**
Weighted average number of ordinary shares for the purposes of basic loss per share	26,276,724,444	21,356,172,784

Note:

For the years ended 31 December 2018 and 2017, since the share options outstanding, and the shares to be issued to the former option holders of share options in relation to the acquisition of subsidiaries completed in previous year had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options and the issue of deferred shares to the former option holders of share options in relation to the aforesaid acquisition of subsidiaries were not assumed in the computation of diluted loss per share. Except for the above, there is no other dilutive potential share during the current and prior years. Therefore, the basic and diluted loss per share in the current and prior years are equal.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK$'000	Machineries HK$'000	Construction in progress HK$'000	Total HK$'000
COST				
As at 1 January 2017	142,408	3,690	1,518	147,616
Transfers	1,525	–	(1,525)	–
Additions	93,830	1,626	1,325	96,781
Disposals	(6,244)	–	–	(6,244)
Exchange realignment	6,271	219	11	6,501
As at 31 December 2017 and 1 January 2018	237,790	5,535	1,329	244,654
Transfers	396	–	(396)	–
Additions from business combination *(Note 31)*	2,726	–	–	2,726
Additions	38,678	–	–	38,678
Disposals	(2,020)	(29)	–	(2,049)
Exchange realignment	(7,140)	(214)	3	(7,351)
As at 31 December 2018	270,430	5,292	936	276,658
ACCUMULATED DEPRECIATION				
As at 1 January 2017	84,797	2,976	–	87,773
Depreciation charge for the year	30,684	703	–	31,387
Disposals	(2,905)	–	–	(2,905)
Exchange realignment	3,971	177	–	4,148
As at 31 December 2017 and 1 January 2018	116,547	3,856	–	120,403
Depreciation charge for the year	54,890	692	–	55,582
Disposals	(993)	(11)	–	(1,004)
Exchange realignment	(5,063)	(177)	–	(5,240)
As at 31 December 2018	165,381	4,360	–	169,741
NET CARRYING AMOUNT				
As at 31 December 2018	105,049	932	936	106,917
As at 31 December 2017	121,243	1,679	1,329	124,251

As at 31 December 2018, property, plant and equipment with carrying amount of approximately HK$21,038,000 (2017: HK$37,494,000) were held under finance leases. None of the lease includes contingent rentals.

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14. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/INVESTMENT PROPERTIES

Assets and liabilities of a disposal group classified as held for sale

During the year, the board intended to dispose of 100% interest in Sun Innovation HK Properties Holdings Limited, a wholly owned subsidiary of the Group, and its subsidiaries (collectively known as "Disposal Group"). The Disposal Group is principally engaged in properties investment. The Group had actively programmed to local buyers through different sources including real estate agent. The Group intends to realise its investment in the properties and to deploy its financial resources.

As of the end of reporting period, the board has received several expressions of interest and, on 19 March 2019, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of the Disposal Group in a cash consideration of HK$216,000,000 (subject to adjustment with reference to the net asset value of the Disposal Group at completion). The Group expects a gain on disposal of approximately HK$7,400,000 to be recognised upon the completion of the transaction. The completion of the transaction is conditional as further details on the Company's announcement on 19 March 2019. Up to the date of approval of this financial statements, the transaction has not yet completed but the Group anticipants that the sale will be completed within 2019.

The following major classes of assets and liabilities relating to this operation have been classified as held for sale in the consolidated statement of financial position of the Group as at 31 December 2018.

	HK$'000
Investment properties	208,300
Trade receivables, other receivables and prepayments	79
Bank balances and cash	104
	208,483
Trade payables, other payables and accruals	95

Please refer to "Investment properties" section in this note for further details of the investment properties.

14. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/INVESTMENT PROPERTIES (continued)

Investment properties

	HK$'000
As at 1 January 2017	210,600
Fair value gains	1,900
As at 31 December 2017 and 1 January 2018	212,500
Fair value losses	(4,200)
Transferred to assets held for sale	(208,300)
As at 31 December 2018	–

The property rental income earned by the Group from its investment properties, most of which were leased out under operating leases, amounted to HK$4,762,000 (2017: HK$8,286,000). Direct operating expenses arising on the investment properties in the year amounted to HK$1,021,000 (2017: HK$1,102,000).

The Group's investment properties were located in Hong Kong, held for sale, and the Group has appointed lawyers to handle the pledged banking facilities granted to the Group in prior years (Notes 23 and 35).

The fair value of the Group's investment properties as at 31 December 2017 and at the date of transfer to assets held for sale have been arrived at on market value basis based on valuations carried out by Cushman & Wakefield Limited, an independent firm of professionally qualified valuers, who holds a recognised and relevant professional qualification and has recent experience in the locations and category of properties being valued.

14. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/INVESTMENT PROPERTIES (continued)

The fair value of the investment properties is a Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value is provided below:

	2018 HK$'000	**2017** HK$'000
Carrying amount at beginning of year	212,500	210,600
Fair value (losses)/gains of investment properties included in the face of the consolidated income statement	(4,200)	1,900
Carrying amount at the date of transfer to assets held for sale / end of year	208,300	212,500
Change in unrealised (losses)/gains for the year included in profit or loss for assets held at end of year	(4,200)	1,900

14. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/INVESTMENT PROPERTIES (continued)

The major inputs used in the fair value measurement of the Group's investment properties are set out below:

Investment properties	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity
Shops	Level 3	Comparison approach (2017: Investment method by capitalising net rental income) The key input is: Recent market sales of comparables (2017: Market unit rent of comparables)	Recent market sales of comparables, taking into account the location and size between the comparables and the properties, ranging from HK$16,000,000 to HK$19,500,000 per each shop. (2017: (1) Market unit rent, taking into account the location and size, between the comparables and the properties, of HK$34 to HK$37 per square feet. (2) Capitalisation rate of 3.5%.)	The higher the market selling price of comparables, the higher the fair value. (2017: The higher the market unit rent, the higher the fair value.)	If the market selling price to the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK$1,950,000 (2017: If the market unit rent in the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK$2,000,000.)
Car park spaces	Level 3	Comparison approach The key input is: Recent market sales of comparables	Recent market sales of comparables, taking into account the location and size between the comparables and the properties, ranging from HK$900,000 to HK$1,800,000 (2017: HK$850,000 to HK$1,700,000) per each car park space.	The higher the market selling price of comparables, the higher the fair value.	If the market selling price to the valuation model is 1% higher/lower, while all the other variables were held constant, the fair value would increase/decrease by HK$133,000 (2017: HK$125,000).

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14. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/INVESTMENT PROPERTIES (continued)

As the Group intended to dispose of the investment properties through sales of the 100% share interests of the Disposal Group, majority of the lease agreements (contributed to over 98% of total rental income) were expired without renewal. The valuation technique adopted last year by capitalising net rental income no longer applicable. Accordingly, as the investment properties were held for sale, comparison approach by comparing the recent market sales of comparables were applied by the valuer of the Group.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

During the year, there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair hierarchy as at the end of the reporting period in when they occur.

15. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Virtual human know-how	Backlog contracts	Licences for intellectual property rights	Other licences	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note (a))	*(Note (b))*	*(Note (c))*	*(Note (d))*	*(Note (e))*	*(Note (f))*	*(Note (g))*	*(Note (h))*	*(Note (i))*	
COST										
As at 1 January 2017	689,937	148,177	107,977	259,027	103,753	31,446	–	26,082	–	1,366,399
Additions	–	–	26,606	121,537	–	–	–	–	–	148,143
Exchange realignment	(380)	10,345	2,099	2,004	4,781	–	–	–	–	18,849
As at 31 December 2017 and 1 January 2018	689,557	158,522	136,682	382,568	108,534	31,446	–	26,082	–	1,533,391
Additions	–	–	29,068	–	33,760	–	–	–	859	63,687
Additions from business combination (Note 31)	164,709	–	1,298	–	157,921	–	18,178	–	1,406	343,512
Exchange realignment	565	(10,783)	(2,050)	544	(5,815)	–	–	–	(67)	(17,606)
As at 31 December 2018	854,831	147,739	164,998	383,112	294,400	31,446	18,178	26,082	2,198	1,922,984
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS										
As at 1 January 2017	–	–	69,762	253,693	5,213	3,593	–	4,416	–	336,677
Amortisation for the year	–	–	14,523	2,393	5,242	3,279	–	3,395	–	28,832
Exchange realignment	–	–	961	1,970	(95)	–	–	–	–	2,836
As at 31 December 2017 and 1 January 2018	–	–	85,246	258,056	10,360	6,872	–	7,811	–	368,345
Amortisation for the year	–	–	11,677	42,606	25,730	3,279	7,574	3,395	1,058	95,319
Exchange realignment	–	–	(445)	537	(1,653)	–	–	–	28	(1,533)
As at 31 December 2018	–	–	96,478	301,199	34,437	10,151	7,574	11,206	1,086	462,131
CARRYING AMOUNT										
As at 31 December 2018	854,831	147,739	68,520	81,913	259,963	21,295	10,604	14,876	1,112	1,460,853
As at 31 December 2017	689,557	158,522	51,436	124,512	98,174	24,574	–	18,271	–	1,165,046

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15. INTANGIBLE ASSETS (continued)

Notes:

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

	2018 HK$'000	2017 HK$'000
Visual effects production	209,226	208,664
Post production	102,387	102,387
360 degree digital capture technology application	378,509	378,506
Sales of hardware and solution service	164,709	–
	854,831	689,557

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

The value-in-use calculations for the 360 degree digital capture technology application CGU used a cash flow projection based on latest financial budgets approved by the Group's management covering a period of 8 years. The long period of 8 years was adopted because the technology for this CGU is relatively new to the media industry, the development of the technology and related products require longer time (i) to crystalise its value (compared to the use of other relatively more mature technologies of the Group) and to be integrated with the Group's technologies (e.g. virtual reality technology) to create synergistic value to the Group; and (ii) for the operations of this CGU to stabilise.

