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)

ANNUAL REPORT 2019

CONTENTS

Corporate Information 2

Chairman's Statement 4

Chief Executive Officer's Review 6

Corporate Governance Report 38

Directors' Report 50

Independent Auditor's Report 69

Consolidated Income Statement 73

Consolidated Statement of Comprehensive Income 74

Consolidated Statement of Financial Position 75

Consolidated Statement of Changes in Equity 77

Consolidated Statement of Cash Flows 79

Notes to the Consolidated Financial Statements 81

Five Years Financial Summary 180

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Peter CHOU (Chairman)
Mr. SEAH Ang (Chief Executive Officer)

Non-executive Directors
Mr. JIANG Yingchun
Mr. CUI Hao
Mr. WANG Wei-Chung

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

Suite 1201, 12/F., Li Po Chun Chambers
189 Des Voeux Road Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House, 41 Cedar Avenue
Hamilton HM 12, 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

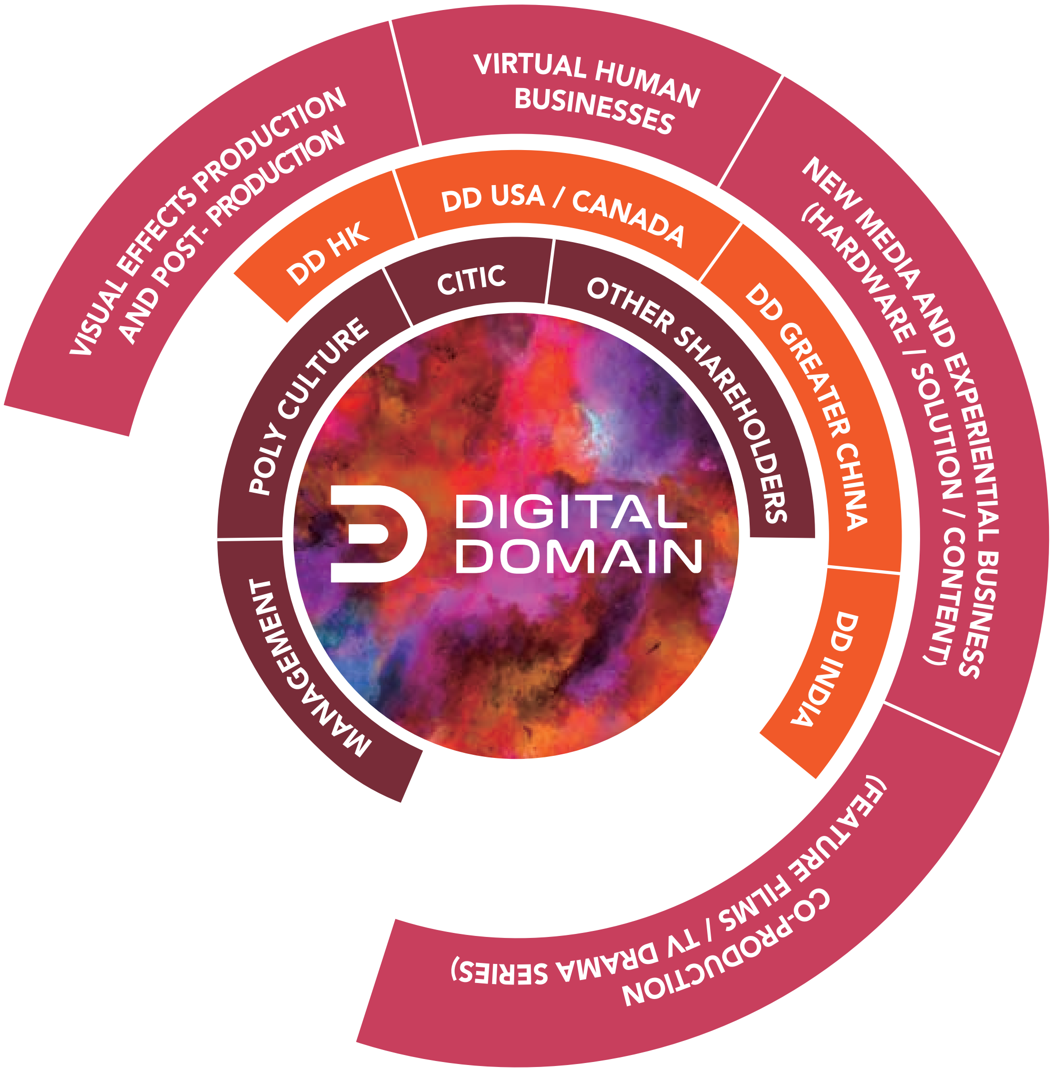
DigitalDomain 數字王國

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 37.

"As one of the leading Media Entertainment Groups, we remain unwavering in our commitment to our clients, our people and our industry, which we have proudly served for more than 26 years. We will continue to invest significantly in delivering an unforgettable experience for our clients."

PETER CHOU
Chairman

Same as previous years, 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 were very excited to formally announce the opening of Montréal Studio in Québec, Canada in February 2020. It will be the ninth location for Digital Domain, alongside Hong Kong Headquarter, Los Angeles, Vancouver, Beijing, Shanghai, Shenzhen, Taipei and Hyderabad. This is an important milestone for our global business plan.

Following the outbreak of the novel coronavirus ("COVID-19") in late December 2019/ January 2020, governments and non-governmental organizations have attempted to contain the spread of COVID-19 through suspension of productions/work, quarantines, travel restrictions and bans, their efforts have inadvertently created adverse impacts on the macro-economic activities in China and a lot of countries/ regions. The business environment in 2020 will be challenging and with a lot of unpredictable changes. Digital Domain will likely adopt a more conservative approach and at the same time, Digital Domain will further enhance the business relationships with our clients and strategic partners.

Digital Domain was so proud to join force with TIME Studios to launch a groundbreaking immersive project "The March, Bringing Martin Luther King Jr." and the "Historic 1963 March on Washington to Virtual Reality" for the first time. Virtual Human Martin Luther King Jr ("MLK") was created and produced by Digital Domain's team and "He" was also become a "Cover Person" of the TIME Magazine. Besides the MLK project, our virtual human group were invited to give a live demonstration of our real time facial capture during TED 2019 in Vancouver, Canada. The TED 2019 talk was the world reveal of Digital Domain's technology and first introduction to our photoreal virtual human DigiDoug. Digital Domain will continue to devote our investment and efforts in virtual human technology and will keep sharing our technology advancement news and great projects to you in 2020.

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 2020

"I would like to extend my utmost appreciation to our Shareholders, Staff and other valued stakeholders for their continued confidence and support. We will continue to work hard to deliver the ongoing and future success of Digital Domain."

SEAH ANG
Chief Executive Officer

FINANCIAL AND BUSINESS REVIEW

During the year ended 31 December 2019, the Group achieved a revenue of HK$625,446,000 (2018: HK$600,679,000), showing an increase of approximately 4% compared to that of the previous year. The gross profit of the Group amounted to HK$100,672,000 (2018: HK$52,956,000) during the year under review, showing an increase of approximately 90%. The increase in turnover and gross profit were mainly attributable to the media entertainment segment. As at 31 December 2019, the total assets of the Group amounted to HK$2,175,050,000 (as at 31 December 2018: HK$2,224,839,000). The loss attributable to the owners of the Company for the year was HK$400,813,000 (2018: HK$518,030,000). The loss for the year was approximately HK$419,579,000 (2018: HK$525,497,000). 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 2019 to the value of HK$5,113,000 (2018: HK$7,782,000);

  (b) amortisation and depreciation expenses from the acquisition of 3Glasses Group of HK$51,735,000 (2018: HK$30,025,000);

  (c) amortisation expenses from the investment in TV drama series (grouped under "Participation Rights") of HK$43,967,000 (2018: HK$40,512,000);

  (d) other amortisation and depreciation expenses (besides the two items mentioned above and also exclude depreciation related to Right-of-use Assets) to the value of HK$39,007,000 (2018: HK$80,364,000); and

  (e) impairment losses of cash generating units (CGUs) of HK$74,419,000 (2018: Nil);

(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$625,380,000 (2018: HK$595,917,000). The revenue from this segment accounted for approximately 99.9% of the Group's revenue for the year under review. This segment incurred a loss of approximately HK$296,488,000 (2018: HK$287,858,000). 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 earnings before interests, tax, depreciation and amortization (EBITDA)" of the media entertainment segment for the year ended 31 December 2019 was a loss of HK$163,147,000 (2018: HK$184,573,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company's operating performance. EBITDA should not be considered in isolation or be construed as alternatives to cash flows, net income or any other measure of performance or as indicators of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA for the media entertainment segment is calculated based on the loss of the segment for the period but does not account for taxes, interest expenses, depreciation (of the segment's property, plant and equipment) and amortization charges (on the segment's intangible assets).

A. 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 ("CG"), 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 awards and nominations offers recognition for Digital Domain's artists and technology:

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*" for work on 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.

BAFTA

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 previsualization 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*".

TELLYS

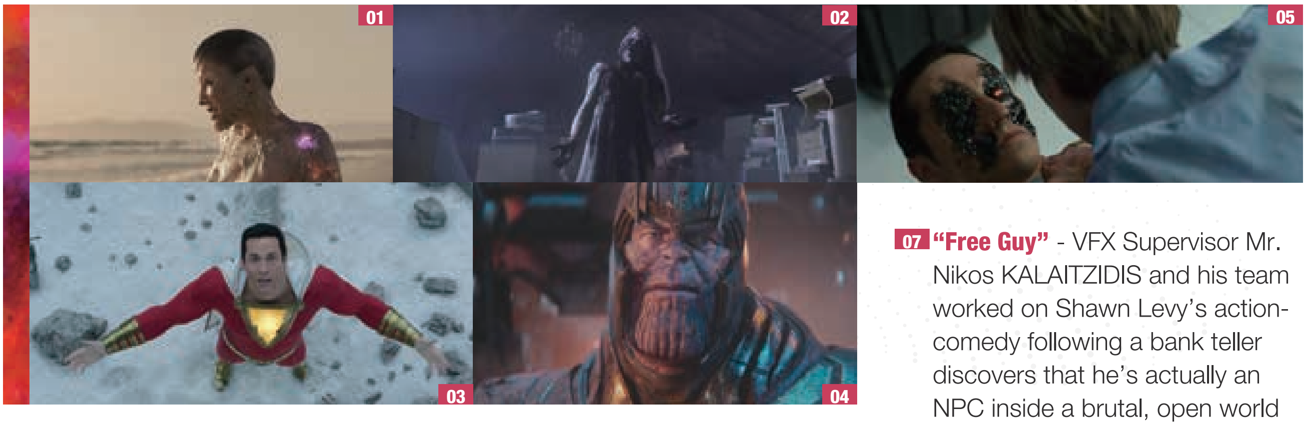
For the Telly Awards, VFX Supervisor Mr. Matt DOUGAN, Producer Mrs. Alexandra MICHAEL and Director Mr. Pierre MICHEL-ESTIVAL were awarded a Silver Telly Award for videography/cinematography for their work on the epic :45 TV spot for the popular game *Assassin's Creed Odyssey.*

Mr. Darren HENDLER and Animation Supervisor Mr. Phil CRAMER received VES Award.

Assassin's Creed Odyssey

Mr. Matt DOUGAN, Producer Mrs. Alexandra MICHAEL and Director Mr. Pierre MICHEL-ESTIVAL won Telly Awards.

Since 1 January 2019, the artists of Digital Domain 3.0, Inc. ("DD3I", a subsidiary of the Company) have provided VFX services for work including:



01 "Captain Marvel" - Stunning environments for the film as well as some beautiful transition shots of the Skrull characters were completed by VFX Supervisor Mr. Dave HODGINS and his team.

02 "The Curse of La Llorona" - VFX Supervisor Mr. Nikos KALAITZIDIS and his team worked on the end sequence of the film and were responsible for disintegrating the witch in a whirlwind of destruction.

03 "Shazam!" - For Warner Brothers, VFX Supervisor Mr. Nikos KALAITZIDIS and his team recreated the promenade of Philadelphia replacing the entire background of the shot and shot lightning from the titular character's hands.

04 "Avengers: Endgame" - Following up on the extremely anticipated conclusion of *"Avengers: Infinity War,"* VFX Supervisor Mr. Kelly PORT and his team delivered work on one of the most photorealistic CG characters of all time for Marvel Studios: the villain, and lead character, Thanos. Additionally, the team completed work on several other characters such as Nebula, Ebony Maw, Red Skull and more.

05 "Terminator: Dark Fate" - For Paramount Pictures, VFX Supervisor Mr. Jay BARTON and his team worked on several significant sequences for Tim Miller's latest installment of the franchise. The scope included digi-double work for several characters and complex sequences like the factory fight and C5 Galaxy fight among others.

"The Rescue" - VFX Supervisor Mr. Jean-Luc DINSDALE led a team of over two hundred artists in creating one hundred and forty visual effects shots for the opening sequence of Dante Lam's 2020 action-packed thriller, *The Rescue*.

06 "Morbius" - VFX Supervisor Mr. Joel BEHRENS and his team worked on the highly anticipated film Sony Pictures film directed by Daniel Espinosa due out 2021.

07 "Free Guy" - VFX Supervisor Mr. Nikos KALAITZIDIS and his team worked on Shawn Levy's action-comedy following a bank teller discovers that he's actually an NPC inside a brutal, open world video game. The film is due out in 2020.

08 "Black Widow" - VFX Supervisor Mr. Dave HODGINS and his team worked on Marvel Studios' film following Natasha Romanoff in her quests between the films *Civil War* and *Infinity War*. The film is due out in 2020.

"Chaos Walking" - VFX Supervisor Mr. Mitch DRAIN and his team worked on director Doug Liman's film about dystopian world where there are no women and all living creatures can hear each others' thoughts in a stream of images, words, and sounds called Noise. The film is expected to be released in 2021.

Additionally, Digital Domain performed previsualization for **"After Yang," "West Side Story"** and **"Stargirl"** which are all slated to release this year.

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

CBS's Twilight Zone

Netflix's Lost in Space

CBS' **"Twilight Zone"** - Visual Effects Supervisor Mr. Nikos KALAITZIDIS led a team of artists in Los Angeles and Vancouver in creating the visual effects for Netflix's season one finale of "*The Twilight Zone*." Digital Domain's artists worked on three sequences for "*Blurryman*" and produced a total of 26 shots.

Netflix Studio's **"Lost in Space"** - VFX Supervisor Mr. Aladino DEBERT completed work on 3 episodes of Season 2, including the creation of a ferocious storm.

Freeform's **"Siren"** - Visual Effects Supervisor Mr. Jean-Luc DINSDALE led a team of 24 artists in Vancouver, Canada, and Hyderabad, India, creating over 40 shots for the second season of Disney Freeform's *Siren*, spread over multiple episodes.

ABC's **"Agents of S.H.I.E.L.D"** - VFX Supervisor Mr. Mitch DRAIN completed work on 6 episodes for Season 7 of the series. A small team of about 30 artists from Vancouver and LA created shots that included everything from digi-doubles, set extensions, explosions and a flying helicarrier.

Digital Domain's visual effects team also performed previsualization for FOX's **"The Orville"** and CBS's **"Star Trek"**, and produced matte painting comps for **"Beverly Hills 90210"**.

For commercials, we provided VFX services for advertisements, special venue projects and games. Work completed in 2019 includes:

Digital Domain partnered with Legendary Pictures for a Live Drive Motion Capture Event featuring Ryan Reynolds as **POKÉMON Detective Pikachu**.

01 For Ubisoft, Digital Domain created a :30 Full CG commercial for **"Tom Clancy's The Division II"**.

02 Digital Domain completed a five-minute stereoscopic film for an epic 4D theatre experience with the **United States Air Force (USAF)** that included a combination of dynamic live action, set extensions and full CG sequences.

03 Alongside **PepsiCo**, Digital Domain created two live action spots with CG elements for Mountain Dew Game Fuel.

04 Digital Domain provided visual effects on the **"Walk Me Home"** music video for the Grammy-award winning artist, P!nk, in collaboration with Partizan Entertainment.

05 Digital Domain created a :60 game trailer for **Transformers** with CG explosions and destruction. It will be unveiled at E3 in June.

06 For **Apple**, Digital Domain completed a :30 all CG mobile game commercial.

07 For NBC's **"Songland,"** Digital Domain created three CG live action spots that featured Rhianna, Kacey Musgraves, and The Jonas Brothers.

08 Digital Domain created a :60 motion graphic piece for an **Aetna** presentation at a conference.

09 For **Rogue Mocap**, Digital Domain created a CG dog, also known as Spot, for a Target commercial.

10 In collaboration with **BuzzFeed**, Digital Domain created CG assets and environment for Walmart's toy website.

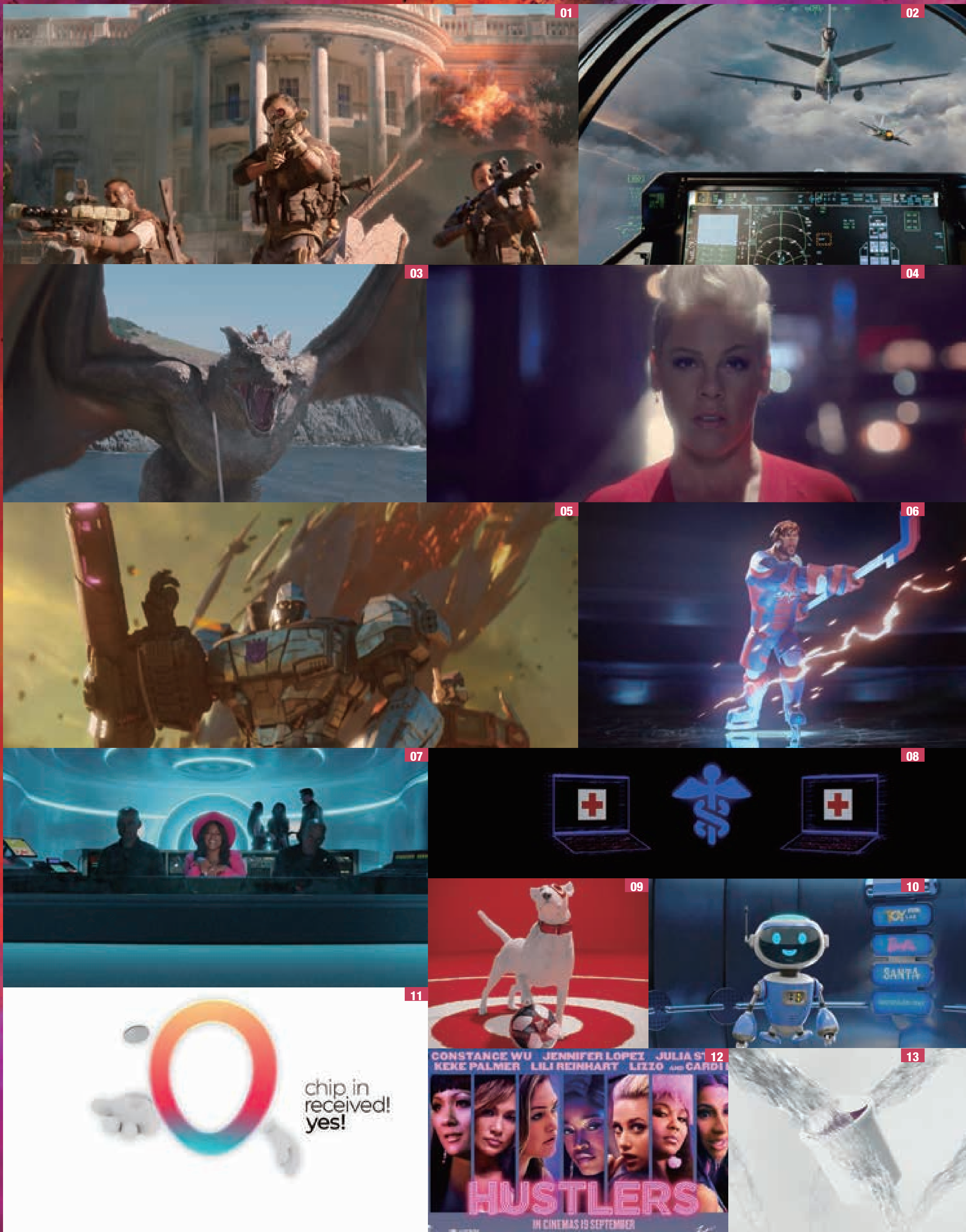
For **AKQA**, Digital Domain created a :90 full CG game cinematic for an upcoming samurai game.

11 Digital Domain created an animated "Riley" logo for the **RiteNow Social** website.

12 In collaboration with **STX**, Digital Domain augmented assets for Jennifer Lopez.

13 For **Vejo**, Digital Domain created a :30 and :15 social and online ad featuring their fruit and vegetable blender.

Digital Domain created multiple stills and videos showcasing apps for **Magic Leap**.


01
02
03
04
05
06
07
08
09
10
SANTA
11
chip in
received!
yes!
12
CONSTANCE WU JENNIFER LOPEZ
KEKE PALMER LILI REINHART LIZZO
HUSTLERS
13

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 the PRC (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. An appeal of the statement of decision has been filed. It is anticipated that the proceedings in the appeal will be concluded in late 2020.

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 that the US Subsidiary acknowledge its obligation to indemnify them for any losses suffered as a result of their involvement in the Other Lawsuits.

The US Subsidiary'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's clients filed a motion asking the court to summarily decide certain portions of the remaining claims in their favour. The court has allowed both parties in the Other Lawsuits to conduct further discovery and investigation into these remaining claims before hearing further arguments in favour of and against the motion.

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 subsequently communicated to the US Subsidiary that it was re-evaluating its coverage obligations under the insurance policy. The insurance company and the US Subsidiary are continuing their discussions with respect to whether, and to what extent the insurance company will pay the defence costs of the US Subsidiary's clients in the Other Lawsuits.


The Principle

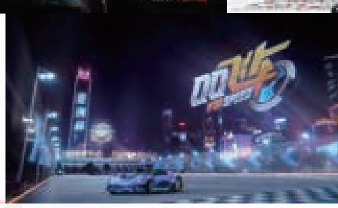
Lost in Space Season 2

The Wandering Earth (Netflix version)

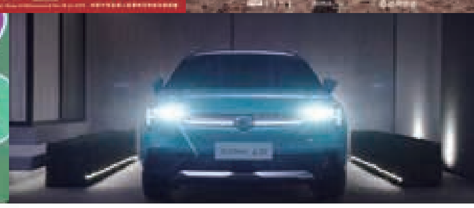

Peppa Celebrates Chinese New Year

Pegasus


VIVO


QQ Speed

adidas


GAC Group

Digital Domain China and India continues to be an integral part of the Group's global strategy. In 2019, work completed such as:

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 for feature films and TV drama series include *"The Principle"* and *"Lost in Space" Season 2*. Colour grading projects for feature films and TV drama series include *"White Snake"*, *"The Wandering Earth" (Netflix version)*, *"Peppa Celebrates Chinese New Year"* and its promotional trailer "*What is Peppa Pig?*", *"Pegasus"*, *"The Crossing"*, *"Seven Days"*, *"Zhou Enlai Returned To Yanan"*, *"My Best Summer"*, *"A City Called Macau"*, *"Dancing Elephant"*, *"Blinding Souls"* and *"Liao Junbo"*.

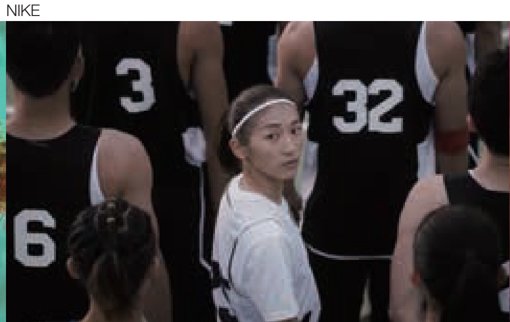
In 2019, DD China continued to provide post-production and production (e.g. shooting, editing, colour grading, music production etc.) services for various high-profile commercials profiling leading brands like McDonald, STARBUCKS, Bailian Group, VIVO, RELX × Okamoto, DOUBLEMINT, JD × *"Avengers: Endgame"*, JD × OPPO, *"FIFA"*, MEIZU, FENDI, SFG, HONGQI, MENGNIU, *"Minecraft"*, *"QQ Speed"*, Master Kong, adidas, GEELY, UNILEVER, GAC Group, VOLVO, BMW, Save the Children, BURGERKING, acer, HUAWEI, Carlsberg, NIKE, SAMSUNG, GREENPEACE, Vitasoy, Dove, China Central Television (CCTV), Harvest Crab Farm, Tencent - *"Call of Duty Mobile (CODM)"* and SHOUGANG Winter Olympic Square Vivid Gala.

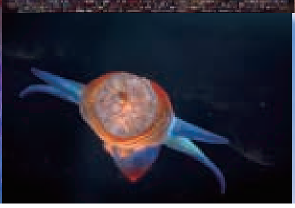
The Crossing

Zhou Enlai Returned To Yanan

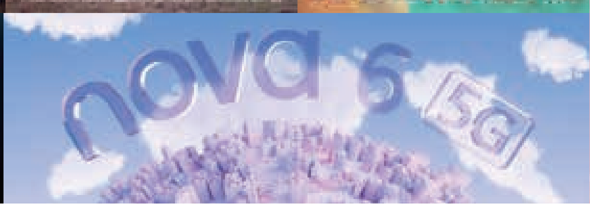
My Best Summer

NIKE





acer



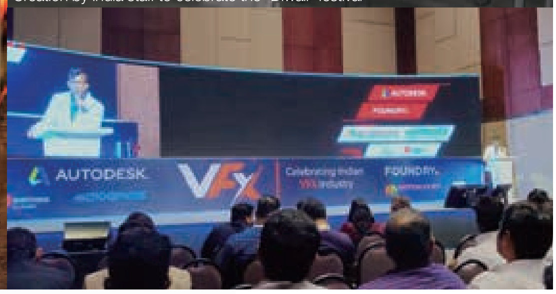
HUAWEI

Dove

Captain Marvel

Shazam!

Creation by India staff to celebrate the "Diwali" festival



Company representation during VFX, Gaming & Animation summit "India Joy"

DIGITAL DOMAIN INDIA:

The Hyderabad facility continues to be an integral part of the Group's global strategy. Since becoming functional in October 2017, it has been contributing on more than 50 shows to date. The facility has come a long way in establishing itself as a successful delivery centre.

Digital Domain India provides services across platforms, i.e. features, television, web and over-the-top ("OTT"). Digital Domain India gives utmost importance to data security and also passed security audits of The Motion Picture Association of America, Inc. ("MPAA"), Walt Disney Studios Motion Pictures ("Disney") and Marvel Studios, LLC ("Marvel"). Digital Domain India is a certified secured facility to handle content for all "A" list Hollywood and other international shows.

In 2020, Digital Domain India plans to continue scaling up its capacity to help cater to our North American Studios' production requirements. The Group also anticipates its India facility to venture out in full CG production in partnership with local and international IP developers thus improving its overall revenue targets in production and post production services in the next few years.

Digital Domain joined hands with University of Southern California to support new artists.

FIRST FRAME CELEBRATION GALA, UNIVERSITY OF SOUTHERN CALIFORNIA

Digital Domain has always spared no effort in nurturing young artists and has been supporting the new artist and animation departments of University of Southern California in United States for many years. In October 2019, Digital Domain joined hands with the John C. Hench Division of Animation & Digital Arts of the School of Cinematic Arts of the University of Southern California to hold the 25th Anniversary and Annual Themed "First Frame" Celebration Gala to showcase the latest works of students and alumni, as well as the display of art pieces with different styles and technologies of master students from the Department of Fine Arts, in order to demonstrate the artistic knowledge and creativity of students.

B. 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 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 2019:

- For **Google**, Digital Domain created an interactive VR project to be used as a training tool for law enforcement.
- Digital Domain created a hologram for electronic music DJ **Marshmello** which was unveiled at the Ultra Music Festival.
- Digital Domain partnered with **TIME** for "*The March*", to produce an immersive historical recreation of the 1963 March on Washington for Jobs and Freedom in virtual reality, which includes **Dr. Martin Luther King Jr.'s 'I Have a Dream' speech**.
- Also for **Google**, Digital Domain collaborated on an AR project, which visualized five years of baseball stats for the Chicago Cubs.
- Digital Domain tested game animation and produced mocap data and facial animation for a well-known game developer. The client extended the project for Phase Two in which Digital Domain is scanning and creating 13 more characters, as well as updating several characters that were built on older technology.
- Digital Domain is working with a major theme park company on R&D for a future virtual human project.

Digital Domain partnered with TIME for *The March*

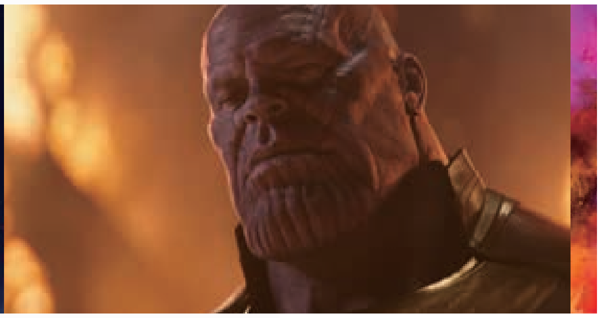
The global studio participated in several events, including:

Virtual Human Group took the stage at the "Real - Time live" at SIGGRAPH 2019, to demonstrate Digital Domain's real-time performances capabilities.

- **SIGGRAPH 2019**: Several of Digital Domain's leading research and development team members and creatives participated in the conference in 2019 presenting papers, presentations, panels and demonstrations. Mr. Hanzhi TANG presented his paper: "Path Tracing in Production Part 2: Introduction of GPU production path tracing at Digital Domain". In addition to the papers, we participated in major production panels for films including Mr. Kelly PORT's participation in "The Making of Marvel Studios' "Avengers: Endgame'" and Mr. Aladino DEBERT's participation in "The VFX of Netflix Series." Mr. Doug ROBLE, senior director of Software Research and Development and the Virtual Human Group took the stage at one of the conference's largest presentations: "Real-Time Live" demonstrating Digital Domain's real-time performance capabilities. Additionally, ROBLE presented at "Epic Games' Unreal Engine User Group" and at "NVIDIA Presents: Progress Toward Real-Time, Photo-Realistic Digital Humans."