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

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

	Visual effects production CGU	Post production CGU	360 degree digital capture technology application CGU	Sales of hardware and solution service CGU
Average growth rate within budget period	21.1%	22.0%	39.0%	27.9%
Pre-tax discount rate	17.6%	19.1%	17.3%	18.4%

15. INTANGIBLE ASSETS (continued)

Notes: (continued)

(a) (continued)

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

The recoverable amounts of the goodwill in relation to the above CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill as at 31 December 2018.

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

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

	2018	**2017**
	HK$'000	HK$'000
Visual effects production	19,579	19,538
360 degree digital capture technology application	128,160	138,984
	147,739	158,522

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

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

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15. INTANGIBLE ASSETS (continued)

Notes: (continued)

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

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

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

On 9 December 2016, the Group acquired a portfolio of patents in relation to interactive entertainment technology from an independent third party in consideration of HK$42,658,000 including (i) cash of HK$7,756,000; and (ii) 57,172,131 shares of the Company out of which 19,057,377 shares of the Company were issued on 9 December 2016 and each of 12,704,918 shares of the Company were issued on 8 December 2017, 7 December 2018 (Note 25(d)) and 12,704,918 shares of the Company to be issued by 9 December 2019 respectively. The patents are measured at their fair values as at the date of acquisition with reference to a professional valuation report issued by KF.

Patents are allocated to the Group's 360 degree digital capture technology application and sales of hardware and solution service CGU for the purpose of impairment testing.

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

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

(g) Backlog contracts represent revenue the Group expects to realise for sales of hardware and solution to be performed from existing signed contracts.

The backlog contracts are allocated to the Group's CGU in connection with sales of hardware and solution service.

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

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

(i) Other Licences represent the technology licences leased from third parties, which are amortised over the terms of the relevant licensing agreements.

16. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	5,705	15,102

Details of the Group's material associate are as follows.

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Percentage of ownership interest held	Principal activity
數字王國空間(北京)傳媒科技有限公司	Incorporated	The PRC	RMB5,084,700	34.42% (2017: 35%)	VR Theater

The summarised financial information in respect of the Group's material associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes. The associate is accounted for using the equity method in the consolidated financial statements.

	數字王國空間(北京)傳媒科技有限公司	
	2018 HK$'000	2017 HK$'000
At 31 December:		
Current assets	17,161	43,132
Non-current assets	18,086	862
Current liabilities	(18,672)	(844)
Non-current liabilities	–	–
Net assets	16,575	43,150
Group's share of net assets	5,705	15,102

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16. INTERESTS IN ASSOCIATES (continued)

	數字王國空間(北京)傳媒科技有限公司	
	2018	**2017**
	HK$'000	HK$'000
Included in the above amounts are:		
Year ended 31 December:		
Revenue	7,681	174
Loss for the year	(56,309)	(10,753)
Other comprehensive income	29,635	48,007
Total comprehensive income	(26,674)	37,254
Group's share of losses	(19,645)	(3,763)
Group's share of other comprehensive income	(13,346)	16,802

The carrying amount of the Group's interests in all individually immaterial associates that are accounted for using the equity method, in aggregate, and the aggregate amount of the Group's share of those associates' profit or loss and other comprehensive income, are immaterial.

17. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Share of net assets	16	62
Amounts due from joint ventures	2,878	2,878
	2,894	2,940
Less: Impairment loss on amounts due from joint ventures	(2,878)	(2,878)
	16	62

Due from joint ventures are unsecured, interest-free and not repayable within twelve months after the end of reporting period.

No ECL on amounts due from joint ventures (2017: reversal of impairment loss on amounts due from joint ventures of HK$3,343,000) has been recognised for the year ended 31 December 2018 since the amount is immaterial.

Particulars of material joint ventures as at 31 December 2018 are as follows:

Name	Place of incorporation/ registration and business	Form of business structure	Percentage of ownership interests attributable to the Group	Principal activities
Digital Domain IPing (Beijing) Media Technology Company Limited	The PRC	Corporation	50% (2017: 50%)	Visual effect production
DD-POW US, LLC ("DD-POW")	Delaware	Corporation	– (2017: 75%*)	Dissolved

* Pursuant to the contractual agreement signed between the Group and another investor of DD-POW, the relevant activities of DD-POW required unanimous consent of both parties, therefore both parties were sharing joint control of DD-POW. Accordingly, DD-POW was accounted for as a joint arrangement by the Group. DD-POW was dissolved during the current financial year.

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17. INTERESTS IN JOINT VENTURES (continued)

The summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes. The joint ventures are accounted for using the equity method in the consolidated financial statements.

	Digital Domain IPing (Beijing) Media Technology Company Limited		DD-POW US, LLC (Dissolved)		Others		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
At 31 December:								
Current assets	1,400	4,274	–	–	–	–	1,400	4,274
Non-current assets	–	–	–	–	–	–	–	–
Current liabilities	–	(2,783)	–	(9,130)	–	–	–	(11,913)
Non-current liabilities	–	–	–	–	–	–	–	–
Net assets/(liabilities)	1,400	1,491	–	(9,130)	–	–	1,400	(7,639)
Group's share of net assets/(liabilities)	16	62	–	–	–	–	16	62
Included in the above amounts are:								
Cash and cash equivalents included in current assets	257	3,290	–	–	–	–	257	3,290
Year ended 31 December:								
Revenue	45	–	–	–	–	–	45	–
Interest income	5	2	–	–	–	1	5	3
Taxation	(4)	–	–	–	–	–	(4)	–
Profit/(loss) for the year	(14)	45	–	(779)	–	(16)	(14)	(750)
Other comprehensive income	(77)	80	–	(57)	–	–	(77)	23
Total comprehensive income	(91)	125	–	(836)	–	(16)	(91)	(727)
Group's share of (losses)/profits	(7)	22	–	–	–	(8)	(7)	14
Group's share of other comprehensive income	(38)	40	–	–	–	–	(38)	40

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

	2018 HK$'000	2017 HK$'000
Unlisted equity investment, at fair value	165,976	–

Note:

On 30 May 2018, the Group acquired 2.283% equity interest on Mango International Group Limited, an unlisted equity instrument, with its flagship product "handy" at the consideration of US$25,000,000 (approximately HK$196,213,000). During the year, fair value loss of HK$30,237,000 has been recognised in other comprehensive income. Please refer to note 42(b) for details on fair value measurement of the FVOCI.

The above investment represents an unlisted equity instrument which is held for strategic purpose. The Group has irrevocably designated the investment in equity instrument as at fair value through other comprehensive income as the Directors consider these investments to be strategic in nature.

19. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Non-current portion:		
Deposits	12,585	12,315
Prepayments	–	19,593
	12,585	31,908
Current portion:		
Trade receivables	51,679	55,477
Accrued income	–	17,728
Other receivables	67,506	14,980
Deposits	3,002	3,249
Prepayments	42,207	27,250
	164,394	118,684
	176,979	150,592

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19. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (continued)

(i) The Directors consider that the carrying amounts of trade receivables, accrued income, other receivables and deposits approximate their fair values as at 31 December 2018 and 2017.

No interest is charged on trade and other receivables.

(ii) The Group normally allows an average credit period of 30 days (2017: 30 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance of impairment losses, based on invoice dates as of the end of reporting period, is as follows:

	2018 HK$'000	**2017** HK$'000
0 to 30 days	31,576	17,700
31 to 60 days	1,197	19,125
61 to 90 days	2,288	2,999
91 to 365 days	15,843	9,599
Over 365 days	775	6,054
	51,679	55,477

20. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018 HK$'000	**1 January 2018** HK$'000	**31 December 2017** HK$'000
Contract assets arising from:			
Visual effects production service	4,931	17,728	–
Post production service	2,800	–	–
	7,731	17,728	–

20. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

(a) Contract assets (continued)

Typical payment terms which impact on the amount of contract assets are as follows:

Services of visual effects production and post production

The Group's visual effects production and post production services include payment schedules which require stage payments over the production period. These payment schedules prevent the build-up of significant contract assets.