- Executive Producer of New Media & Experiential Mr. John CANNING spoke at a number of events including **Digital Hollywood**, **SIGGRAPH**, **IBC**, and **Stereopsia** on an array of subjects including virtual humans, AI, interactive storytelling, AR/VR/MR trends and location-based entertainment.

- **Effects MTL 2019**: Digital Domain Associate Visual Effects Supervisor Mr. Scott EDELSTEIN gave a presentation titled on the evolution of Thanos in "Avengers: Endgame," while FX Supervisor Mr. Jeffrey HIGGINS gave a presentation on automating the FX on "Avengers: Endgame."



Mr. Kelly PORT participated in "The Making of Marvel Studio's 'Avengers : Endgame'".

3GLASSES GROUP

ACQUISITION

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.

3Glasses Group is principally engaged in the research, development and sale of VR hardware, smart wearable devices, VR software development kit and other related products, under the brand name of "3Glasses" . The management team of 3Glasses Group has more than 10 years of experiences in VR technology development and is a pioneer in providing VR solutions in the PRC. The major product of 3Glasses Group is the self-developed VR headset, which is a head-mounted display device that provides VR experience for wearers and is widely used with computer games, simulators and trainers. 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 Group has undertaken more than 200 successful VR projects serving a broad variety of industry sectors including entertainment, education, tourism, exhibition and display, architecture, design, health care, film and television and security.

CONTRACTUAL ARRANGEMENTS

On 1 September 2019, through the contractual arrangements between a controlling subsidiary, 深圳市虛擬現實技術有限公司 ("Shenzhen VR Technology"), 深圳市維爾信息科技有限公司 (the "Operating Company" or "Shenzhen Weier") and its shareholder, Mr. Peng Zhikang ("Mr. Peng"), the Group realized its control over Shenzhen Weier.

Through a series of agreements including a) the exclusive management and consultancy services agreement, b) the maximum amount equity pledge and guarantee agreement, c) the exclusive call option agreement, d) the shareholders' voting right proxy agreement, and e) the exclusive financial support agreement (collectively, the "Contractual Arrangements").

For details of the Contractual Arrangements, please refer to "Business Combination" in Note 31 to the consolidated financial statements.

Under the Contractual Arrangements:

(i) The Group is able to exercise control over Shenzhen Weier;

(ii) The Group has the right to direct the management of Shenzhen Weier (exclusively provide Shenzhen Weier with services such as research and development, intellectual property licensing, management consulting, marketing and technical support);

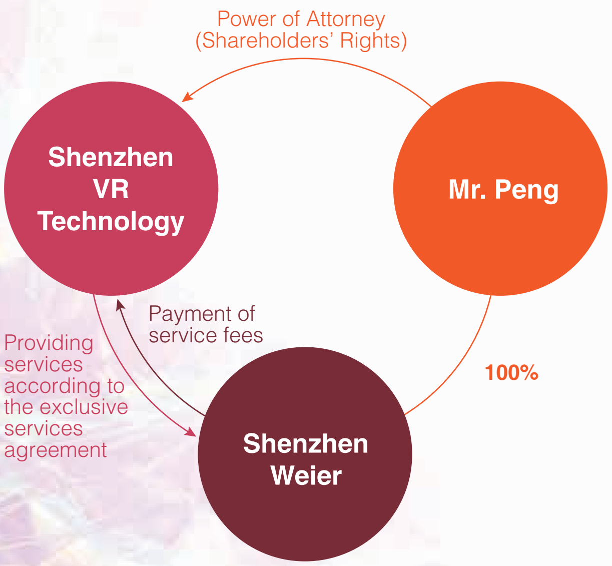
(iii) The Group has the right to purchase all or part of the assets of Shenzhen Weier;

(iv) The Group has the right to acquire all or part of the equity interest in Shenzhen Weier (to the extent permitted by the relevant rules and regulations in the PRC);

(v) Although Mr. Peng directly holds 100% of the equity interest in Shenzhen Weier, neither financial nor commercial benefits will be obtained by virtue of his equity interest in Shenzhen Weier under the Contractual Arrangements.

As of 31 December 2019, there were no material amendment to the agreements underlying the Contractual Arrangements or circumstances under which the Contractual Arrangements were adopted (including the policy-based restrictions).

The following diagram illustrates the relationship between Shenzhen VR Technology, a subsidiary of the Company, and Shenzhen Weier and its shareholders:



Reasons for entering into the Contractual Arrangements

Shenzhen Weier is principally engaged in the provision of content distribution and resources sharing platform for VR content developers and users worldwide, providing VR resources in various areas such as VR game download, VR film download, VR live broadcast, VR social and VR tourism (hereinafter collectively referred to as "VR videos"). According to the provisions of the Telecommunications Regulations of the People's Republic of China, the Catalog of Telecommunications Business, the Administrative Measures for Internet Information Services and other relevant laws, regulations and regulatory documents, the aforementioned business is related to the value-added telecommunications business of information services, and Shenzhen Weier requires operating permit in relation to the value-added telecommunications business. According to the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises and the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Edition), the foreign shares of value-added telecommunications business (other than e-commerce, domestic multi-party communication, storage and forwarding, call center) cannot exceed 50%.

In order to engage in the value-added telecommunications business under the category of information services through Shenzhen Weier, the Group, through Shenzhen VR Technology, entered into the Contractual Arrangements.

Pursuant to the Contractual Arrangements, the Group can invest or engage in the value-added telecommunications business under the category of information services through Shenzhen Weier, and the Group is able to effectively control, recognize and enjoy substantially all of the economic benefits of the business operation of Shenzhen Weier. In summary, the structured contracts enable the Company, through Shenzhen Weier, to enjoy the relevant arrangements, including:

- Through various commercial arrangements, the remaining cash of Shenzhen Weier generated from its operations after deducting its working capital forecast, capital expenditure and other short-term expected expenditure needs;

- By transferring the existing and future major intellectual property rights of Shenzhen Weier to Shenzhen VR Technology to ensure that Shenzhen VR Technology holds valuable business assets; and

- Control over the management, financial and operational policies of Shenzhen Weier.

In summary, the Group is able to consolidate the financial results of Shenzhen Weier into the financial results of the Group from the commencement date of the Contractual Arrangements.

Termination of the Contractual Arrangements

The Directors confirm that the Company will keep track of changes in the development of laws and regulations in relation to the admission of foreign investment in the PRC, work closely with Shenzhen Weier and take measures to adjust or terminate the Contractual Arrangements accordingly in response to changes in the PRC laws and regulations.

Details of the Contractual Arrangements

The principal terms of the agreements underlying the Contractual Arrangements are summarised as follows:

(1) Exclusive Management and Consultation Services Agreement

Pursuant to the Exclusive Management and Consultancy Services Agreement entered into between Shenzhen VR Technology and Shenzhen Weier and Mr. Peng, Shenzhen Weier agreed to engage Shenzhen VR Technology as an exclusive management services provider on an exclusive and irrevocable basis to provide exclusive management and consultancy services in connection with its business operations. Unless Shenzhen VR Technology gives prior written consent, Shenzhen Weier shall not accept the same or similar management services provided by any third party. Such management services include but are not limited to management consulting, marketing, etc. Pursuant to the agreement, Shenzhen VR Technology is entitled to receive from Shenzhen Weier a service fee for each financial year equivalent to the entire amount of profit after the deduction of making up losses legally for such year and contributing to the statutory reserve fund.

(2) Maximum Amount Equity Pledge and Guarantee Agreement

Pursuant to the Maximum Amount Equity Pledge and Guarantee Agreement entered into between Shenzhen VR Technology and Shenzhen Weier and Mr. Peng, Mr. Peng agreed to pledge all of his equity interests in Shenzhen Weier and all related interests to Shenzhen VR Technology as security for all the debts owed by Mr. Peng and/or Shenzhen Weier to Shenzhen VR Technology under the Contractual Arrangements (including payments due and payable to Shenzhen VR Technology under the Contractual Arrangements and other payables (including but not limited to interest, penalty interest, compound interest, liquidated damages, damages, expenses for realizing the creditor's rights and guarantee rights and all other reasonable expenses payable)) until the debts guaranteed are fully settled, the maximum debt under the agreement is RMB200,000,000, and the period of debt occurrence is from 1 September 2019 to 31 August 2029.

(3) Exclusive Call Option Agreement

Pursuant to the Exclusive Call Option Agreement entered into between Shenzhen VR Technology and Shenzhen Weier and Mr. Peng, Mr. Peng agreed to irrevocably and unconditionally grant an exclusive call option to Shenzhen VR Technology or its designated entity or individual, pursuant to which Shenzhen VR Technology has the right to require Mr. Peng to transfer the 100% equity interest in Shenzhen Weier held by Mr. Peng to Shenzhen VR Technology or its designated entity or individual, or as an alternative, Shenzhen VR Technology has the right to purchase all or part of the assets of Shenzhen Weier, in the manner stipulated in the agreement to the extent permitted by the PRC laws. Shenzhen VR Technology has agreed to accept the call option.

(4) Shareholders' Voting Right Proxy Agreement

Pursuant to the Shareholders' Voting Right Proxy Agreement entered into between Shenzhen VR Technology and Shenzhen Weier and Mr. Peng, Mr. Peng irrevocably authorizes Shenzhen VR Technology as its sole exclusive proxy, to exercise all his rights as shareholder of Shenzhen Weier under the laws or the valid articles of association of Shenzhen Weier through individual designated by Shenzhen VR Technology: 1) to attend the shareholders' meeting of Shenzhen Weier as the proxy of Mr. Peng; 2) to exercise the voting rights on behalf of Mr. Peng in respect of all matters requiring discussion and resolution at the shareholders' general meeting (including but not limited to the nomination, designation and election of directors, general manager and other senior management of the company); 3) to propose to convene an extraordinary general meeting (if any); 4) other shareholders' rights under laws or the articles of association; 5) to execute the transfer agreement pursuant to the Exclusive Call Option Agreement on behalf of Mr. Peng, and to perform as scheduled the Maximum Amount Equity Pledge and Guarantee Agreement, Exclusive Call Option Agreement (including those supplemental agreements, revisions, amendment or restated versions of the above documents) entered into between Mr. Peng and Shenzhen Weier and Shenzhen VR Technology.

(5) **Exclusive Financial Support Agreement**

Pursuant to the Exclusive Financial Support Agreement entered into between Shenzhen VR Technology and Shenzhen Weier and Mr. Peng, Shenzhen VR Technology agreed to provide Shenzhen Weier a capital of a maximum of RMB20,000,000 to Shenzhen Weier for the financial support towards Shenzhen Weier for the daily operations, including but not limited to daily expenses, payment of goods, etc. Shenzhen Weier is not permitted to use the sum for any other purpose without prior written consent from Shenzhen VR Technology. Unless Shenzhen VR Technology gives prior written consent or voluntarily waives its rights under this agreement, Shenzhen Weier and Mr. Peng will not accept the same or similar financial support from any third party.

Particulars of the Operating Company

Set out below are the registered owners and business activities of the Operating Company which entered into the Contractual Arrangements with the Group during the year ended 31 December 2019:

Name of the Operating Company	Registered owner as at 31 December 2019	Business activities
Shenzhen Weier	100% by Mr. Peng	Provision of value-added telecommunications services in the PRC

The Operating Company contributed approximately RMB5,660,000 to the revenue of the Group and total assets of the said Operating Company as at 31 December 2019 were approximately RMB4,271,000.

Risks associated with the Contractual Arrangements and the actions taken by the Company

1. Legal risk: The Contractual Arrangements are subject to applicable PRC laws and regulations and any future adverse changes in the relevant PRC laws and regulations that result in non-compliance with the Contractual Arrangements, such as the occurrence of non-enforceability of the Exclusive Call Option Agreement, or the Company may be required to cancel the Contractual Arrangements and liquidate the relevant interests.

   Mitigation action: According to the agreement of the Contractual Arrangements, in the event of any changes in the relevant laws and regulations that result in the interests of a party to the agreement being undermined, the parties to the agreement shall cooperate to apply for legal waivers in accordance with the laws if the agreement needs to be continued; If loss cannot be avoided, the parties to the agreement shall make corresponding adjustments to the contractual arrangements through negotiation to minimize and balance the loss that may be incurred by the parties.

2. Control risk: The Contractual Arrangements may not provide effective control over the PRC Operating Company as direct shareholding.

   Mitigation action: The Company can exercise effective control over Shenzhen Weier pursuant to the Shareholders' Voting Right Proxy Agreement, the Maximum Amount Equity Pledge and Guarantee Agreement and the Exclusive Management and Consultation Services Agreement. In the event of a dispute, the dispute may be referred to the arbitration commission as specified in the agreement and the ruling shall be final and binding on all parties. In addition, the Company has implemented effective internal control over Shenzhen Weier through Shenzhen VR Technology to ensure the security of the assets held by it through the Contractual Arrangements and that Shenzhen Weier follows the Group's unified internal control policies and procedures.

3. Risk of asset loss: If the Operating Company in the PRC is legally liquidated according to law, the Company may lose the assets held by the Operating Company that are material to the business of the Operating Company.

   Mitigation action: The Company can exercise effective control over the Operating Company through the Contractual Arrangements and keep abreast of the operating conditions and financial conditions of the Operating Company. Pursuant to the Exclusive Call Option Agreement, Shenzhen VR Technology has the exclusive right to purchase all or part of the assets of the Operating Company when and to the extent permitted by the PRC laws. Therefore, if the business operation and development of the Operating Company fails to meet the expectations or even experiences operational difficulties, the Company may choose to purchase important assets according to its needs according to the Contractual Arrangements, so as to avoid the disposal of such important assets after the Operating Company enters into the bankruptcy liquidation process, resulting in loss of assets to the Company.

4. Risk of conflict of interest of the shareholder of the Operating Company in the PRC: Including the shareholder engaging in competing businesses that are detrimental to the interests of the company or other activities that give rise to conflicts of interest.

   Mitigation: Pursuant to the agreements such as the Exclusive Management and Consultancy Services Agreement under the Contractual Arrangements, the shareholder of the Operating Company (i.e. Mr. Peng undertakes that he will use his best endeavours to develop the business of the Operating Company and will not take any action which is materially adverse to the assets, operations, business or prospects of the Operating Company. In the event of any breach, Shenzhen VR Technology has the right to require the shareholder of the operating company to make up or take remedial measures within a reasonable period, failing which Shenzhen VR Technology has the right to claim damages against him.

5. Tax risks: The Contractual Arrangements may result in tax risks relating to the connected transactions.

   Mitigation action: For transactions made or to be made between the contractual parties under the Contractual Arrangements or between its related parties, the terms of transaction are formulated on an arm's length basis.

Requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions

1. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following circumstances:

   (1) the contract is concluded through fraud or coercion by one party to undermine the interest of the State;

   (2) malicious collusion to undermine the interests of the State, a collective unit or a third party;

   (3) concealing illegal intentions with a lawful form;

   (4) damage to social and public interests;

   (5) violate the mandatory provisions of laws and administrative regulations.

   As advised by the Company's PRC legal advisers, all agreements under this Contractual Arrangement do not violate the provisions of the Contract Law. However, it should be noted that, in the course of legal implementation, given the uncertainties in the interpretation and enforcement of the relevant laws and regulations by the PRC, the relevant PRC government authorities and the courts in the PRC may take a different view from the above perspective of our PRC lawyers.

2. Pursuant to the Contractual Arrangements, any dispute arising from the validity, interpretation and performance of the Contractual Arrangements between the parties thereto should first be resolved through negotiation. If the parties fail to resolve the dispute through negotiation, any party may submit the dispute to the arbitration commission designated by the agreement to settle the dispute through arbitration in accordance with the arbitration rules. Meanwhile, the Contractual Arrangements (other than Exclusive Call Option Agreement) also stipulates that the arbitration commission has the power to compensate Shenzhen VR Technology in terms of the equity interests or assets of the Operating Company, as well as the power to provide injunctive relief in favor of Shenzhen VR Technology (including but not limited to engage in operation or mandatory transfer of assets, etc). The Contractual Arrangements also provide that courts in Hong Kong, Bermuda and/or British Virgin Islands are empowered to grant interim relief or enforce the order over the equity interests and assets of Shenzhen Weier. However, as advised by our PRC legal advisor, under PRC laws and regulations, an arbitration commission normally would not award such relief or injunctive relief or order over the winding up of operating entities in the PRC such as Shenzhen Weier. In addition, interim relief or specific performance granted by overseas courts such as the Hong Kong courts may not be recognizable or enforceable in China.

3Glasses participated in China (Shanghai) International Technology Fair

3Glasses launched D4 in December 2019

X1 was successfully connected to ZTE's Axon 10 Pro.

BUSINESS OF 3GLASSES GROUP

In April 2019, 3Glasses released the world's first ultra-thin consumer VR glasses, **X1**, with only one-third of comparable product's weight and size in the market, levelled up current VR glasses' benchmark with a striking standard. In September 2019, 3Glasses X1 was successfully directly connected to ZTE's Axon 10 Pro, which makes X1 the world's first mass-produced ultra-thin VR glasses connected to 5G mobile phones. Also, in December 2019, 3Glasses launched **D4**, an upgraded VR headset based on D series, which not only realises better visual experience in optics, but also optimises industrial design and wire rod for offline VR experience.

As at 31 December 2019, 3Glasses Group has applied for 401 VR independent core patents. As an innovative technology company, while maintaining its technological leading edge in the area of hardware products such as VR headset, 3Glasses also actively expands its solutions services (including VR hardware, VR games and content services and industry applications). At the same time, 3Glasses also has certain strategic cooperation, such as (1) integration VR services co-provided with subsidiaries of Forgame Holdings Limited (Touhao Wanka) for offline VR experience services and (2) VR content distribution cooperation with NetEase based on offline game experience channels.

Being the first global partner of Qualcomm in the ultra-thin short focal length field, 3Glasses has co-operated with other famous corporations such as BOE Technology Group Co., Ltd. for development of ultra-thin VR optical components to iterate VR industry. Furthermore, with the laying of 5G network by the telecommunication operators in the PRC, X1, being a carrier of 5G application, will serve as the consumer VR hardware for families and individual users.

According to a market report issued in December 2019 by IDC, a consulting firm focused on information technology, telecommunication and consumer technology markets, 3Glasses' market share of the 3rd quarter of 2019 in the PRC has ascended to 22.4%. Moreover, 3Glasses has expanded quickly with its offline distribution, occupying 56.4% market share of tethered VR in the 3rd quarter of 2019 in the PRC. However, 3Glasses Group has experienced an unexpected slowdown of revenue in the last quarter due to a combination of the effect of slowdown of projects or reduction of investments by potential clients in response to a more subdued economic outlook and expected consumer spending in the China as the Sino-US trade war continues. This together with the increments of research & development costs and selling & distribution expenses for the year under review, resulted in the "actual profit of 2019" being lower than the "target profit 2019".

Therefore, the Group will pay part of the contingent consideration (base on the proportion the actual profit of 2019 bears to the target profit) of approximately RMB13,000,000 (approximately HK$14,259,000) according to the terms of acquisition. The remaining amount of approximately RMB37,000,000 (approximately HK$41,396,000) of contingent consideration being no longer payable has been recognised as a change in fair value of contingent consideration and being reflected on Income Statement. For details of the calculation mechanism, please refer to the Company's announcement dated 22 March 2018.

On 17 March 2020, 3Glasses and **China Unicom** jointly held a strategic cooperation conference online. In the press conference with the theme of "Same Frequency and Joint Resonance", both parties announced that in the course of China Unicom's integration of **5G+VR** industry joint resonance solutions, 3Glasses will be the first batch of "terminal + application" and "online + offline" integration to implement cooperation agreements. In addition, 3Glasses officially launched the new product "X1S" under the "X" series at the press conference.

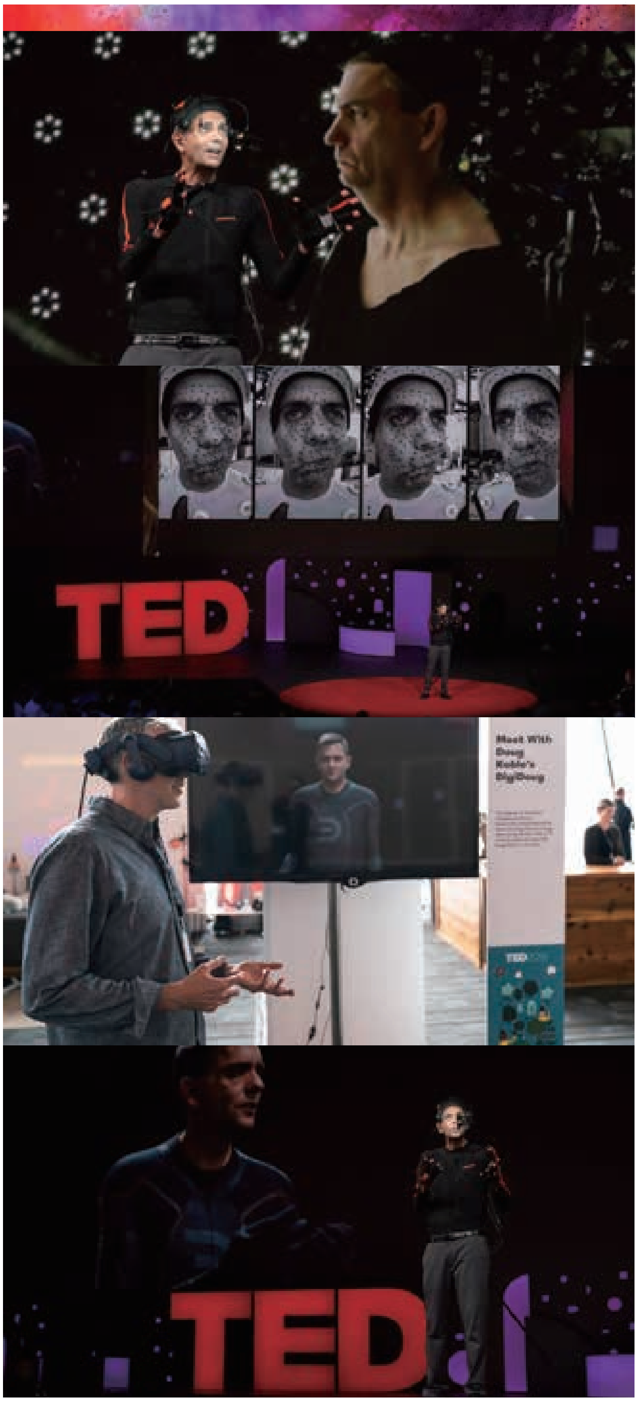
TERMINATED DISPOSAL

For the terminated discloseable transaction in relation to the disposal of 22.29% of the issued share capital of the Target (Lead Turbo Limited), please refer to the details disclosed in the section "Events after the Reporting Period" below.

C. VIRTUAL HUMAN BUSINESS (NORTH AMERICA AND GREATER CHINA REGIONS)

For the further enhancement of the virtual human technology and business development, the Group continues to seek opportunities for financing and collaboration with strategic partners and recruitment of appropriate global talent.

The Virtual Human Group (VHG) of North America region participated in several events, including:



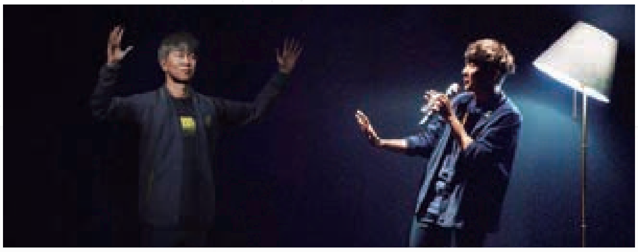
TED 2019

- **TED 2019**: Senior Director of Software Research and Development Mr. Doug ROBLE and VHG were invited to give a 13-minute live demonstration of our Real Time Facial Capture during a TED Talk in Vancouver, Canada. The TED talk was the world reveal of Digital Domain's technology and first introduction to our photoreal virtual human DigiDoug, who presented the talk. During the presentation, VHG also demonstrated how they could quickly switch digital avatars after DigiDoug morphed into Elbor, another digital character created by VHG.

- Mr. Doug ROBLE was also invited to attend present at **FMX 2019** and **Trojan Horse Was A Unicorn** and keynote speak at **Virtual Beings Summit** in which he discussed the past and future of virtual humans and the major technological leaps the Digital Domain and VHG has made in the space. At the National Association of Broadcasters' (NAB) annual convention encompassing the convergence of media, entertainment and technology, Mr. ROBLE spoke on a panel discussing AI and machine learning in visual effects.

Besides Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (e.g. famous singers/movie stars or corporations) in the Greater China Region. Since 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.

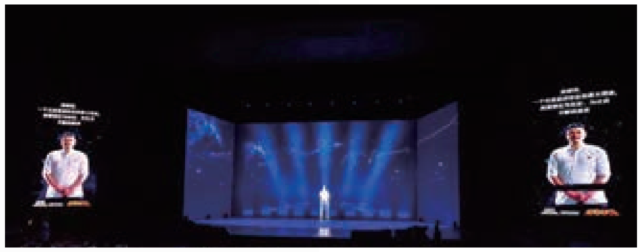
The Group produced or launched other types of virtual human projects in 2019, including:



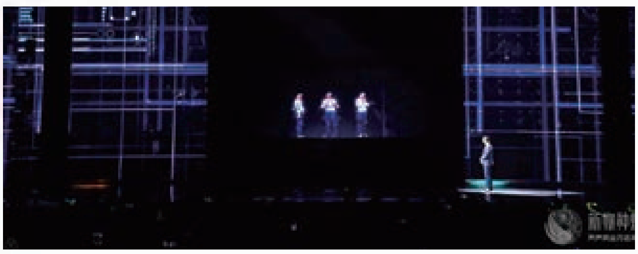
In February, the Group participated in the performance of **Mr. Wayne LIM Jun Jie's (JJ LIN) World Tour Concert "Sanctuary"**, which enabled the Virtual Human JJ Lin (called as "**M.E.**") and the real person JJ Lin to interact on stage. During the four consecutive concerts, audience felt so surprised for this performance.

In February, Digital Domain CEO Mr. Daniel SEAH was invited by **Monte Jade Science and Technology Association of Taiwan** to give a speech in the annual dinner. The topic involved Visual Effects, Virtual Human and Digital Avatar. Live demo of Virtual Human was introduced and interacts with the audience and special guests.

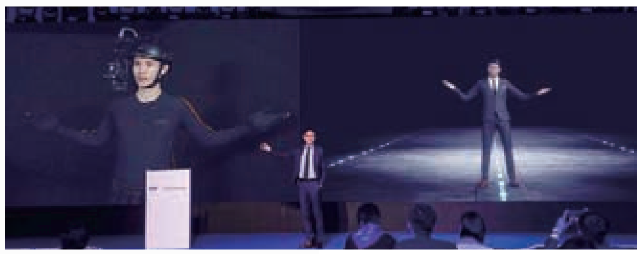
In April, **3Glasses** held a new product launch and strategic conference in Beijing. Our Virtual Human STAR was performed in the conference and 3Glasses also announced to use our Virtual Human STAR as a spokesperson for their new product called "X1".



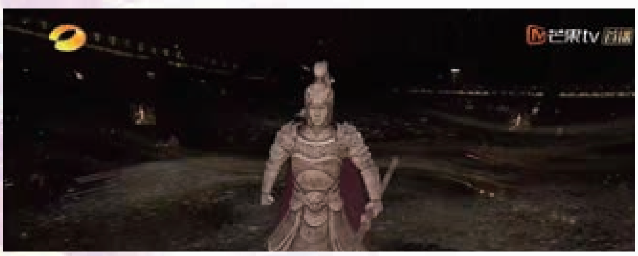
In May, the Group created **Yao Ming Virtual Human with Tencent Public Welfare and Yao Foundation**, and appeared in the 2019 China Internet Good Summit in Guangzhou. Through the interpretation and display of virtual human cross-media, we fully explained the concept of internet and technology public welfare.



In August, the Group produced the Virtual Human Wu Sheng and brought a wonderful opening hologram show in the **XSPECIES Wu Sheng Business Methodology 2019**. Let the audience, both on-site and online, be amazed.



In November, Virtual Human STAR with his new appearance were invited by Financial Times (FT) Chinese as a host in the **FT Chinese Annual Forum 2019** event in Hangzhou.



In December, with high-precision 3D scanning provided by Digital Domain, JJ LIN wowed audience by appearing as a virtual ancient warrior on the **2019-2020 Hunan TV New Year Concert**. Said programme has since amassed more than 87 million views.

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, HK$62,095,000 (2018: Nil) from "*Ten Years Late*" was recognized as income arising from broadcasting movies and TV dramas and grouped under the Other income and gains in the Income Statement. There were amortization expenses from investment in TV drama series mentioned above (grouped under "Participation Rights") of HK$43,967,000 (2018: HK$40,512,000).

Ten Years Late

The Legends of Monkey King

E. INVESTMENT IN HANDY

In 2018, 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 traveller's end-to-end journey, from pre-trip to in-destination to post-travel. As at 31 December 2018, the investment was classified as financial asset measured at fair value through other comprehensive income. The original intention for this strategic investment was 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. However, the Group noted from media reports of the continued downsizing of the Mango's operation in particular, in the second half of 2019, Mango's inability to secure new investors and the unavailability of updated financial information from Mango despite repeated requests. In view of this, management has great doubts as to the prospect of the Group's ability to recover the book value of its investment in Mango. For the preparation of annual audit 2019, the Group has engaged an independent professional valuer to estimate the fair value of Mango as at 31 December 2019 and a fair value adjustment (downward) of HK$165,976,000 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. In carrying out the valuation, the independent valuer assessed the assets and liabilities of Mango based on the management accounts last provided by Mango for the purposes of valuation of Mango as at 30 June 2019, instead of using the market approach previously adopted. The change of approach was considered necessary given the lack of new investors in Mango, the prolonged absence of information and response from the company and the adverse report by Hong Kong Economic Journal earlier this year on the possible shut down of Mango. As at 31 December 2019, the value of the financial asset measured at fair value through other comprehensive income is nil (2018: HK$165,976,000).