The timing of recovery or settlement for contract assets as at 31 December 2018 is expected to be within one year.

The Group has applied the practical expedient to its sales contracts and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less.

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 HK$'000
At beginning of year	–
Effect of adoption of HKFRS 9	–
At beginning of year (restated)	–
Net impairment losses	1
At end of year	1

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables appropriately grouped by similar loss pattern. The calculation reflects the probability weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

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20. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

(a) Contract assets (continued)

Services of visual effects production and post production (continued)

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

	2018 HK$'000
At 31 December 2018	7,731
ECL rate	0.01%

	HK$'000
Gross carrying amount	7,731
ECLs	1

(b) Contract liabilities

	31 December 2018 HK$'000	**1 January 2018** HK$'000	**31 December 2017** HK$'000
Contract liabilities arising from:			
Visual effects production service	20,498	16,218	–
Sales of hardware and solution service	8,394	–	–
	28,892	16,218	–

20. CONTRACT ASSETS AND CONTRACT LIABILITIES (continued)

(b) Contract liabilities (continued)

Typical payment terms which impact on the amount of contract liabilities are as follows:

Visual effects production, post production and sales of hardware and solution services

The Group received non-cancellable payment in advance from customers for services to be provided. Where discrepancies arise between the payments and the Group's assessment of the stage of completion, contract liabilities can arise.

Movements in contract liabilities

	2018 HK$'000
Balance as at 1 January	16,218
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(16,218)
Increase in contract liabilities as a result of billing in advance of visual effects production, post production and sales of hardware and solution services	28,892
Balance at 31 December	28,892

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of HKFRS 15, amounts previously included as "Accrued income" (Note 19) and "Deferred revenue" have been reclassified to "Contract assets" and "Contract liabilities" (Note 20) respectively.

21. BANK BALANCES AND CASH

As at 31 December 2018, included in the bank balances and cash of the Group was an amount of HK$11,493,000 (2017: HK$14,146,000) which is denominated in Renminbi ("RMB"). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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22. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Trade payables	33,692	30,111
Other payables	47,715	50,250
Accruals	57,034	46,307
	138,441	126,668

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2018 and 2017.

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

	2018 HK$'000	2017 HK$'000
0 to 30 days	17,045	17,077
31 to 60 days	1,598	3,931
61 to 90 days	994	1,776
91 to 365 days	10,171	5,102
Over 365 days	3,884	2,225
	33,692	30,111

23. BORROWINGS

	2018 HK$'000	2017 HK$'000
Current		
Bank loans due for repayment within one year *(Notes (i) & (ii))*	41,909	36,114
Bank loans due for repayment after one year which contain a repayment on demand clause *(Note (i))*	54,789	57,206
Other loans *(Note (iii))*	172,774	–
Secured note *(Note (v))*	59,357	59,326
	328,829	152,646
Non-current		
Bank loans	46,989	–
Other loans *(Note (iv))*	178,153	105,218
	225,142	105,218

The Group's borrowings consisted of the following:

(i) As at 31 December 2018, mortgage bank loans with the principal amount of HK$60,000,000 (2017: HK$60,000,000) are secured by investment properties of the Group located in Hong Kong (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

The current liabilities include mortgage bank loans of HK$54,789,000 (2017: HK$57,206,000) that are not scheduled to repay within one year. They are classified as current liabilities as the related loan agreement contain a clause that provides the bank with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

As at 31 December 2018, bank loans with principal amounts of US$6,000,000 and RMB9,730,000 (equivalent to HK$58,068,000 in aggregate) are guaranteed by a standby letter of credit issued by another bank.

As at 31 December 2018, bank loans with the principal amount of US$3,000,000 (equivalent to HK$23,495,000) (2017: US$3,000,000 and RMB4,462,000 (equivalent to HK$28,804,000 in aggregate)) are secured by bank deposits of the same amount placed in the banks.

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23. BORROWINGS (continued)

(ii) As at 31 December 2011, a bank loan 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 was 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 as at 31 December 2018, 2017, 2016, 2015, 2014 and 2013.

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 ceased the instalment repayment of the SME loan which was due in December 2010. The aforesaid bank had issued a demand letter to the Subsidiary and stated that it might take any legal action against the Subsidiary in respect of the repayment of the SME loan.

During the year ended 31 December 2011, the Subsidiary and its immediate holding company further received a writ of summon from the Court of First Instance and the statement of claim from the legal representative of the plaintiff claiming for (i) outstanding principal amount and related overdue interest and (ii) cost of legal action in respect of the claim on a full indemnity basis to be taxed if not agreed and further or other relief (collectively the "Claim"). The entire outstanding SME loan as at 31 December 2011 was classified under the current liabilities of the Group in the consolidated financial statements.

During the year ended 31 December 2012, a provisional liquidator was appointed for the Subsidiary by the order of the Official Receiver's Office in July 2012 and thereafter the Group lost control of the Subsidiary which was therefore deconsolidated from the Group on the same date. During the year ended 31 December 2013, two joint and several liquidators were appointed in July 2013. Nevertheless, the obligation under the SME loan and the related accrued interest payable were borne by the immediate holding company of the Subsidiary (as the provider of the corporate guarantee). Accordingly, the SME loan and the related accrued interest payable were still included under the current liabilities of the Group as at 31 December 2018, 2017, 2016, 2015, 2014, 2013 and 2012.

23. BORROWINGS (continued)

(ii) (continued)

As at 31 December 2018, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2017: HK$4,854,000) and HK$7,586,000 (2017: HK$5,763,000), respectively. The related accrued interest payable was included in the Group's trade payables, other payables and accruals as calculated in accordance with the loan agreement and the Claim. In the opinion of the Directors, 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 31 December 2018 and 2017. No further action has been taken against the Group during the current year.

Up to the date of approval of these consolidated financial statements, the SME loan and the related accrued interest payable have not been settled 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 are of the opinion that adequate provisions and disclosures have been made in these consolidated financial statements, 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.

(iii) As at 31 December 2018, an other loan with principal amount of HK$80,000,000 was secured by two share charges of the entire issued share capital in two indirect wholly-owned subsidiaries which held the Group's investment properties. The loan is interest-bearing at fixed interest rate and repayable in March 2019.

As at 31 December 2018, an other loan amounted to HK$92,774,000 was pledged by the guaranteed returns from the two joint invested TV drama series. The loan was interest-bearing at fixed interest rate at 15 % per annum and repayable in June 2019.

23. BORROWINGS (continued)

(iv) As at 31 December 2018, one of other loans with a principal amount US$3,500,000 (equivalent to HK$27,065,000) (2017: US$3,500,000 (equivalent to HK$27,065,000)) is unsecured, interest-free and not repayable within 13 months from 31 December 2018.

As at 31 December 2018, the other loan with a principal amount of US$10,000,000 (equivalent to HK$78,316,000) (2017: US$10,000,000 (equivalent to HK$78,153,000)) and further loan granted during the year amounted to HK$50,000,000 are term loan facility guaranteed by the Company, interest-bearing at interest rate from prime rate quoted by a bank in Hong Kong and not repayable within 13 months from 31 December 2018.

As at 31 December 2018, there were loans with principal amount of RMB20,000,000 (equivalent to HK$22,772,000) provided by a non-controlling shareholder of a newly acquired non-wholly owned subsidiary in accordance with the terms of sale and purchase agreement. The loans were unsecured, non-interest bearing and repayable in 2020.

(v) As at 31 December 2018 and 31 December 2017, the secured note formed part of the consideration of the business combination during the year ended 31 December 2015. The note bears fixed interest rate at 4% per annum and repayable by three equal instalments respectively on the first, second and third anniversaries of 30 December 2015, of which the third instalment has been extended and will be made in June 2019.

As at 31 December 2018 and 2017, all the loans of the Group are denominated in either HK$, RMB or United States dollars (“US$”).

23. BORROWINGS (continued)

The bank loans bear floating interest rates at effective rates ranging from 2.30% to 6.25% (2017: 2.30% to 6.25%) per annum.

The Directors consider that the carrying amounts of the Group's bank borrowings and other loan approximate their fair values as at 31 December 2018 and 2017.