PROPERTY INVESTMENT SEGMENT

The Group owned two shops on the ground floor and ten car parking spaces in the Citicorp Centre, Causeway Bay, Hong Kong (the "Property"). During 2018, the Group reviewed the business strategies and property portfolio of this segment and decided to realise the value of this property portfolio by a disposal. As at 31 December 2018, the investment properties were reclassified as assets of a disposal group classified as held for sale.

During the year under review, some car parking spaces were leased out. The revenue of this segment decreased by approximately 99% to HK$66,000 (2018: HK$4,762,000). The revenue accounted for approximately 0.1% of the Group's overall revenue during the year under review. The loss of this segment during the year under review, amounting to HK$332,000 (2018: profit of HK$3,602,000).

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

On 19 March 2019 (after the trading hours of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")), 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 at cash consideration of HK$216,000,000 (subject to adjustment). The principal business of the target group is property investment in Hong Kong and its principal asset, is the Property. As certain applicable percentage ratios under Rule 14.07 of the Rules Governing the Listing of Securities on the Stock Exchange (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. The transaction was completed in June 2019.

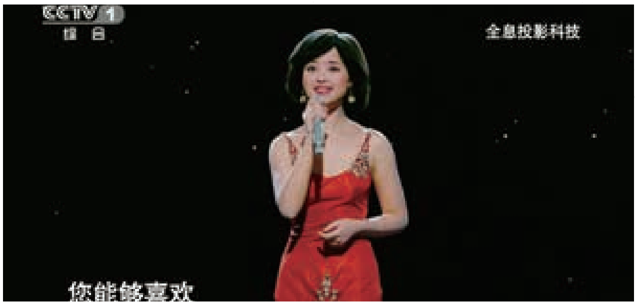
INTERESTS IN ASSOCIATES

VIRTUAL HUMAN TERESA TENG BUSINESS AND 虛谷未來科技（北京）有限公司 (BEIJING XU GU)

In order to speed up the business development of virtual human, the Group continues to seek opportunities for financing and collaboration with strategic partners. In January 2019, the Group invited strategic investors to invest into certain virtual human companies-projects in the Greater China Region and these companies-projects have been reclassified as associates of the Company from 1 February 2019.

In 2014, Digital Domain Media (HK) Limited ("DDM"), an indirect wholly-owned subsidiary of the Company (become an associates of the Company from 1 February 2019), 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 ("**Virtual Human Teresa Teng**"). The joint venture company, **DD & TT Company Limited** ("DDTT"), was formed in 2015.

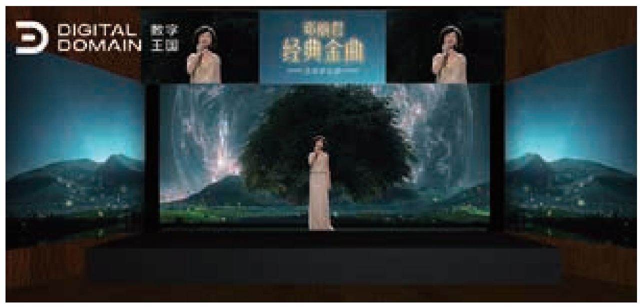
DDTT's business focuses on the production of a series of Virtual Human Teresa Teng, targeting audiences in Chinese communities around the world. The latest 3D hologram technology can be widely applied in the entertainment business, including but not limited to concerts, albums, movies and advertisements.



In March, Virtual Human Teresa Teng performed on **China Central Television's (CCTV) program "Everlasting Classics"**. This program is dedicated to the combination of Chinese poetry and music. Through the Virtual Human Teresa Teng to sing classic song "Wishing We Last Forever", it was a perfect display of beautiful song and Su Shi's beautiful poems.

In April, the Virtual Human Teresa Teng collaborated with Poly Culture Group to perform at the **14th China Yiwu Cultural Products Trade Fair**, performing a new show "Classic Melody", which attracted more than 4,000 visits.

In December, the **Feast of Song Concert** was held, bringing many classic old songs, including Teresa Teng best hits. The show attracted more than 10,000 audiences feel the charm of classic music.



In December, **Handan Merlot City Global Centre, Virtual Human Teresa Teng's exhibition and hologram show** had completed the hologram theatre building and content rehearsal, which will be opened in May 2020. The show will continue for a year.

From January to December, **Virtual Human Teresa Teng Legend Holographic Concert**, continues to perform daily in **Hangzhou RedStar Holographic Theatre**. There are two wonderful shows every day, the cumulative number of audiences exceeded 150,000. However, the theatre closed down in January 2020 as the Hangzhou municipal government took back the place for new development. We are discussing with other business partners and will try to resume the concert in other venues as soon as practicable.

During the year under review, a company, **Beijing Xu Gu**, was set up (also an associate of the Company) and this company will operate virtual human business within China.

The ground breaking ceremony of "Digital Domain • Oasis Mega Digital Theme Park" was held in Tanhe Ancient City (炭河古城), Ningxiang City, Hunan.

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, Hangzhou, Chongqing, Tianjin, Shenyang and Shijiazhuang, 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$13,943,000 (2018: HK$19,645,000).

In order to meet the increasingly diversified needs of consumers in the cultural and tourism circle for content and experience, Digital Domain, Digital Domain Space and Ningxiang Cultural Tourism Investment Co., Ltd. jointly built the "**Digital Domain • Oasis Mega Digital Theme Park**" which officially commenced construction in December 2019 and held a groundbreaking ceremony in Tanhe Ancient City, Ningxiang City, Hunan Province. Based on the cutting-edge digital imaging technologies such as VR and holographic projection, the Group will build digital entertainment projects such as holographic theatre, monster prison, VR cinema and Cyber Block , with a usage area of up to 8,800 square meters.

GOODWILL AND INTANGIBLE ASSETS OF THE GROUP

As at 31 December 2019, the Group had intangible assets of approximately HK$1,346,042,000 (being approximately 62% of the Group's total assets as at the same date). Such intangible assets comprised goodwill of approximately HK$810,533,000 that has been allocated to four cash generating units (or "CGUs") of our media entertainment segment, namely the CGUs for (i) visual effects production ("VE CGU"), (ii) post production ("PP CGU"); (iii) sales of hardware and solution services ("Hardware CGU") and (iv) 360 degree digital capture technology application ("360 CGU"), respectively; and trademarks of approximately HK$153,366,000 allocated to the Group's VE CGU and 360 CGU.

For the purposes of impairment testing, 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, an independent firm of professional qualified valuers. The recoverable amount of each CGU, the period of cashflow projections, the key assumptions used for the value-in-use calculations (including the average growth rate and pre-tax discount rate) for each CGU as at 31 December 2019 are set out in Note 16 to the consolidated financial statements.

The pre-tax discount rate, corporate income tax rate, post-tax weighted average cost of capital, market rate of return and levered equity beta and terminal rates adopted in the valuations as at 31 December 2019 were determined on a basis consistent with that which applied in the value-in-use calculations of the same CGUs as at 31 December 2018, with the absolute values of each rate varying by reference to the market data of the jurisdiction(s) in which the relevant CGU operates.

Except for the 360 CGU, the average growth rate of each CGU was determined based on the projected revenue for the financial year ending 31 December 2020 that the Company expects to be derived from (i) projected work supported by signed contracts ("Committed Work"), (ii) budgeted engagements based on prospective identified projects and subject to negotiations (discounted for likelihood of success ("Success Discount"), based on management assessment by reference to historical success rate as well relationships with the counterparty) ("Likely Work") and (iii) other projects that are not under negotiation at the time of forecast but may become available during the year, based on prior year's operating experience ("Possible Work"), while cost projections were based largely on historical rates with adjustment for inflation. This approach is consistent with that adopted for prior years.

The Company, having taken into account prevailing market competition and uncertainties in Mainland of China, was more conservative in preparing the CGU's projections such as using a higher Success Discount and lowering projection of cash inflow from Likely Work and Possible Work compared to last year.

As the 360 CGU develops and offers technology that is relatively new to the media industry and its business is less mature, the growth rate(s) adopted is/are based on industry average obtained from market research. The projected revenue for the financial year ending 31 December 2020 was based on the revenue generated by this CGU in the financial year ended 31 December 2019 after considering the industry growth rate. The methodology was considered reasonable having regard to the actual growth pattern in the preceding two financial years of this CGU.

The Group's revenues are generally project based and the projects are often the subject of competitive tender, so would not be capable of prediction with certainty. Shareholders should note that in addition to goodwill and intangible assets of the Group that are subject to impairment review or are amortised over the years, certain research and development costs of technology being developed in-house are also expensed and charged to the income statement in the year of incurrence (instead of being capitalised) contributing to the Group's losses in the media entertainment segment over the years.

VE CGU

As at 31 December 2019, the goodwill allocated to the VE CGU was approximately HK$208,863,000 (2018: HK$209,226,000) with headroom of approximately HK$161,133,000 (2018: HK$100,599,000) based on the value-in-use ascribed to that CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 year budget period of 19.4% (2018: 21.1%) and pre-tax discount rate of 17.0% (2018: 17.6%). Based on a sensitivity analysis carried out by the independent valuer the headroom attributable to the VE CGU would adequately cover +/-0.5% changes in the weighted average cost of capital and a +/- 0.5% changes on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, material changes in this CGU's market or operating environment that reduces its cash inflow or gross profit margin can have an adverse impact on the recoverable amount of this CGU.

Please see the sections of "Visual Effects Production and Post-Production Business – Digital Domain North America (USA and Canada)" and "Prospect" for a further discussion of projects and prospects of this CGU.

HARDWARE CGU

As at 31 December 2019, the goodwill allocated to the Hardware CGU was approximately HK$195,193,000 (2018: HK$164,709,000) with headroom of approximately HK$110,618,000 (2018: HK$196,006,000) based on the value-in-use ascribed to that CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 year budget period of 52.4% (2018: 27.9%) and pre-tax discount rate of 19.1% (2018: 18.4%). Based on a sensitivity analysis carried out by the independent valuer the headroom attributable to the Hardware CGU would adequately cover +/-0.5% changes in the weighted average cost of capital and a +/- 0.5% changes on the terminal growth rate. As the average growth rate is (as explained above) based on reasonable projections by management with reference to information currently available to them, material changes in this CGU's market or operating environment that reduces its cash inflow or gross profit margin can have an adverse impact on the recoverable amount of this CGU.

Please see the sections of "Virtual Reality/Augmented Reality, New Media and Experiential – 3Glasses Group" and "Prospect" for a further discussion of projects and prospects of this CGU.

PP CGU

As at 31 December 2019, the goodwill allocated to the PP CGU was approximately HK$85,186,000 (2018: HK$102,387,000) based on the value-in-use ascribed to that CGU, as a result of which an impairment loss of approximately HK$17,201,000 was made against this CGU as at 31 December 2019. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 year budget period of 30.1% (2018: 22.0%) and pre-tax discount rate of 20.5% (2018: 19.1%). The lower valuation of this CGU is mainly due to lower net cashflow projection as the Group has observed delays in production schedules of their clients and a much higher pre-tax discount rate and lower average gross margin being projected in the budget period, in particular for 2020, compared to last year's budget, in addition to the fierce market competition and uncertainties in Mainland of China.

Please see the sections of "Visual Effects Production and Post-Production Business – Digital Domain China" and "Prospect" for a further discussion of projects and prospects of this CGU.

360 CGU

As at 31 December 2019, the goodwill allocated to the 360 CGU was approximately HK$321,291,000 (2018: HK$378,509,000) based on the value-in-use ascribed to that CGU, as a result of which an impairment loss of approximately HK$57,218,000 was made against this CGU as at 31 December 2019. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 7 year (2018: 8 year) budget period of 31.5% (2018: 39%) and pre-tax discount rate of 17.8% (2018: 17.3%). The lower valuation of this CGU is mainly due to more conservative revenue growth (which resulted in the lower average growth rate) and lower average gross margin being projected in the budget period, and in particular for 2020, compared to last year's budget, mainly due to less then previously expected growth from 360 degree livestreaming business for mass participation events (such as football matches, concerts) and the market uncertainties in Mainland of China.

Please see the sections of "Virtual Reality/Augmented Reality, New Media and Experiential" and "Prospect" for a further discussion of projects and prospects of this CGU.


3Glasses


英国《金融时报》2019年度中国创新企


DIGITAL
AVATAR

EVENTS AFTER THE REPORTING PERIOD

DISCLOSEABLE TRANSACTION IN RELATION TO THE DISPOSAL OF 22.29% OF THE ISSUED SHARE CAPITAL OF LEAD TURBO LIMITED

On 27 December 2019 (after the trading hours of the Stock Exchange), Digital Domain Network Technology Limited ("DD Network") and the purchaser entered into the disposal agreement, pursuant to which the purchaser conditionally agreed to acquire, and DD Network conditionally agreed to sell, the sale shares, representing 22.29% of the issued share capital of the Target (Lead Turbo Limited), at an aggregate consideration of up to HK$99,000,000.

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the disposal exceeds 5% but less than 25%. Accordingly, the disposal constitutes a discloseable transaction of the Company pursuant to Rule 14.06 of the Listing Rules and is therefore subject to notification and announcement requirements under the Listing Rules.

However, having had further time to consider and discuss the development strategy of the Target Group following the signing of the disposal agreement, the Company and the purchaser determined it most appropriate for both parties that the disposal be terminated. Accordingly DD Network and the purchaser entered in to the termination agreement on 21 February 2020 to terminate the disposal agreement, pursuant to which, the parties agreed that, among others, (i) the disposal agreement shall be fully terminated and the respective rights and obligations of the parties thereunder shall cease; and (ii) the parties shall have no rights, claims, liabilities, demand, and costs and expenses against the other party in connection with the disposal agreement and any transactions contemplated thereunder.

For details, please refer to the Company's announcements dated 27 December 2019, 3 January 2020 and 21 February 2020.

CAPITAL

SHARES

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 had 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 was completed on 12 April 2019 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. 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 are approximately HK$553,654,000 and HK$553,461,000 respectively, and are intended to be applied towards media entertainment segment and as general working capital of the Group. For details, please refer to the Company's announcements dated 22 March 2019 and 12 April 2019.

On 3 July 2019, the Company entered into a placing agreement with Ever Joy Securities Limited ("Placing Agent") in relation to the placing, on a best effort basis, of up to 2,000,000,000 placing shares at the placing price of HK$0.104 per placing share ("Placing"). The conditions of the Placing were fulfilled and completion of the Placing took place on 25 July 2019. The Placing Agent had placed an aggregate of 2,000,000,000 Placing shares to not less than six independent placees at the Placing price of HK$0.104 per Placing share. The Placing shares were allotted and issued pursuant to the general mandate of the Company. The 2,000,000,000 Placing shares in aggregate represent approximately 5.87% of the issued share capital of the Company as enlarged by the Placing (i.e. 34,061,111,340 shares).

The gross proceeds and net proceeds from the Placing are approximately HK$208,000,000 and HK$205,730,000 respectively, and are intended to be applied towards media entertainment segment and as general working capital of the Group. For details, please refer to the Company's announcements dated 3 July 2019, 18 July 2019 and 25 July 2019.

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 fourth (final) tranche, 12,704,918 shares were issued on 9 December 2019, being the third 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, 7 December 2018 and 9 December 2019.

As at 31 December 2019, the total number of the Company shares of HK$0.01 each in issue (the "Shares") was 34,073,816,258 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, 6,000,000 share options were exercised. No share options were cancelled or have lapsed during the year under review. 46,570,000 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, 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, 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.

On 24 April 2019, a total of 130,000,000 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 130,000,000 new shares at an exercise price of HK$0.130 per share. For details, please refer to the Company's announcement dated 24 April 2019. During the year under review, 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 2019
22 March 2019 and 12 April 2019	Issue of 5,323,600,000 Shares	Approximately HK$553,461,000	(1) Media entertainment segment and (2) General working capital for the Group	(1) Media entertainment segment: approximately HK$466,878,000; and (2) General working capital (including but not limited to salary and rental): approximately HK$86,583,000
3 July 2019, 18 July 2019 and 25 July 2019	Placing of an aggregate of 2,000,000,000 Shares	Approximately HK$205,730,000	(1) Media entertainment segment and (2) General working capital for the Group	(1) Media entertainment segment: approximately HK$33,380,000; (2) General working capital (including but not limited to salary and rental): approximately HK$33,990,000; and (3) Remaining net proceeds: approximately HK$138,360,000

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 2019, the Company has banking facilities from a bank in Hong Kong amounted to US$13,000,000 (approximately HK$101,286,000). These banking facilities were credit limits for issuing standby letters of credit and the utilised portions (US$1,436,000, approximately HK$11,188,000) were secured by time deposits of the Group. The Group had working capital loans in amount of RMB5,650,000 (approximately HK$6,321,000) and each working capital loan was secured by a standby letter of credit issued by the bank in Hong Kong mentioned above. The Group had a banking facilities from a bank in Canada amounted to CAD$4,500,000 (approximately HK$26,991,000) secured by corporate guarantee provided by the subsidiaries, which utilized portion as CAD$2,053,000 (approximately HK$12,314,000). The Group also had working capital loans in amount of US$9,000,000 (approximately HK$70,121,000) and each working capital loan was secured by a time deposit of the Group. In addition, the Group has a banking facility from a bank in Mainland of China amounted to RMB11,620,000 (HK$13,001,000) secured by fixed deposit of the same bank.

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 2019, the Group also had lease liabilities of HK$164,649,000, which were determined at the present value of the lease payments that are payable at that date. Apart from lease payments related to office premises and certain office equipment, the Group had lease liabilities of US$1,411,000 (approximately HK$10,987,000) and CAD$602,000 (approximately HK$3,613,000) related to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. Among these leased assets, the term of payments were 30 months and 36 months respectively. Payments were on a fixed payment basis and the underlying interest rates were fixed at respective contract dates. No arrangements were entered into for contingent rental payments.

The Group had other loans of approximately HK$171,770,000 as at 31 December 2019. One indirect wholly-owned subsidiary has a loan in amount of US$3,500,000 (approximately HK$27,065,000) and HK$10,000,000, which is unsecured, interest-free and is not repayable within 13 months from 31 December 2019. One indirect wholly-owned subsidiaries also had a term loan facility of US$10,000,000 (approximately HK$78,316,000) and HK$50,000,000, with a guarantee provided by the Company. The subsidiary drew down the facility in 2015 and 2018. The outstanding balance of these loans as at 31 December 2019 was US$8,000,000 (approximately HK$62,330,000) 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 2019. There is an other loan in amount of RMB20,000,000 (approximately HK$22,376,000), from a minority shareholder of the 3Glasses Group.

During the year under review, the Company repaid 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. In 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 was repaid during the year under review. During the year under review, the Company arranged other loans in amount of HK$157,800,000 with a fixed interest rate. These loans were secured by share charge of share of an indirect wholly-owned subsidiary which hold interests in an associate and financial asset measured at fair value through other comprehensive income of the Group. The Company repaid this loan during the year under review.

In December 2015, the Company announced the acquisition of further shareholding interests in Immersive Venture Inc. ("Immersive"). As part-settlement of the consideration for the acquisition, secured notes for an aggregate principal amount of US$37,955,412 were issued to the vendors of Immersive by DDVR, Inc. ("DDVR"). The secured notes were secured by (i) a general security agreement granted by DDVR and Immersive for all their respective current and future personal property and (ii) a share pledge agreement in favour of the vendors of Immersive in respect of the DDVR shares and Immersive shares held by DDVR. 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 was paid during the year under review. For details, please refer to the Company's announcements dated 11 December 2015, 30 December 2015, 31 December 2015 and 28 December 2018 respectively.

The total cash and bank balance as at 31 December 2019 was approximately HK$325,433,000. As at 31 December 2019, the Group had banking facilities of approximately HK$239,957,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK$70,121,000 are denominated in United States dollars, loans amounting to approximately HK$8,263,000 are denominated in Canadian dollars and loans amounting to approximately HK$19,322,000 are denominated in Renminbi. During the year under review, all of the Group's bank loans 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 as at 31 December 2019 was spread over a period of two years, with approximately 32% repayable within one year and 68% repayable between one to two years.

The Group's current assets were approximately HK$531,247,000 while the current liabilities were approximately HK$299,568,000 as at 31 December 2019. As at 31 December 2019, the Group's current ratio was 1.8 (as at 31 December 2018: 0.9).

As at 31 December 2019, the Group's gearing ratio, representing the Group's financial liabilities (i.e., if any, bank loans, other loans, lease liabilities, obligations under finance leases and secured notes) divided by the equity attributable to owners of the Company was 31% (as at 31 December 2018: 47%).

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 2019, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2019, the total headcount of the Group was 1,296. 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.

The official opening of new Digital Domain studio in Montreal in February 2020.

PROSPECT

Global economy in early 2020 have been adversely affected by the outbreak of new coronavirus (COVID-19) and 2020 is expected to be an extremely challenging year.

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 in US and China. However, government measures and public response to the outbreak of COVID-19 worldwide has had an impact on, the business activities (VFX work for feature films, TV drama, commercials, etc.) in terms of extension or delays in production schedules and new projects becoming available as the industry monitors the development of government directions and policies and their potential impact. But at the same time, we believe there are increasing opportunities for providing VFX work for other type of products (e.g. online games). Given that the overall situation remains unstable and further impact may be reflected in the second half of 2020. With the official opening of new studio in Montreal, Quebec, Canada in February 2020, additional production capacity was provided. The Montreal Studio can also enjoy the tax and other benefits provided by the Quebec 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 well equipped to serve its clients in VR market (from content to hardware and from a standalone product to an one-stop total solution for clients' projects, 360° digital capture technology and/or CG, online and/or offline distribution channels). Following years of experience creating visual effects for Hollywood feature films, advertisements, and video games, in 2019, the Company produced different types of VR experiences for audiences in the North American region and Mainland of China. However, with the outbreak of COVID-19 mentioned above, the business activities (slowdown of expansion in Mainland of China and even world-wide, slowdown and/ or reduction of investments/ projects by potential clients, etc.) in this segment, especially those 360° digital capture/ livestreaming business (such as in sports, travel, concerts, social events with mass public) have also experienced a slowdown. Nevertheless, there are clients or investors who still have confidence in the Group's VR business models/ hardware products and they are still discussing the opportunities with us. The impact for financial year 2020 to be seen given that overall situation remains in flux.

The Group will continue to explore new virtual human business opportunities and products 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 2019, 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 eight 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, the non-executive Director and Ms. Lau Cheong, the independent non-executive Director, they were not present at the annual general meeting of the Company held on 29 May 2019.

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 2019.

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 DDI Visuals Private Limited, a wholly-owned subsidiary of the Company in India. 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 and human capital. 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 72 in the independent auditor's report.

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.

THE BOARD (CONTINUED)

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 nine members, including two executive Directors, three non-executive Directors and four independent non-executive Directors, as follows:

Executive Directors

Mr. Peter Chou	*(Chairman)*
Mr. Seah Ang	*(Chief Executive Officer) (the "CEO")*

Non-executive Directors

Mr. Jiang Yingchun	*(appointed as non-executive Director on 30 May 2019)*
Mr. Cui Hao	*(appointed as non-executive Director on 30 May 2019)*
Mr. Wang Wei-Chung	*(appointed as non-executive Director on 30 May 2019)*

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 52 to 54. 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.

During the year ended 31 December 2019, 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 Code Provision A.4.3 of the CG Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Ms. Lau Cheong has served as an independent non-executive Director for more than 9 years and her 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, Ms. Lau Cheong did not participate in the day-to-day management of the Company. However, she 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 Ms. Lau Cheong 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 BOARD (CONTINUED)

Composition (continued)

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.

Board Meetings and General Meetings

During the year ended 31 December 2019, ten Board meetings and the annual general meeting of the Company for the year 2019 ("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)*	8/10	0/1
Mr. Seah Ang *(CEO)*	10/10	1/1
Mr. Amit Chopra *(Chief Operating Officer)* *(resigned as executive Director and chief operating officer of the Company on 24 May 2019)*	3/5	N/A
Mr. Wei Ming *(Vice-chairman)* *(resigned as executive Director and vice-chairman of the Board on 24 May 2019)*	0/5	N/A
Non-executive Directors		
Mr. Jiang Yingchun *(appointed as non-executive Director on 30 May 2019)*	5/5	N/A
Mr. Cui Hao *(appointed as non-executive Director on 30 May 2019)*	5/5	N/A
Mr. Wang Wei-Chung *(appointed as non-executive Director on 30 May 2019)*	3/5	N/A
Mr. Pu Jian *(Vice-chairman)* *(appointed as vice-chairman of the Board on 24 May 2019 and resigned as non-executive Director and vice-chairman of the Board on 2 August 2019)*	4/8	0/1
Dr. Song Alan Anlan *(resigned as non-executive Director on 24 May 2019)*	1/5	N/A
Independent Non-executive Directors		
Mr. Duan Xiongfei	9/10	1/1
Ms. Lau Cheong	6/10	0/1
Mr. Wong Ka Kong Adam	8/10	1/1
Mr. John Alexander Lagerling	5/10	1/1

THE BOARD (CONTINUED)

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 2019, 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.

BOARD COMMITTEES (CONTINUED)

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.

The Audit Committee shall meet at least twice a year according to its terms of reference. There were two 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)*	2/2
Ms. Lau Cheong	2/2
Mr. Wong Ka Kong Adam	2/2

During the year under review, the Audit Committee had considered, reviewed and discussed any areas of concerns 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.

BOARD COMMITTEES (CONTINUED)

Nomination Committee (continued)

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

Nomination Committee Members	Attendance/Number of Meetings
Mr. Duan Xiongfei *(Chairman)*	2/2
Ms. Lau Cheong	2/2
Mr. Wong Ka Kong Adam	1/2
Mr. Seah Ang	2/2

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, the retirement and re-appointment arrangement of the Directors and the appointment of vice-chairman of the Board and non-executive 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.

BOARD COMMITTEES (CONTINUED)

Remuneration Committee (continued)

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 and the remuneration structure for the Directors.

NOMINATION POLICY

The Board has adopted a nomination policy which sets out the selection criteria, procedure and process for the nomination of a candidate for directorship.

Nomination Criteria

The factors listed below, which are not exhaustive and the Board has discretion if it considers appropriate, would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate for the appointment of Director or re-election of any existing Director:

(i) gender, age, cultural and educational background, professional experience, skills and knowledge of the candidate;

(ii) effect on the Board's composition and diversity;

(iii) commitment of the candidate in respect of available time for carrying out his/her duties effectively;

(iv) conflicts of interest that may arise if the candidate is selected;

(v) compliance with the criteria of independence, in case for the appointment of an independent non-executive Director, as prescribed under Rule 3.13 of the Listing Rules; and

(vi) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time as appropriate.

NOMINATION POLICY (CONTINUED)

Nomination Procedures and Process

(i) the Nomination Committee identifies or selects candidates recommended pursuant to the above criteria.

(ii) the Nomination Committee may use any process it deems appropriate to evaluate the candidates, which may include interviews, written submissions by the candidates, third party references and background checks.

(iii) the Nomination Committee will consider the matter at the meeting or by circulating a resolution in writing to the members of the Nomination Committee and provide to the Board with all the information required in relation to the candidates. The Nomination Committee shall make recommendation to the Board for consideration and approval.

(iv) in case of re-election of an existing Director, the Nomination Committee will hold a meeting to consider the re-election based on the above criteria and, if such Director is an independent non-executive Director and has served the Board for more than 9 years, to assess whether he/she has remained independent. The Nomination Committee shall make recommendations to the Board for its consideration and recommendation for the proposed candidate to stand for re-election at a general meeting.

(v) pursuant to Rule 13.74 of the Listing Rules, where shareholders are required to vote on re-electing a director, the circular accompanying the notice of the relevant general meeting should contain all the information of the candidates required under Rule 13.51(2) of the Listing Rules and, if applicable, Code Provision A.5.5 of the CG Code.

(vi) the Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at a general meeting.

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 2018.

INDEPENDENT AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor and the nature of services for the year ended 31 December 2019 are set out as follows:

Type of services	*HK$'000*
Audit services:	
Audit of annual financial statements	1,773
Professional fee for completion of the disposal of the Property	80
Non-audit services:	
Agreed upon procedures	240

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.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") setting out the guidelines in deciding whether to propose a dividend and in determining an appropriate basis for dividend distribution.

The Board shall consider the following factors, among others, before declaring or recommending dividends:

(i) the operation and financial performance of the Group;

(ii) economic conditions;

(iii) the liquidity position, capital requirements and future funding needs of the Group;

(iv) the Shareholders' interests;

(v) contractual restrictions on payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;

(vi) any restrictions under the Company Act 1981 of Bermuda, the Listing Rules, the Bye-laws and any applicable laws, rules and regulations; and

(vii) any other factors that the Board deems appropriate.

The recommendation of the payment of dividend is subject to the absolute discretion of the Board, and any declaration of annual dividend for the year will be subject to the approval of the Shareholders. The Board will review the Dividend Policy from time to time.

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.

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:

Suite 1201, 12/F.,
Li Po Chun Chambers,
189 Des Vœux Road 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 2019.