At 31 December, total current and non-current borrowings were scheduled to repay as follows:

	2018 HK$'000	2017 HK$'000
On demand or within one year	305,334	95,440
After one year but within two years	248,637	107,676
In the second to fifth years inclusive	–	7,711
Over five years	–	47,037
	553,971	257,864

Note:

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

Banking facilities for the mortgage bank loans are subject to the fulfillment of covenants relating to certain of the Company's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Company was to breach the covenants the drawn down facilities would become repayable on demand. In addition, the related loan agreements contain clauses which give the bank the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Company has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors the compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Company continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 41(b). As at 31 December 2018 none of the covenants relating to drawn down facilities had been breached.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

24. OBLIGATIONS UNDER FINANCE LEASES

	2018		2017	
	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000	Minimum lease payments HK$'000	Present value of minimum lease payments HK$'000
Minimum finance lease payments payable under finance leases:				
Within one year	17,142	13,982	17,176	12,139
In the second to fifth years inclusive	12,475	11,873	29,556	25,801
Total minimum finance lease payments	29,617	25,855	46,732	37,940
Less: Future finance charges	(3,762)		(8,792)	
Total net finance lease payables	25,855		37,940	
Less: Amount due within one year	(13,982)		(12,139)	
Amount due after one year	11,873		25,801	

The Group leased certain software and computer equipment under finance leases. The average lease term is 2.5 years. Interest rates underlying the obligation under finance leases are fixed at respective contract dates and the average effective borrowing rate is 17.40% (2017: 17.40%) per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

25. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2018	**2017**	**2018** HK$'000	**2017** HK$'000
Ordinary shares of HK$0.01 each				
Authorised				
As at 1 January 2017, 31 December 2017 and 31 December 2018 of HK$0.01 each	75,000,000,000	75,000,000,000	750,000	750,000
Issued and fully paid ordinary shares:				
As at 1 January of HK$0.01 each	24,441,754,094	12,618,695,716	244,418	126,187
Issue of shares on exercise of share options *(Note (a))*	500,000	40,070,000	5	401
Issue of shares on placement *(Note (b))*	2,175,780,000	1,866,660,000	21,757	18,667
Issue of shares for acquisition of subsidiaries completed in previous years *(Note (c))*	100,772,328	103,623,460	1,007	1,036
Issue of shares for acquisition of intangible assets completed in previous years *(Note (d))*	12,704,918	12,704,918	127	127
Issue of shares upon conversion of convertible notes *(Note (e))*	–	9,800,000,000	–	98,000
As at 31 December	26,731,511,340	24,441,754,094	267,314	244,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

25. SHARE CAPITAL (continued)

Notes:

(a) During the year, 500,000 new ordinary shares of par value HK$0.01 each were issued to the share option holders of the Company at a conversion price of HK$0.098 each. The conversion gave rise to a credit of HK$44,000 to the share premium account.

(b) On 16 March 2018, 2,175,780,000 new ordinary shares of par value HK$0.01 each were issued at subscription price of HK$0.19 each to independent third parties of the Group at an aggregate consideration of HK$409,139,000 net of issuing expenses, of which HK$21,757,000 was credited to the share capital and the remaining balance of HK$387,382,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 1 March 2018 and 16 March 2018.

(c) On 28 December 2018, the Company issued 100,772,328 shares of the Company as part of the considerations for the business combinations during the year ended 31 December 2015. HK$54,790,000 was credited to the share premium account. Further details were set out in the Company's announcement dated 28 December 2018.

(d) On 7 December 2018, the Company issued 12,704,918 shares as part of the consideration for the acquisition of intangible assets during the year ended 31 December 2016, resulting in a balance of HK$7,593,000 credited to share premium. Further details were set out in the Company's announcement dated 7 December 2018.

(e) During the financial year ended 31 December 2017, an aggregate amount of 9,800,000,000 new ordinary shares of par value HK$0.01 each were converted from Convertible Notes at subscription price of HK$0.04 each to Convertible Notes holders of the Group at an aggregate consideration of HK$475,116,000 net of issuing expenses, of which HK$98,000,000 was credited to share capital and the remaining balance of HK$377,116,000 was credited to the share premium account.

26. RESERVES

Company

	Share premium HK$'000 *(Note (i))*	Convertible notes – equity component HK$'000 *(Note (ii))*	Contributed surplus HK$'000 *(Note (iv))*	Share option reserve HK$'000 *(Note (v))*	Deferred share reserve HK$'000 *(Note (vi))*	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2017	1,603,052	96,630	49,510	118,107	123,712	(1,057,869)	933,142
Share premium balance transferred to contributed surplus pursuant to the capital reorganisation	(1,603,052)	–	1,603,052	–	–	–	–
Contributed surplus set off against accumulated losses pursuant to the capital reorganisation	–	–	(1,057,872)	–	–	1,057,872	–
Recognition of equity-settled share-based payment	–	–	–	51,033	6,395	–	57,428
Issue of shares on placement, net of expenses	396,072	–	–	–	–	–	396,072
Issue of shares for being consideration of acquisition of subsidiaries completed in previous years	56,371	–	–	–	(57,407)	–	(1,036)
Issue of shares for acquisition of intangible assets completed in previous years	7,593	–	–	–	(7,750)	–	(157)
Issue of shares on exercise of share options	3,526	–	–	(1,378)	–	1,378	3,526
Issue of shares upon conversion of convertible notes	377,116	(96,630)	–	–	–	–	280,486
Loss and total comprehensive income for the year	–	–	–	–	–	(794,462)	(794,462)
As at 31 December 2017	840,678	–	594,690	167,762	64,950	(793,081)	874,999
As at 1 January 2018	840,678	–	594,690	167,762	64,950	(793,081)	874,999
Share premium balance transferred to contributed surplus pursuant to the capital reorganisation	–	–	–	–	–	–	–
Contributed surplus set off against accumulated losses pursuant to the capital reorganisation	–	–	–	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	6,395	–	6,395
Issue of shares on placement, net of expenses	387,382	–	–	–	–	–	387,382
Issue of shares for being consideration of acquisition of subsidiaries completed in previous years	54,790	–	–	–	(55,828)	–	(1,038)
Issue of shares for acquisition of intangible assets completed in previous years	7,593	–	–	–	(7,750)	–	(157)
Issue of shares on exercise of share options	44	–	–	(17)	–	17	44
Loss and total comprehensive income for the year	–	–	–	1,387	–	(258,198)	(256,811)
As at 31 December 2018	1,290,487	–	594,690	169,132	7,767	(1,051,262)	1,010,814

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for the year ended 31 December 2018

26. RESERVES (continued)

Notes:

(i) Share premium

The application of the share premium account is governed by Section 40 of the Bermuda Companies Act.

(ii) Convertible notes – equity component

This reserve represents the value of the unexercised equity component of convertible notes issued by the Company net of related deferred tax and direct issue costs, where applicable.

(iii) Land and buildings revaluation reserve

Land and buildings revaluation reserve arose in 2005 upon the fair value adjustment when the Group reclassified its land and buildings as investment properties.

(iv) Contributed surplus

Contributed surplus of the Group represents the net balance of (i) the credit arising from the capital reorganisation of the Company during the year ended 31 December 2009 and 2017 (the "Capital Reorganisation") which was transferred to the contributed surplus account and; (ii) all amounts standing to the credit of the share premium account of the Company immediately after the Capital Reorganisation were cancelled and the credit arising therefrom was transferred to the contributed surplus. Both took place in the year ended 31 December 2009 and 2017.

In addition to the retained profits, under the Companies Act of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

(v) Share options reserve

This reserve represents cumulative expenses recognised on the granting of unexercised share options to the participants over the vesting period.

26. RESERVES (continued)

Notes: (continued)

(vi) Deferred shares reserve

The reserve as at 31 December 2018 represents the shares to be issued of HK$7,767,000 (2017: approximately HK$15,500,000) by 9 December 2019 as part of the considerations for the acquisition of intangible assets during the year ended 31 December 2016.

(vii) Exchange fluctuation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in note 4 “Translation of foreign currencies”.

(viii) Other reserve

This reserve represents (i) the contributed surplus reserve of an associate established in the PRC, where the change in net assets attributable to the Group in relation to the change in ownership interests in the associate through cash injection by the Group and other investors of the associate; and (ii) the capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder.

(ix) FVOCI reserve

The FVOCI reserve represents fair value reserve comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of the reporting period.

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of reporting period (2017: Nil).

27. SHARE-BASED PAYMENT TRANSACTIONS

The Company operates the following equity-settled share option arrangements:

(i) Share option scheme

On 27 April 2012, a new 10-year share option scheme was adopted and amended on 3 April 2014 (the “Option Scheme”). Pursuant to the Option Scheme, the board is authorised to grant options to any Directors, employees and those persons of the Group who have contributed or will contribute to the Group as incentive schemes and rewards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

On 13 February 2017, 300,000,000 share options ("Options") were conditionally granted to an employee of the Group (the "Grantee", who was appointed as a director of the Company on 5 July 2017), subject to the approval by the shareholders of the Company. The Options have immediately vested on 13 February 2017, and will be exercisable from 13 February 2017 until 12 February 2027. The exercise price of the Options is HK$0.469, being the average closing price of the Company's ordinary shares for the five business days immediately before 13 February 2017. The Options conditionally granted to the Grantee were approved by the shareholders of the Company at the annual general meeting held on 1 June 2017.