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 2019 and the state of affairs of the Company and of the Group as at 31 December 2019 are set out in the consolidated financial statements and their accompanying notes on pages 73 to 179. No interim dividend was paid or declared in respect of the year ended 31 December 2019 (2018: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: 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 2019 amounted to HK$594,690,000 solely comprised of contributed surplus.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2019 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 180 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

Details of the movements in investment properties (classified as "assets of a disposal group classified as held for sale" in the consolidated statement of financial position of the Group as at 31 December 2018) which was disposed of from the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's issued share capital and options during the year and outstanding as at 31 December 2019 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
Seah Ang
Amit Chopra *(resigned on 24 May 2019)*
Wei Ming *(resigned on 24 May 2019)*

Non-executive Directors

Jiang Yingchun *(appointed on 30 May 2019)*
Cui Hao *(appointed on 30 May 2019)*
Wang Wei-Chung *(appointed on 30 May 2019)*
Pu Jian *(resigned on 2 August 2019)*
Song Alan Anlan *(resigned on 24 May 2019)*

Independent Non-executive Directors

Duan Xiongfei
Lau Cheong
Wong Ka Kong Adam
John Alexander Lagerling

Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung were appointed as non-executive Directors with effect from 30 May 2019. In accordance with Bye-law 86(2) of the Bye-laws, any Director appointed by the Board to fill a casual vacancy should 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 addition to the existing Board should hold office only until the next following annual general meeting of the Company and should be subject to re-election at such meeting. In this connection, Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung will retire and, being eligible, to offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-law 87(1) of the Bye-laws, Ms. Lau Cheong and Mr. John Alexander Lagerling 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 CG Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules, Ms. Lau Cheong has served as an independent non-executive Director for more than 9 years and her 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 non-executive Directors and 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 63, 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.

SEAH Ang, aged 35, 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.

Non-executive Directors

JIANG Yingchun, aged 51, was appointed as a non-executive Director on 30 May 2019. Mr. Jiang is currently an executive director and the general manager of Poly Culture Group Corporation Limited ("Poly Culture"), the shares of which are listed on the main board of the Stock Exchange (stock code: 3636). He is also the chairman of Beijing Poly International Auction Corporation Limited, Poly Auction (Hong Kong) Limited, Beijing Poly Art Centre Corporation Limited and Poly Culture North America Investment Corporation Limited respectively. Mr. Jiang served as the assistant to general manager and the vice general manager of Poly Culture from December 2001 to February 2007 and from February 2007 to November 2010. He holds a Bachelor's Degree in History majoring in archaeology in Peking University and qualification of editor.

CUI Hao, aged 31, was appointed as a non-executive Director on 30 May 2019. Mr. Cui is currently a deputy head of board office of Poly Culture, the shares of which are listed on the main board of the Stock Exchange (stock code: 3636). He served in the board office and poly strategy research institute of China Poly Group Corporation. Mr. Cui holds a Master's Degree in School of English – American Studies in Beijing Foreign Studies University, a Bachelor's Degree in English Language and Literature and Economics in Shanghai International Studies University and Shanghai University of International Business and Economics respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Non-executive Directors (continued)

WANG Wei-Chung, aged 62, was appointed as a non-executive Director on 30 May 2019. Mr. Wang holds a Bachelor's degree in Department of Journalism of the Chinese Culture University. He started working in the TV industry at the age of 20 and became a TV producer at the age of 24. He was the deputy general manager of TVBS, general manager of MCA, an international record company, and he also established Broadcasting Station - Voice of Taipei in 1993. Mr. Wang has been the general manager of Golden Star Entertainment Co. Ltd. since 1996, its businesses included TV programme production, TV series production, stage drama production, artist agency and event production. He has accumulated more than 43 years of experience in the film and TV industries, specializing in high-rating film and TV productions closely related to social trends, such as "Kangxi Lai Le (康熙來了)", "One Million Star (星光大道)", "Everybody Speaks Nonsenses (全民大悶鍋)" and "Jungle Voice (聲林之王)" etc. He has been affirmed a number of times by the Golden Bell Awards and drew attention of and reporting by international media including CNN. In recent years, he has been deeply involved in the stage dramas and is a well-known content operator for the Chinese entertainment industry.

Independent Non-executive Directors

DUAN Xiongfei, aged 51, 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 Huobi Technology Holdings Limited (formerly known as 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 36, 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 53, 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. Mr. Wong currently holds a senior executive position in conglomerate listed on the main board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS (CONTINUED)

Independent Non-executive Directors (continued)

John Alexander LAGERLING, aged 43, 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. Mr. Lagerling was 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, and was also 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.

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 6.58% 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.

SHARE OPTION SCHEME (CONTINUED)

(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.

(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.

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 2019**	**Granted during the year**	**Exercised during the year**	**Cancelled/ lapsed during the year**	**At 31 December 2019**	**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
Wang Wei-Chung	1,666,667 *(Notes 5 and 11)*	–	–	–	1,666,667	29/01/2016	29/01/2016 to 28/01/2026	0.413
	1,666,667 *(Notes 5 and 11)*	–	–	–	1,666,667	29/01/2016	29/01/2017 to 28/01/2026	0.413
	1,666,666 *(Notes 5 and 11)*	–	–	–	1,666,666	29/01/2016	29/01/2018 to 28/01/2026	0.413
Amit Chopra *(Note 10)*	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 *(Note 10)*	300,000,000 *(Note 9)*	–	–	–	300,000,000	13/02/2017	13/02/2017 to 12/02/2027	0.469

SHARE OPTION SCHEME (CONTINUED)

Name and category of participant	Number of Options: At 1 January 2019	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2019	Date of grant	Exercise period	Exercise price per Share (HK$)
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
Other employees, in aggregate	350,730,000 *(Note 2)*	–	(6,000,000)	–	344,730,000	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
	91,500,010 *(Note 5)*	–	–	–	91,500,010	29/01/2016	29/01/2016 to 28/01/2026	0.413
	81,499,998 *(Note 5)*	–	–	–	81,499,998	29/01/2016	29/01/2017 to 28/01/2026	0.413
	75,833,327 *(Note 5)*	–	–	–	75,833,327	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
	8,433,324 *(Note 8)*	–	–	–	8,433,324	29/07/2016	29/07/2018 to 28/07/2026	0.566
	–	109,999,999 *(Note 12)*	–	–	109,999,999	24/04/2019	24/04/2019 to 23/04/2029	0.130
	–	6,666,667 *(Note 12)*	–	–	6,666,667	24/04/2019	29/02/2020 to 23/04/2029	0.130
	–	3,333,333 *(Note 12)*	–	–	3,333,333	24/04/2019	24/04/2020 to 23/04/2029	0.130
	–	6,666,667 *(Note 12)*	–	–	6,666,667	24/04/2019	28/02/2021 to 23/04/2029	0.130
	–	3,333,334 *(Note 12)*	–	–	3,333,334	24/04/2019	24/04/2021 to 23/04/2029	0.130
Total	1,664,353,349	130,000,000	(6,000,000)	–	1,788,353,349			

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 to a grantee 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.

10. Mr. Amit Chopra and Mr. Wei Ming resigned as executive Directors with effect from 24 May 2019.

11. Mr. Wang Wei-Chung was appointed as non-executive Director on 30 May 2019.

12. 130,000,000 Options granted to the grantees on 24 April 2019, 109,999,999 Options, 3,333,333 Options and 3,333,334 Options of which are/shall be exercisable from the date of grant, the 1st anniversary of the date of grant and the 2nd anniversary of the date of grant respectively; 6,666,667 Options and 6,666,667 Options of which are/shall be exercisable from 29 February 2020 and 28 February 2021 respectively. The closing price of the shares immediately before the date on which such Options were granted was HK$0.128 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 2019, 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)*	2,176,041,324	–	2,176,041,324 (Long position)	6.39%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	1.77%
Seah Ang	Interest of controlled corporation and beneficial owner *(Notes 3 and 4)*	2,008,531,324	100,000,000	2,108,531,324 (Long position)	6.19%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.47%
Wang Wei-Chung	Beneficial Owner *(Note 5)*	–	5,000,000	5,000,000 (Long position)	0.01%

Notes:

1. Kabo Limited was deemed to be interested in 2,008,531,324 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,405,969,578 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 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (CONTINUED)

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

Notes: (continued)

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. Mr. Wang Wei-Chung holds 5,000,000 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 2019, 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 2019, which may also constitute connected transactions under the Listing Rules, are disclosed in note 38 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 2019, 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)*	2,008,531,324	–	2,008,531,324 (Long position)	5.89%
	Beneficial owner *(Note 1)*	602,561,746	–	602,561,746 (Short position)	1.77%
Peter Chou	Interest of controlled corporation *(Notes 1 and 2)*	2,176,041,324	–	2,176,041,324 (Long position)	6.39%
	Interest of controlled corporation *(Note 1)*	602,561,746	–	602,561,746 (Short position)	1.77%
Global Domain Investments Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 3)*	2,008,531,324	–	2,008,531,324 (Long position)	5.89%
	Beneficial owner *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.47%
Seah Ang	Interest of controlled corporation and beneficial owner *(Notes 3 and 4)*	2,008,531,324	100,000,000	2,108,531,324 (Long position)	6.19%
	Interest of controlled corporation *(Note 3)*	502,134,789	–	502,134,789 (Short position)	1.47%
Redmount Ventures Limited	Beneficial owner and deemed interest under section 317 of the SFO *(Note 5)*	2,008,531,324	–	2,008,531,324 (Long position)	5.89%

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
Wise Sun Holdings Limited	Person having a security interest in shares and beneficial owner *(Note 6)*	2,316,654,789	–	2,316,654,789 (Long position)	6.80%
Bright Ace Holdings Limited	Interest of controlled corporation *(Note 6)*	2,316,654,789	–	2,316,654,789 (Long position)	6.80%
Zhou Jian	Interest of controlled corporation and beneficial owner *(Notes 6, 7 and 8)*	2,381,878,527	150,000,000	2,531,878,527 (Long position)	7.43%
Poly Culture Group Corporation Limited	Beneficial owner	5,323,600,000	–	5,323,600,000 (Long position)	15.62%
Jade Link Holdings Limited	Beneficial owner *(Note 9)*	5,037,200,000	–	5,037,200,000 (Long position)	14.78%
Tang Elaine Yilin	Interest of controlled corporation *(Note 9)*	5,037,200,000	–	5,037,200,000 (Long position)	14.78%
CITIC Limited	Interest of controlled corporation *(Note 10)*	2,181,178,182	–	2,181,178,182 (Long position)	6.40%
CITIC Group Corporation	Interest of controlled corporation *(Note 10)*	2,181,178,182	–	2,181,178,182 (Long position)	6.40%
Kingkey Enterprise Holdings Limited	Beneficial owner *(Note 11)*	2,161,080,000	–	2,161,080,000 (Long position)	6.34%
Chen Jiarong	Interest of controlled corporation and beneficial owner *(Note 11)*	2,166,550,000	–	2,166,550,000 (Long position)	6.36%
Chen Jiajun	Interest of controlled corporation *(Note 11)*	2,161,080,000	–	2,161,080,000 (Long position)	6.34%

Notes:

1. Kabo Limited was deemed to be interested in 2,008,531,324 Shares by holding 602,561,746 Shares and taking a deemed interest in 1,405,969,578 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS (CONTINUED)

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

Notes: (continued)

3. Global Domain Investments Limited was deemed to be interested in 2,008,531,324 Shares by holding 502,134,789 Shares and taking a deemed interest in 1,506,396,535 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 2,008,531,324 Shares by holding 502,134,789 Shares and having a security interest in 1,506,396,535 Shares under section 317 of the SFO.

6. Wise Sun Holdings Limited beneficially holds 458,763,465 Shares and was deemed to be interested in 75,320,000 Shares and 502,134,789 Shares held by Cosmic Power Holdings Limited and Redmount Ventures Limited respectively, and by having a security interest in 1,280,436,535 Shares under section 317 of the SFO. Cosmic Power Holdings Limited and Redmount Ventures 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 the above Shares by virtue of his 100% shareholding interest in Bright Ace Holdings Limited.

7. Mr. Zhou Jian was deemed to be interested in 65,223,738 Shares held by Ultra Gain Development Limited, which is 100% controlled by Mr. Zhou Jian.

8. 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".

9. 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.

10. CITIC Group Corporation was deemed to be interested in 2,181,178,182 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.

11. 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 2,161,080,000 Shares held by Kingkey Enterprise Holdings Limited. Mr. Chen Jiarong beneficially holds 5,470,000 Shares

Save as disclosed above, as at 31 December 2019, 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	2%
– five largest suppliers combined	5%
Sales	
– the largest customer	9%
– five largest customers combined	35%

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.

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 2019, 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 38 to 49 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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 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 37 of this annual report. An analysis of each of the Group's capital risk management and financial risk management is provided in notes 41 and 42 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.

CONTRACTUAL ARRANGEMENTS

On 1 September 2019, through the contractual arrangements between a controlling subsidiary, 深圳市虛擬現實技術有限公司 ("Shenzhen VR Technology") and 深圳市維爾信息科技有限公司 ("Shenzhen Weier") and its shareholder, Mr. Peng Zhikang ("Mr. Peng"), the Group realized its control over Shenzhen Weier. Under the contractual arrangements, the Group is able to consolidate the financial results of Shenzhen Weier into the financial results of the Group from the commencement date of the contractual arrangements. Further details of the contractual arrangements are set out in the sub-section headed "Contractual Arrangements" under "Chief Executive Officer's Review" on pages 17 to 21 and "Business Combination" in note 31 to the consolidated financial statements.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, the following Directors are 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") and Mr. Amit Chopra ("Mr. Chopra", resigned as executive Director and chief operating officer of the Company on 24 May 2019) held shareholding or interests and/or directorship in private companies involved in virtual reality and/or 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, each of Mr. Chou and Mr. Chopra 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 Ms. Lau Cheong 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 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 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 had 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 was completed on 12 April 2019 and the subscription shares were allotted and issued pursuant to the general mandate of the Company.

The gross proceeds and net proceeds from the subscription are approximately HK$553,654,000 and HK$553,461,000 respectively, and are intended to be applied towards media entertainment segment and as general working capital of the Group.

On 3 July 2019, the Company entered into a placing agreement with Ever Joy Securities Limited ("Placing Agent") in relation to the placing, on a best effort basis, of up to 2,000,000,000 placing shares at the placing price of HK$0.104 per placing share ("Placing"). The conditions of the Placing were fulfilled and completion of the Placing took place on 25 July 2019. The Placing Agent had placed an aggregate of 2,000,000,000 Placing shares to not less than six independent placees at the Placing price of HK$0.104 per Placing share. 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$208,000,000 and HK$205,730,000 respectively, and are intended to be applied towards media entertainment segment and as general working capital of the Group.

On 24 April 2019, a total of 130,000,000 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 130,000,000 new shares at an exercise price of HK$0.130 per share. During the year under review, no share options were exercised, cancelled or have lapsed.

Further details of the issue of shares and grant of share options are set out in the sub-sections headed "Shares" and "Share Options" under "Chief Executive Officer's Review" on pages 32 and 33.

EQUITY-LINKED AGREEMENTS (CONTINUED)

Save as disclosed above and under the sub-sections headed "Shares" and "Share Options" under "Chief Executive Officer's Review", 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.

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.

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 2020

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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 73 to 179, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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.

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 intangible assets

As at 31 December 2019, the carrying amount of the Group's intangible assets was HK$1,346,042,000 (including goodwill of HK$810,533,000) which is significant to the total assets of the Group.