During the year, 2,099,998 share options (2017: 16,633,321) were forfeited and 500,000 share options (2017: 40,070,000) was exercised and the weighted average share price at the dates of exercise was HK$0.098 (2017: HK$0.098), the average remaining contractual life is 6.47 years (2017: 7.48 years).

The Group recognised a share option expense in connection to all share options granted in current and prior years of approximately HK$1,387,000 (2017: HK$51,033,000) during the year ended 31 December 2018.

In addition, in connection with the acquisition of subsidiaries during the year ended 31 December 2015, 79,930,442 shares of the Company will be issued in 3 annual instalments by 31 December 2018 to the former option holders of share options of a subsidiary for replacement of the options. Since three years of post-combination services are required for certain former option holders, the acquisition completion date fair value of the options attributable to these post-combination services amounting to approximately HK$19,186,000 will be recognised as remuneration costs in profit or loss over the three-year period after the acquisition completion date. Accordingly, for the year ended 31 December 2018 an amount of approximately HK$6,395,000 (2017: HK$6,395,000) was recognised as remuneration costs in profit or loss.

In aggregate, the Group had recognised an equity-settled shared-based payment expenses of HK$7,782,000 (2017: HK$57,428,000) during the year ended 31 December 2018.

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

The following tables disclose movements in the Company's share options during the years ended 31 December 2018 and 2017.

2018

Name or category of participants	At 1 January 2018	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2018	Date of grant	Exercise period	Exercise price per share (HK$)
Directors								
Seah Ang	100,000,000	–	–	–	100,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.098
Amit Chopra	48,000,000	–	–	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	33,333,334	–	–	–	33,333,334	7 Jun 2016#	29 Jan 2016 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016#	29 Jan 2017 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016#	29 Jan 2018 to 28 Jan 2026	0.413
Wei Ming	300,000,000	–	–	–	300,000,000	1 Jun 2017*	13 Feb 2017 to 12 Feb 2027	0.469
Employees, in aggregate								
– 2014	651,230,000	–	(500,000)	–	650,730,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
– 2015	20,990,000	–	–	–	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	20,000,000	–	–	–	20,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	19,000,000	–	–	–	19,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
– 2016	93,166,677	–	–	–	93,166,677	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	83,166,665	–	–	–	83,166,665	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	77,833,326	–	–	(333,333)	77,499,993	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	0.495
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	0.495
	16,666,692	–	–	–	16,666,692	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	0.566
	11,699,998	–	–	–	11,699,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	0.566
	10,199,989	–	–	(1,766,665)	8,433,324	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
	1,666,953,347	–	(500,000)	(2,099,998)	1,664,353,349			
Weighted average exercise price	HK$0.321	NA	HK$0.098	HK$0.542	HK$0.321			

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for the year ended 31 December 2018

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

(i) Share option scheme (continued)

2017

Name or category of participants	At 1 January 2017	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2017	Date of grant	Exercise period	Exercise price per share (HK$)
Directors								
Seah Ang	100,000,000	–	–	–	100,000,000	23 July 2014	28 May 2017 to 27 May 2024	0.098
Amit Chopra	48,000,000	–	–	–	48,000,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	5,000,000	–	–	–	5,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
	33,333,334	–	–	–	33,333,334	7 Jun 2016#	29 Jan 2016 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016#	29 Jan 2017 to 28 Jan 2026	0.413
	33,333,333	–	–	–	33,333,333	7 Jun 2016#	29 Jan 2018 to 28 Jan 2026	0.413
Wei Ming	–	300,000,000	–	–	300,000,000	1 Jun 2017*	13 Feb 2017 to 12 Feb 2027	0.469
Employees, in aggregate								
– 2014	691,300,000	–	(40,070,000)	–	651,230,000	28 May 2014	28 May 2017 to 27 May 2024	0.098
– 2015	20,990,000	–	–	–	20,990,000	6 May 2015	6 May 2015 to 5 May 2025	1.320
	20,000,000	–	–	–	20,000,000	6 May 2015	6 May 2016 to 5 May 2025	1.320
	19,000,000	–	–	–	19,000,000	6 May 2015	6 May 2017 to 5 May 2025	1.320
– 2016	93,166,677	–	–	–	93,166,677	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	83,166,665	–	–	–	83,166,665	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	83,166,658	–	–	(5,333,332)	77,833,326	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2017 to 21 Jun 2026	0.495
	50,000,000	–	–	–	50,000,000	22 Jun 2016	22 Jun 2018 to 21 Jun 2026	0.495
	16,666,692	–	–	–	16,666,692	29 Jul 2016	29 Jul 2016 to 28 Jul 2026	0.566
	16,599,996	–	–	(4,899,998)	11,699,998	29 Jul 2016	29 Jul 2017 to 28 Jul 2026	0.566
	16,599,980	–	–	(6,399,991)	10,199,989	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
	1,423,656,668	300,000,000	(40,070,000)	(16,633,321)	1,666,953,347			
Weighted average exercise price	HK$0.286	HK$0.469	HK$0.098	HK$0.517	HK$0.321			

The share option conditionally granted to Mr. Amit Chopra on 29 Jan 2016 was approved by the shareholders of the Company at the special general meeting held on 7 Jun 2016.

* The share option conditionally granted to Mr. Wei Ming on 13 Feb 2017 was approved by the shareholders of the Company at the annual general meeting held on 1 Jun 2017.

(ii) Option granted under general mandate

No option was granted under general mandate during the year (2017: Nil).

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		36	26
Interests in subsidiaries		1,393,000	1,066,000
		1,393,036	1,066,026
Current assets			
Other receivables and prepayments		1,919	2,956
Bank balances and cash		29,440	115,288
		31,359	118,244
Current liabilities			
Other payables and accruals		9,051	5,247
Borrowings		137,216	59,606
		146,267	64,853
Net current (liabilities)/assets		(114,908)	53,391
Total assets less current liabilities		1,278,128	1,119,417
NET ASSETS		1,278,128	1,119,417
Capital and reserves			
Share capital	*25*	267,314	244,418
Reserves	*26*	1,010,814	874,999
TOTAL EQUITY		1,278,128	1,119,417

On behalf of the Board

On behalf of the Board

Seah Ang
Director

Peter Chou
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. SUBSIDIARIES

Particulars of the Company's material subsidiaries as at 31 December 2018 and 2017 are as follows:

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017		Nature of business
			Direct	Indirect	
Choice Excel Holdings Limited	The British Virgin Islands	US$100	–	85%	Investment holdings
Chosen Elite Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
City Trend International Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Cornwick Investments Limited	Hong Kong	HK$2	–	100%	Holding investment properties in Hong Kong
Cosmos Glory Limited	Hong Kong	HK$27,392,698	–	85%	Investment holdings
Creation Smart Investments Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DD & TT Company Limited	Hong Kong	HK$55,000,000	–	60%	Holding licence for intellectual property right of a well-known deceased singer
DD Asset Management (BVI) Limited	The British Virgin Islands	US$1	– (2017: 100%)	100% (2017: –)	Investment holdings
DD Fengshu Media Limited (formerly known as "DDHK Asset Management Limited")	Hong Kong	HK$1	–	100%	Dormant
DD Holdings US, LLC	USA	US$35,000,000	–	100%	Investment holdings
DD Investments US, Inc.	USA	US$1	–	100%	Dormant
DD Licensing (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
DD Licensing (US), Inc.	USA	US$1	–	100%	Dormant

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017 Direct	Indirect	Nature of business
DD Licensing Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DD Micoy, Inc.	USA	US$1	–	100%	Holding assets
DDH Assets Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DDHU Management Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDI Visuals Private Limited	India	INR1,000	–	100%	Visual effects production
DDPO (BVI) Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DDR (US), LLC	USA	US$50,000,000	–	100%	Investment holdings
DDVR, Inc.	USA	US$1	–	100%	Investment holdings and virtual reality businesses
Digital Domain (International) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain (Taiwan) Limited	Taiwan	NT$15,000,000	–	100%	Dormant
Digital Domain (Taiwan) Company Limited	The British Virgin Islands/ Hong Kong	US$1	–	100%	Investment holdings
Digital Domain 3.0 Virtual Performer Productions (BC) Ltd.	Canada	CAD100	–	100%	Dormant
Digital Domain 3.0, Inc.	USA	US$50	–	100%	Visual effects production
Digital Domain Assets Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Broadcasting (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant

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29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017 Direct	Indirect	Nature of business
Digital Domain Broadcasting Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Consultancy Limited	Hong Kong	HK$1	–	100%	Provision of management services
Digital Domain Content (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Virtual reality content business
Digital Domain Content Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Content Studio, Inc.	USA	US$1	–	100%	Dormant
Digital Domain Development Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Development Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Distribution (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Distribution Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Education (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Education Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Enterprise Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Enterprises Group (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Enterprises Group Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Entertainment (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017		Nature of business
			Direct	Indirect	
Digital Domain Entertainment Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Group Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Interactive, LLC	USA	–	–	100%	Virtual reality business
Digital Domain International Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments (BVI) Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain Investments Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Management Limited	Hong Kong	HK$100	–	100%	Dormant
Digital Domain Media (AM) Company Limited	Hong Kong	HK$1	–	100%	Virtual human business
Digital Domain Media (HK) Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Media Group Limited	The British Virgin Islands	US$1	– (2017: 100%)	100% (2017: –)	Investment holdings
Digital Domain Music (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Music Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Network Technology (Hong Kong) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Network Technology Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Pictures (HK) Limited	Hong Kong	HK$1	–	100%	Dormant

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29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017 Direct	Indirect	Nature of business
Digital Domain Pictures Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Production (HK) Limited	Hong Kong	HK$1	–	100%	TV drama investment
Digital Domain Production Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Productions 3.0 (BC), Ltd.	Canada	CAD1	–	100%	Visual effects production
Digital Domain Productions Québec, Ltd.°	Canada	CAD100	–	100% (2017: –)	Visual effects production
Digital Domain Resources Limited	Hong Kong	HK$2	–	100%	Provision of management services
Digital Domain Studio (HK) Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain Studio Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Technology (US), Inc.	USA	US$1	–	100%	Virtual reality business
Digital Domain Technology Limited	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Trading Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain VFX Holdings Limited (formerly known as "Alpha Image Holdings Limited")	The British Virgin Islands	US$1	–	100%	Dormant
Digital Domain Virtual Human (HK) Limited (formerly known as "DDHK IP Management Limited")	Hong Kong	HK$1	–	100%	Investment holdings
Digital Domain Virtual Human (US), Inc.#	USA	US$1	–	100% (2017: –)	Software development and research

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017		Nature of business
			Direct	Indirect	
Digital Domain Virtual Human Group Limited (formerly known as "DDLTV (BVI) Company Limited")	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Virtual Human Holdings Limited (formerly known as "DD IP Management Limited")	The British Virgin Islands	US$1	–	100%	Investment holdings
Digital Domain Virtual Human Productions (BC), Ltd.#	Canada	CAD1	–	100% (2017: –)	Software development and research
Digital Domain Virtual Reality Holdings Limited (formerly known as "DDH Management Holdings Limited")	The British Virgin Islands	US$1	100%	–	Investment holdings
Digital Domain YK (HK) Company Limited	Hong Kong	HK$1	–	100%	Dormant
Digital Domain YK Company Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Driven Global Holdings Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Ever Champ Management Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Ever Ultra Limited	The British Virgin Islands	US$100	–	100%	Investment holdings
Ever Union Medical Services Group Limited	Hong Kong	HK$100	–	100%	Investment holdings
Ever Union Services Development Limited	Hong Kong	HK$100	–	100%	Investment holdings and provision of consultancy services
Golden Stream Global Limited	The British Virgin Islands	US$1	100%	–	Investment holdings

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29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017 Direct	Indirect	Nature of business
IM360 Entertainment Inc.	Canada	CAD7,307,647	–	91.71%	Interactive media technology through 360 degree video
Immersive Licensing, Inc	USA	US$1,000	–	83.10%	Manage intellectual property licences and trademarks
Immersive Media Company	USA	US$15	–	83.10%	Interactive media technology through 360 degree video
Immersive Ventures Inc.	Canada	CAD11,108,656	–	83.10%	Interactive media technology through 360 degree video
Lead Turbo Limited*	The British Virgin Islands	US$10,000	–	66.88% (2017: –)	Investment holdings
Lucrative Skill Holdings Limited	The British Virgin Islands	US$100	–	85%	Investment holdings
Mothership Media, Inc.	USA	US$0.01	–	100%	Visual effects production
Post Production Office Limited	Hong Kong	HK$16,993,446	–	85%	Investment holdings
Praya Star Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Rise Honour Development Limited	Hong Kong	HK$1	–	100%	Investment holdings
Ritzy Moment Limited#	The British Virgin Islands	US$1	–	100% (2017: –)	Investment holdings
S. I. Travel Group Limited	The British Virgin Islands/ Hong Kong	US$1	100%	–	Trading

29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017 Direct	Indirect	Nature of business
Sai Chak Company Limited	Hong Kong	HK$100,000	–	100%	Holding investment properties in Hong Kong
Sun Innovation HK Properties Holdings Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
Sun Innovation International Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Sun Innovation Management Services Limited	Hong Kong	HK$2	100%	–	Provision of management services
Sun Innovation Properties Holdings Limited	The British Virgin Islands	US$2	100%	–	Investment holdings
Tower Talent Holdings Limited	The British Virgin Islands	US$1	– (2017: 100%)	100% (2017: –)	Investment holdings
Treasure Well Development Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Upfield Sky Limited	The British Virgin Islands	US$10,000	–	100%	Investment holdings
Vibrant Global Group Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
Virtue Global Holdings Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
VR Technology (HK) Limited*	Hong Kong	HK$10,000	–	66.88% (2017: –)	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK$1	–	100%	Securities investment and investment holding
Wide Profit Enterprises Limited	The British Virgin Islands	US$100	–	100%	Investment holdings
文霆廣告製作(北京)有限公司	The PRC	RMB29,932,890	–	85%	Visual effects production and post production

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29. SUBSIDIARIES (continued)

Company	Country or place of incorporation and establishment/ operation	Issued share capital/ paid up capital	Effective equity interest attributable to the Company as at 31 December 2018 and 2017 Direct	Indirect	Nature of business
台灣虛擬現實科技有限公司*	Taiwan	NT$1,000,000	–	66.88% (2017: –)	Dormant
長和技術發展(深圳)有限公司	The PRC	RMB5,493,649	–	100%	Provision of consultancy services
深圳市天趣信息科技有限公司*	The PRC	RMB500,000	–	66.88% (2017: –)	Investment holdings
深圳市奇幻樂園科技有限公司*	The PRC	RMB100,000	–	60% (2017: –)	VR hardwares and solution services
深圳市虛擬現實技術有限公司*	The PRC	RMB153,895	–	60% (2017: –)	VR hardwares and solution services
深圳市虛擬現實科技有限公司*	The PRC	RMB126,262	–	60% (2017: –)	VR hardwares and solution services
朝霆廣告製作(上海)有限公司	The PRC	RMB19,456,996	–	85%	Visual effects production and post production
數字王國(深圳)科技發展有限公司°	The PRC	HK$10,000,000	–	100%	Visual effects production

Notes:

\# These subsidiaries were newly incorporated/established during the year.

* These subsidiaries were newly acquired during the year.

° The company is a wholly-foreign-owned-enterprise. The entire registered capital amounted to HKD10,000,000, and the remaining balance of registered capital is required to be paid on or before 23 January 2034.

All the above are limited liability companies.

Unless otherwise stated, the above subsidiaries' places of operations are the same as their respective places of incorporation/establishment.

None of the subsidiaries had issued any debt securities at the end of the year.

30. NON-CONTROLLING INTEREST

The following table lists out the information relating to Immersive Ventures Inc., IM360 Entertainment Inc., Lead Turbo Limited, DD & TT Company Limited and Lucrative Skill Holdings Limited, subsidiaries of the Company which have material NCI. The summarised financial information presented below represents the amounts before any inter-company elimination.

	Immersive Ventures Inc.		IM360 Entertainment Inc.		Lead Turbo Limited		DD & TT Company Limited		Lucrative Skill Holdings Limited	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
At 31 December:										
NCI percentage	16.9%	16.9%	8.281%	8.281%	33.12%	–	40%	40%	15%	15%
Non-current assets	194,944	215,121	6,278	7,374	192,007	–	43,961	50,749	36,689	50,675
Current assets	791	2,066	33,376	33,904	87,264	–	1,730	4,268	37,542	58,981
Non-current liabilities	(44,935)	(49,316)	–	–	(44,339)	–	–	–	–	–
Current liabilities	(88,743)	(84,814)	(44,377)	(35,750)	(27,632)	–	(20,204)	(23,226)	(144,008)	(120,677)
Net assets/(liabilities)	62,057	83,057	(4,723)	5,528	207,300	–	25,487	31,791	(69,777)	(11,021)
Accumulated NCI	10,488*	14,037*	(391)*	458*	68,658*	–	10,194*	12,716*	(10,467)*	(1,653)*
Year ended 31 December:										
Revenue	4,052	4,403	8,648	33,616	87,377	–	3,769	–	62,625	86,300
(Loss)/profit for the year	(12,501)	(37,780)	(10,348)	(12,061)	20,472	–	(6,302)	(12,733)	(58,373)	(45,146)
Total comprehensive income	(21,000)	(29,115)	(10,251)	(11,175)	12,570	–	(6,302)	(12,733)	(58,756)	(41,849)
(Loss)/profit allocated to NCI	(2,113)*	(6,384)*	(857)*	(999)*	6,780*	–	(2,521)*	(5,093)*	(8,756)*	(6,772)*
Total comprehensive income allocated to NCI	(3,550)	(4,921)	(849)	(925)	4,163	–	(2,521)	(5,093)	(8,813)	(6,277)
Dividend paid to NCI	–	–	–	–	–	–	–	–	–	–
Net cash (outflows)/inflows from operating activities	(185)	(1,469)	(204)	(2,910)	(794)	–	(2,428)	(1,740)	1,989	4,469
Net cash inflow/(outflows) from investing activities	123	(179)	(143)	(804)	(71,487)	–	–	–	(22,703)	(22,736)
Net cash inflows from financing activities	–	–	–	–	26,221	–	–	–	5,720	5,359

* The aggregate NCI as at 31 December 2018 amounted to credit balance of approximately HK$78,482,000 (2017: HK$25,558,000) and the aggregate net losses allocated to NCI for the year then ended amounted to approximately HK$7,467,000 (2017: 19,248,000).

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31. BUSINESS COMBINATION

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

31. BUSINESS COMBINATION (continued)

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

	HK$'000
Property, plant and equipment	2,726
Intangible assets	178,803
Trade receivables, other receivables and prepayments	42,308
Inventory	14,356
Bank balances and cash	67,541
Trade payables, other payables and accruals	(82,258)
Contract liabilities	(2,159)
Amounts due to related parties	(5,043)
Deferred tax liabilities	(25,026)
Net assets	191,248
NCI	(63,341)
	127,907
Goodwill *(Note 15)*	164,709
Total consideration	292,616
Total consideration at fair value consisted of:	
– Cash consideration	186,699
– Contingent consideration payable	105,917
	292,616

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31. BUSINESS COMBINATION (continued)

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

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

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

The fair value of contingent consideration payable includes a performance-based contingent consideration adjustment, which is principally based on the consideration adjustment mechanisms towards the respective target profits of the Lead Turbo Group in financial years 2018 and 2019. The adjustment will be settled in cash after the issuance of 2018 and 2019 consolidated audited financial statements of the Lead Turbo Group. The potential undiscounted amount of the contingent consideration adjustment that the Group could be required to make under this arrangement is between nil and RMB90,000,000 (equivalent to approximately HK$102,474,000), and that the Group could receive under this arrangement is between nil and the aggregate amount the Group has paid. At the acquisition date, the fair value of the contingent consideration arrangement of RMB84,149,000 (equivalent to HK$105,916,000) was estimated by applying the income approach at a discount rate of 3.8% and estimated profits in Lead Turbo Group for the financial years 2018 and 2019 of RMB40,000,000 and RMB50,000,000 respectively. As of 31 December 2018, the carrying value of the contingent consideration payable has increased by the amount of the imputed interest thereon of HK$2,731,000, which was recognised in current year's profit or loss. As the contingent consideration payable is denominated in RMB, RMB fluctuates towards the functional currency results in the lower of amount as of 31 December 2018 compared to the acquisition date. There were no changes in the discount rate, estimated profits and valuation techniques during the year.

31. BUSINESS COMBINATION (continued)

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

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

Since the completion of the acquisition, the Lead Turbo Group has contributed approximately HK$87,377,000 to the Group's revenue and approximately HK$10,359,000 to the Group's profit for the year. If the acquisition had occurred on 1 January 2018, the Group's revenue and loss for the year would have been approximately HK$614,907,000 and HK$524,683,000 respectively. This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK$2,424,000 have been expensed and are included in administrative expenses.

32. NOTES SUPPORTING STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Cash available on demand	52,212	104,141
Short-term deposits	23,818	113,534
As at 31 December	76,030	217,675
Significant non-cash transactions are as follows:		
Financing activities		
Property, plant and equipment acquired under finance leases	–	39,952
Conversion of convertible notes	–	466,903
	–	506,855

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32. NOTES SUPPORTING STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities:

	Bank loans and other borrowings (Note 23) HK$'000	Finance leases (Note 24) HK$'000	Promissory note HK$'000	Convertible notes HK$'000	Total HK$'000
At 1 January 2017	289,247	–	34,314	370,273	693,834
Changes from cash flows:					
– Proceed from new borrowings	88,831	–	–	–	88,831
– Repayment of borrowings	(121,701)	–	–	–	(121,701)
– Repayment of obligations under finance lease	–	(2,017)	–	–	(2,017)
– Repayment of promissory note	–	–	(35,000)	–	(35,000)
Non-cash changes:					
– New obligations under finance leases	–	39,952	–	–	39,952
– Interest expenses	–	–	686	8,213	8,899
– Conversion rights exercised	–	–	–	(378,486)	(378,486)
Effects of foreign exchange	1,487	5	–	–	1,492
At 31 December 2017 and 1 January 2018	257,864	37,940	–	–	295,804
Changes from cash flows:					
– Proceed from new borrowings	343,698	–	–	–	343,698
– Repayment of borrowings	(47,749)	–	–	–	(47,749)
– Repayment of obligations under finance lease	–	(12,173)	–	–	(12,173)
Non-cash changes:					
Effects of foreign exchange	158	88	–	–	246
At 31 December 2018	553,971	25,855	–	–	579,826

33. RETIREMENT BENEFIT SCHEME

The Group contributes to defined contribution provident funds, including the scheme set up pursuant to the Hong Kong Mandatory Provident Fund Ordinance (the "MPF Scheme"), which are available to all Hong Kong employees. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,500 (2017: HK$1,500) (the "Mandatory Contribution"). The employees are entitled to 100% of the employer's Mandatory Contributions upon their retirement age of 65 years old, death or total incapacity. The unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the MPF Scheme was HK$683,000 (2017: HK$559,000).

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the local governments in the PRC. The Group is required to contribute a specified percentage of the payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. During the year, the aggregate amount of employer's contribution net of forfeited contribution made by the Group under the state-managed retirement benefit schemes in the PRC was HK$4,243,000 (2017: HK$3,781,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

34. OPERATING LEASE COMMITMENTS

(i) As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Equipment	
	2018	**2017**	**2018**	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000
Not later than one year	41,208	42,724	6,425	5,872
Later than one year and not later than five years	110,531	142,770	17,599	23,974
Later than five years	41,126	54,812	–	–
	192,865	240,306	24,024	29,846

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

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

(ii) As at 31 December 2018, the Group had future aggregate minimum lease rental receivables under non-cancellable operating leases as follows:

	Investment properties	
	2018	**2017**
	HK$'000	HK$'000
Not later than one year	140	4,270
Later than one year and not later than five years	36	–
	176	4,270

The investment properties have committed tenants for an average term of one year.

35. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

(a) As at 31 December 2018, the Group had aggregate banking facilities of HK$198,318,000 (2017: HK$176,971,000) from banks for guarantees and loans. The banking facilities are secured by:

(i) Pledge of all investment properties of the Group as at 31 December 2018 (Note 14) and assignment of rental proceeds duly executed in respect of the pledged investment properties.

(ii) 80% guarantee given by the Government and a corporate guarantee from a subsidiary of the Company for the SME loan as disclosed in note 23.

(iii) As at 31 December 2018, a margin securities trading account of a wholly-owned subsidiary of the Company is secured by an unlimited corporate guarantee provided by the Company. This margin facility has not been utilised as at 31 December 2018 (2017: Nil).

(iv) As at 31 December 2018, the Group's bank loan with a carrying amount of approximately HK$23,495,000 (2017: 23,446,000) is secured by a pledged deposit of same amount in a subsidiary's account.

(b) (i) The secured note payable is secured by all personal property of each of DDVR, Inc. and Immersive, both of which are subsidiaries of the Company, and their entire issued share capital.

(ii) As at 31 December 2018, the Group's other loans with carrying amounts of HK$80,000,000 and HK$92,774,000 are secured by two share charges of the entire issued share capital in two indirect wholly-owned subsidiaries which held the Group's investment properties and the guaranteed returns from the two joint invested TV drama series, respectively.

(c) In December 2018, a subsidiary obtained a term loan facility of HK$78,316,000 (2017: HK$78,153,000) denominated in US$ and new term loan facility of HK$50,000,000 both from a substantial shareholder of the Company, Wise Sun Holdings Limited. The loan facilities have been fully utilised since 7 December 2015 and 18 May 2018 respectively. The Company acts as a guarantor of these term loans.

36. CAPITAL COMMITMENTS

Other than those disclosed elsewhere in these consolidated financial statements, the Group did not have any significant capital commitment as at 31 December 2018 and 2017.

37. RELATED PARTY TRANSACTIONS

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

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38. CONTINGENT LIABILITIES

The Group has been acknowledged by several customers in the USA in connection with the possible indemnification of losses suffered by these customers as a result of their involvements in other lawsuits (the "Other Lawsuits") filed by a claimant (the "Claimant") against these customers. This Claimant had dispute over ownership of certain physical equipment and intellectual property (the "Disputed IP") with the original owner (the "Original Owner") and a court in the USA concluded that the Claimant owns the Disputed IP on 11 August 2017. The Group had used these Disputed IP under a licence from the Original Owner and completed certain visual effect projects for these customers.

An appeal of the above stated decision was filed. It is expected that the court of appeal will issue its decision in the appeal by early 2020. In the event that the court of appeal reverses the trial court, the Other Lawsuits should be dismissed.

No specific monetary amount has been identified in the indemnity requests by these customers. The Group is currently in the process of negotiating with the insurance company and with these customers the extent to which the insurance company will pay.

No provision for the indemnity has been recognised for the year ended 31 December 2018 as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

39. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

a) On 19 March 2019, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of the certain wholly owned subsidiaries of the Group of which principal activities are holding of investment properties (the "Disposal Group") in a cash consideration of HK$216,000,000 (subject to adjustment with reference to the net asset value of the Disposal Group at completion). The completion of the transaction is conditional as further details on the Company's announcement on 19 March 2019. Up to the date of approval of this financial statements, the transaction has not yet completed. In the opinion of the Directors, the sale transaction is anticipated to be completed within 2019.

b) On 22 March 2019, the Company entered into a subscription agreement with an independent third party (the "Subscriber") in relation to the subscription of 5,323,600,000 shares of the Company to the Subscriber at the subscription price of HK$0.104 per subscription share. The subscription is conditional as further detail on the Company's announcement on 22 March 2019. In the opinion of the Directors, upon the completion of the subscription, the gross proceeds and net proceeds from the subscription will be approximately HK$553,654,000 and HK$553,461,000 respectively.

40. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt (including the borrowings disclosed in note 23, obligations under finance leases disclosed in note 24, less bank balances and cash disclosed in note 21) and total equity.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. The gearing ratio at the end of reporting period was as follows:

	2018 HK$'000	2017 HK$'000
Debts	579,826	295,804
Bank balances and cash	(76,030)	(225,334)
Net debt	503,796	70,470
Total equity	1,309,956	1,403,031
Net debt to equity ratio	38%	5%

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41. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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

The Group applies the simplified approach to providing for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets and all trade and other receivables (excluding prepayments and loans to related and third parties).

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the individual customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased. Trade receivables are due within 30 days (2017: 30 days) from the date of billing. Debtors with balances that are more than 2 months past due are normally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The 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.

At 31 December 2018, the Group has a concentration of credit risk as 17% and 48% (2017: 27% and 63%) respectively of the total gross trade receivables were due from the Group's largest customer and the five largest customers respectively.

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

41. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. which is based on days past due for groupings of various customer segments that have similar loss patterns.

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

As at 31 December 2018	**Expected loss rate** %	**Gross carrying amount** $'000	**Loss allowance** $'000
Current (not past due)	0.01	28,292	3
1 to 3 months past due	0.03	12,212	3
3 to 6 months past due	0.22	2,287	5
6 to 12 months past due	3.72	15,843	589
More than 1 year past due	67.87	4,283	2,907
		62,917	3,507

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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for the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of HK$3,223,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	HK$'000
Less than 1 month past due	15,493
1 to 3 months past due	18,802
Over 3 months past due	18,652
As at 31 December 2017	52,947

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

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

The following table reconciles the loss allowance account in respect of trade receivables and contract assets for the year ended 31 December 2017:

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

41. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The following table reconciles the loss allowance account in respect of trade receivables and contract assets for the year ended 31 December 2018:

	2018 HK$'000
At 1 January under HKAS 39	3,223
Impact of initial application of HKFRS 9	–
Adjusted balance at 1 January	3,223
Amounts written off during the year	(3,115)
Impairment loss recognised	3,399
At 31 December	3,507

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during the year: a write-off of trade receivables with a gross carrying amount of HK$3,115,000 resulted in a decrease in loss allowance of HK$3,115,000.

Increase in days past due over 30 days resulted in an increase in loss allowance of HK$3,399,000.

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the end of reporting period of the 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 reporting period) and the earliest date the Group and the Company can be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for borrowings is prepared based on the scheduled repayment dates:

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 years	More than 5 years
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2018						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	138,833	142,209	94,916	47,293	–	–
Other loan	350,927	367,448	188,737	178,711	–	–
Secured note	59,357	62,845	62,845	–	–	–
Trade payables, other payables and accruals	124,850	124,850	124,850	–	–	–
Obligations under finance leases	25,855	29,618	17,142	12,476	–	–
Contingent consideration	98,543	102,474	45,544	56,930	–	–
	803,219	834,569	539,159	295,410	–	–
2017						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	88,465	88,905	88,905	–	–	–
Other loan	105,218	109,467	3,907	105,560	–	–
Secured note	59,327	61,700	61,700	–	–	–
Trade payables, other payables and accruals	108,771	108,771	108,771	–	–	–
Obligations under finance leases	37,940	46,731	17,176	17,106	12,449	–
	404,575	420,699	285,584	122,666	12,449	–

41. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk

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

The following table details the interest rate profile of the Group's net borrowings at the end of reporting period:

	2018		2017	
	Effective interest rate%	HK'000	Effective interest rate%	HK'000
Variable-rate borrowings				
Bank loans	2.3 – 6.25	143,689	2.3 – 6.25	93,320
Other loan	Prime rate	128,316	Prime rate	78,153
		272,005		171,473
Fixed-rate borrowings				
Other loan	15-18	172,774		–

The interest rates and terms of repayment of the Group's borrowings are disclosed in note 23.

Sensitivity analysis

As at 31 December 2018, it is estimated that a general decrease/increase of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the loss after taxation and decrease/increase accumulated losses of the Group by HK$2,719,000/HK$2,083,000 (2017: HK$1,714,000/HK$854,000) respectively. Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2017.

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for the year ended 31 December 2018

41. FINANCIAL RISK MANAGEMENT (continued)

(d) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in HK$ which is different from the functional currency of the Group entities, i.e. RMB, US$ and Canadian dollar ("CAD") which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manage its foreign currency risk by monitoring the movements of the foreign currency rates and will consider hedging significant foreign currency exposures should the need arise.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised as at 31 December 2018 and 2017 may be categorised as follows:

(a) Categories of financial assets and financial liabilities

	2018 HK$'000	**2017** HK$'000
Financial assets		
Financial assets at amortised costs		
(including cash and cash equivalents)	207,991	302,895
Financial assets at FVOCI	165,976	–
Financial liabilities		
Financial liabilities at amortised cost	803,219	408,734

(b) Fair values

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets which are traded on active markets are determined with reference to quoted market bid prices; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models.

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximate to their fair values.

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (continued)

(b) Fair values (continued)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at fair value through other comprehensive income				
– Unlisted equity investments	–	–	165,976	165,976

There were neither financial assets nor financial liabilities stated in fair value in the prior year.

During the year, there were no transfers of fair value measurements between level 1 and level 2 for both financial assets and financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

42. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (continued)

(b) Fair values (continued)

Information about level 3 fair value measurements

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (level 3) is as follows:

	FVOCI	
	2018	**2017**
	HK$'000	HK$'000
Unlisted equity investments		
At 1 January	–	–
Purchases	196,213	–
Unrealised fair value loss	(30,237)	–
At 31 December	165,976	–

There was no change in valuation technique during the year. The valuation technique as at 31 December 2018 is as follows:

Type of investment	Valuation technique	Significant unobservable inputs (level 3)	Sensitivity analysis
Unlisted equity investment	Market approach	Adjusted price-to-book ratio: 1.99	10% increase/(decrease) on adjusted price-to-book ratio would result a (decrease)/ increase in fair value by approximately HK$2,900,000

FIVE YEARS FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group are summarised below:

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Results					
Revenue	600,679	703,004	763,501	527,341	849,952
(Loss)/profit attributable to owners of the Company	(518,030)	(524,893)	(479,377)	(156,298)	43,323
Assets and Liabilities					
Total assets	2,224,839	1,893,029	1,919,803	1,540,353	750,746
Total liabilities	(914,883)	(489,998)	(854,375)	(838,112)	(483,986)
	1,309,956	1,403,031	1,065,428	702,241	266,760
Non-controlling interest	(78,482)	(25,558)	(42,774)	(28,813)	1,011
Equity attributable to owners of the Company	1,231,474	1,377,473	1,022,654	673,428	267,771

PARTICULARS OF PROPERTIES

		Type	Lease term
Properties held for investment			
(1)	Shop A (including the external walls), Ground Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium
(2)	Shop B (including the external walls), Ground Floor, Loading and Unloading Bays Nos. U1, U2, U3, U9 and U10, 1st Floor and Car Parking Space Nos. 22, 23, 33, 50 and 50A, 2nd Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong	Commercial	Medium