The Group tests intangible assets (including goodwill) for impairment as at the end of the reporting period. For the purpose of assessing impairment, these assets were allocated to respective cash generating units ("CGUs"). Impairment loss is recognised by which the carrying amount of a CGU exceeds its recoverable amount. Recoverable amount of each CGU is the higher of its fair value less costs of disposal and value-in-use. In measuring the CGU's recoverable amounts, management, to their best estimate, had prepared cash flow projections with assumptions. Significant management judgement on assumptions with respect to the discount rate, revenue growth rate, forecasting periods was used. Management has concluded that carrying amounts on certain CGUs exceeded their recoverable amounts. As a result, an impairment on goodwill, in aggregate, of HK$74,419,000 recognised in the profit or loss during the year.

We focused on this area and identified it as the key audit matter because of 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 and fair value less costs of disposal 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 16 to the consolidated financial statements.

Our response:

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

- With the assistance of our internal valuation specialists, assessed 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.

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 2020

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	6	625,446	600,679
Cost of sales and services rendered		(524,774)	(547,723)
Gross profit		100,672	52,956
Other income and gains	7	132,902	36,845
Selling and distribution expenses		(21,834)	(22,881)
Administrative expenses and other net operating expenses		(493,511)	(540,525)
Finance costs	9	(79,046)	(30,546)
Fair value gains/(losses) on investment properties		700	(4,200)
Gain on disposal of subsidiaries		111,999	–
Impairment loss on goodwill		(74,419)	–
Impairment loss on amounts due from associates		(77,768)	–
Share of losses of associates	17	(21,988)	(19,645)
Share of losses of joint ventures	18	–	(7)
Loss before taxation		(422,293)	(528,003)
Taxation	11	2,714	2,506
Loss for the year	8	(419,579)	(525,497)
Loss attributable to:			
– Owners of the Company		(400,813)	(518,030)
– Non-controlling interest	30	(18,766)	(7,467)
		(419,579)	(525,497)
Loss per share:	12		(Re-presented)
Basic and diluted		HK cents (1.254)	HK cents (1.833)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** HK$'000	**2018** HK$'000
Loss for the year		(419,579)	(525,497)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		(1,489)	(7,689)
Share of other comprehensive income of associates	*17*	93	(13,346)
Share of other comprehensive income of joint ventures	*18*	(12)	(38)
Net other comprehensive income that may be reclassified subsequently to profit or loss		(1,408)	(21,073)
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		(165,976)	(30,237)
Net other comprehensive income that will not be reclassified to profit or loss		(165,976)	(30,237)
Other comprehensive income for the year, net of tax		(167,384)	(51,310)
Total comprehensive income for the year		(586,963)	(576,807)
Total comprehensive income attributable to:			
– Owners of the Company		(568,121)	(565,237)
– Non-controlling interest		(18,842)	(11,570)
		(586,963)	(576,807)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	13	72,002	106,917
Right-of-use assets	14	132,749	–
Intangible assets	16	1,346,042	1,460,853
Interests in associates	17	79,973	5,705
Interests in joint ventures	18	4	16
Financial asset measured at fair value through other comprehensive income	19	–	165,976
Deposits	20	12,857	12,585
Deferred tax assets	11(b)	176	–
		1,643,803	1,752,052
Current assets			
Inventories		22,970	16,253
Trade receivables, other receivables and prepayments	20	169,674	164,394
Contract assets	21	13,170	7,731
Bank balances and cash	22	325,433	75,926
		531,247	264,304
Assets of a disposal group classified as held for sale	15	–	208,483
Current liabilities			
Trade payables, other payables and accruals	23	108,821	138,441
Lease liabilities	14	49,672	–
Contract liabilities	21	66,873	28,892
Borrowings	24	54,870	328,829
Obligations under finance leases	14	–	13,982
Contingent consideration payable	32	14,259	43,468
Tax payable		5,073	2,465
		299,568	556,077
Liabilities of a disposal group classified as held for sale	15	–	95
Net current assets/(liabilities)		231,679	(83,385)
Total assets less current liabilities		1,875,482	1,668,667

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Borrowings	*24*	219,515	225,142
Lease liabilities	*14*	114,977	–
Obligations under finance leases		–	11,873
Contingent consideration payable		–	55,075
Deferred tax liabilities	*11(b)*	63,795	66,621
		398,287	358,711
NET ASSETS		1,477,195	1,309,956
Capital and reserves			
Share capital	*25*	340,737	267,314
Reserves		1,085,815	964,160
Equity attributable to owners of the Company		1,426,552	1,231,474
Non-controlling interest	*30*	50,643	78,482
TOTAL EQUITY		1,477,195	1,309,956

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 March 2020 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 2019

		Attributable to owners of the Company												
	Notes	Share capital HK$'000 *(Note 25)*	Share premium HK$'000 *(Note 26(i))*	FVOCI reserve HK$'000 *(Note 43(b))*	Buildings revaluation reserve HK$'000 *(Note 26(ii))*	Contributed surplus HK$'000 *(Note 26(iii))*	Share options reserve HK$'000 *(Note 26(iv))*	Deferred shares reserve HK$'000 *(Note 26(v))*	Exchange fluctuation reserve HK$'000 *(Note 26(vi))*	Other reserve HK$'000 *(Note 26(vii))*	Accumulated losses HK$'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*	21,757	387,382	–	–	–	–	–	–	–	–	409,139	–	409,139
Issue of shares for being consideration of acquisition of subsidiaries completed in previous years	*25*	1,007	54,790	–	–	–	–	(55,828)	–	–	–	(31)	–	(31)
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*	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	*17*	–	–	–	–	–	–	–	(606)	(12,740)	–	(13,346)	–	(13,346)
Share of other comprehensive income of joint ventures	*18*	–	–	–	–	–	–	–	(38)	–	–	(38)	–	(38)
Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax	*43*	–	–	(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 CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

		Attributable to owners of the Company												
	Notes	Share capital HK$'000 *(Note 25)*	Share premium HK$'000 *(Note 26(i))*	FVOCI reserve HK$'000 *(Note 43(b))*	Buildings revaluation reserve HK$'000 *(Note 26(ii))*	Contributed surplus HK$'000 *(Note 26(iii))*	Share options reserve HK$'000 *(Note 26(iv))*	Deferred shares reserve HK$'000 *(Note 26(v))*	Exchange fluctuation reserve HK$'000 *(Note 26(vi))*	Other reserve HK$'000 *(Note 26(vii))*	Accumulated losses HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
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
Initial application of HKFRS 16 *(Note 2(a)(i))*		–	–	–	–	–	–	–	–	–	(16,106)	(16,106)	(342)	(16,448)
As at 1 January 2019 (Restated)		267,314	1,290,487	(30,237)	7,355	594,690	169,132	7,767	327	6,197	(1,097,664)	1,215,368	78,140	1,293,508
Recognition of equity-settled share-based payment	*27*	–	–	–	–	–	5,113	–	–	–	–	5,113	–	5,113
Issue of shares on placement, net of expenses	*25(b)*	73,236	686,126	–	–	–	–	–	–	–	–	759,362	–	759,362
Issue of shares for acquisition of intangible assets completed in previous years	*25(d)*	127	7,580	–	–	–	–	(7,767)	–	–	–	(60)	–	(60)
Deemed disposal of subsidiaries without loss of control		–	–	–	–	–	–	–	102	–	14,209	14,311	1,373	15,684
Issue of shares on exercise of share options, net of expenses	*25(a)*	60	519	–	–	–	(206)	–	–	–	206	579	–	579
Release upon disposal of subsidiaries		–	–	–	(7,355)	–	–	–	–	–	7,355	–	(10,028)	(10,028)
Loss for the year		–	–	–	–	–	–	–	–	–	(400,813)	(400,813)	(18,766)	(419,579)
Currency translation differences		–	–	–	–	–	–	–	(1,413)	–	–	(1,413)	(76)	(1,489)
Share of other comprehensive income of associates	*17*	–	–	–	–	–	–	–	93	–	–	93	–	93
Share of other comprehensive income of joint ventures	*18*	–	–	–	–	–	–	–	(12)	–	–	(12)	–	(12)
Changes in fair value of equity instrument at fair value through other comprehensive income, net of tax		–	–	(165,976)	–	–	–	–	–	–	–	(165,976)	–	(165,976)
Total comprehensive income for the year		–	–	(165,976)	–	–	–	–	(1,332)	–	(400,813)	(568,121)	(18,842)	(586,963)
As at 31 December 2019		340,737	1,984,712	(196,213)	–	594,690	174,039	–	(903)	6,197	(1,476,707)	1,426,552	50,643	1,477,195

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Loss before taxation		(422,293)	(528,003)
Adjustments for:			
Depreciation of property, plant and equipment		30,389	55,582
Depreciation of right-of-use assets		50,584	–
Gain on disposal of intangible assets		(2,735)	–
Amortisation of intangible assets		104,320	95,319
Loss on disposal of property, plant and equipment		2,073	946
Gain on disposal of subsidiaries		(111,999)	–
Equity-settled share-based payment expenses		5,113	7,782
Net exchange gains		(5,760)	(1,841)
Fair value (gains)/losses on investment properties		(700)	4,200
Share of losses of associates		21,988	19,645
Share of losses of joint ventures		–	7
Gain on deemed disposal of an associate		–	(3,994)
Impairment loss on goodwill		74,419	–
Impairment loss on trade receivables and contract assets		5,244	3,399
Impairment loss on other receivables		7,377	–
Impairment loss on amounts due from associates		77,768	–
Impairment loss on inventories		–	268
Change in fair value of contingent consideration payable		(41,396)	–
Interest income		(8,468)	(21,184)
Finance costs		79,046	30,546
Operating loss before working capital changes		(135,030)	(337,328)
Increase in trading merchandise goods		(6,717)	(2,023)
Increase in trade receivables, other receivables and prepayments		(19,105)	(25,149)
(Increase)/decrease in contract assets		(5,439)	9,997
Decrease in trade payables, other payables and accruals		(31,340)	(77,257)
Increase in contract liabilities		35,022	10,515
Cash used in operations		(162,609)	(421,245)
Income tax refunded/(paid)		221	(852)
Interest paid		(73,206)	(25,992)
Net cash used in operating activities		(235,594)	(448,089)
Cash flows from investing activities			
Interest received		8,419	21,214
Purchases of property, plant and equipment		(26,363)	(19,085)
Proceeds from disposal of property, plant and equipment		–	99
Additions to intangible assets		(61,395)	(63,687)
Proceeds from disposal of intangible assets		3,729	–
Advance to associates		(57,926)	(19,601)
Settlement of contingent consideration payable		(45,613)	–
(Increase)/decrease in bank deposits with more than three months to maturity when placed or pledged		(15,582)	7,659
Investment in financial asset measured at fair value through other comprehensive income		–	(196,213)
Net cash outflow from business combination	*31, 32*	(19,050)	(119,158)
Net cash inflow from disposal of subsidiaries	*33*	233,412	–
Proceeds from deemed disposal of subsidiaries without loss of control		15,582	–
Net cash generated from/(used in) investing activities		35,213	(388,772)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 HK$'000	2018 HK$'000
Cash flows from financing activities		
Proceeds from issue of ordinary shares, net of issuing expenses	759,302	409,078
Proceeds from exercise of share options	579	49
Capital contribution to a non-wholly owned subsidiary from a non-controlling shareholder	–	3,482
Repayment of obligations under finance leases	–	(12,173)
New borrowings	51,641	58,152
Repayment of borrowings	(151,796)	(7,749)
Repayment of principal portion of lease liabilities	(45,355)	–
New inception of other loans	167,800	285,546
Repayment of other loans	(346,265)	(40,000)
Net cash generated from financing activities	435,906	696,385
Net increase/(decrease) in cash and cash equivalents	235,525	(140,476)
Effect of foreign exchange rate changes	(1,704)	(1,169)
Cash and cash equivalents at beginning of the year	76,030	217,675
Cash and cash equivalents at end of the year	309,851	76,030
Represented by:		
Bank balances and cash	325,433	75,926
Bank balances included in a disposal group	–	104
	325,433	76,030
Bank deposits with more than three months to maturity when placed or pledged	(15,582)	–
	309,851	76,030

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 Suite 1201, 12/F., Li Po Chun Chambers, 189 Des Voeux Road 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 - effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Company and its subsidiaries (collectively the "Group"):

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

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

(a) Adoption of new/revised HKFRSs - effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease ("HK (IFRIC)-Int 4"), HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases for which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarised the impact of transition to HKFRS 16 on Group's consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

Statement of financial position as at 1 January 2019	HK$'000
Property, plant & equipment	(21,038)
Right-of-use assets	141,375
Other payables	(5,461)
Lease liabilities (current)	41,956
Lease liabilities (non-current)	126,145
Obligations under finance leases (current)	(13,982)
Obligations under finance leases (non-current)	(11,873)
Accumulated losses	16,106
Non-controlling interest	(342)

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

(a) Adoption of new/revised HKFRSs - effective 1 January 2019 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the Group's consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitments to lease liabilities

	HK$'000
Operating lease commitments as at 31 December 2018	216,889
Add: finance lease liabilities as at 31 December 2018	25,855
Less: short-term leases for which lease terms end within 12 months at the commencement date	(20,063)
Less: future interest expenses	(49,465)
Others	(5,115)
Total lease liabilities as at 1 January 2019	168,101

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the Group's consolidated statement of financial position as at 1 January 2019 is 10.6%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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

(a) Adoption of new/revised HKFRSs - effective 1 January 2019 (continued)

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases which at the commencement date have a lease term less than 12 months, if any. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

(iv) Accounting as a lessor

The Group leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these consolidated financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of accumulated losses at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

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

(a) Adoption of new/revised HKFRSs - effective 1 January 2019 (continued)

(v) Transition (continued)

The Group has also applied the following practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with terms that will end within 12 months at the commencement date and accounted for those leases as short-term leases; (ii) exclude the initial direct costs from the measurement of the right-of-use assets at 1 January 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has also leased its software and computer equipment which previously were classified as finance leases under HKAS 17. As the Group has elected to adopt the cumulative effect method over the adoption of HKFRS 16, for those finance leases under HKAS 17, the right-of-use assets and the corresponding lease liabilities at 1 January 2019 were the carrying amount of the lease assets and lease liabilities under HKAS 17 immediately before that date. For those leases, the Group has accounted for the right-of-use assets and the lease liabilities applying HKFRS 16 from 1 January 2019.

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.

Amendments to HKAS 19 – Plan Amendments, Curtailment Or Settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

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

(a) Adoption of new/revised HKFRSs - effective 1 January 2019 (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 fair value through other comprehensive income ("FVOCI") if specified conditions are met - instead of at fair value through profit or loss ("FVTPL").

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

The amendment clarifies that HKFRS 9 Financial Instruments 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 Investments in Associates and Joint Ventures.

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.

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

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

The following new/revised HKFRSs, potentially relevant to the Group's 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.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 - Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

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

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

HKFRS 17 - Insurance Contracts

HKFRS 17 will replace HKFRS 4 Insurance Contracts 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.

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

A subsidiary is an investee (including structured entity) over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee; (ii) exposure, or rights, to variable returns from the investee, and the (iii) 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.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

– The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

– substantive potential voting rights held by the Company and other parties who hold voting rights;

– other contractual arrangements; and

– historic patterns in voting attendance.

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, including any other unsecured long-term receivables, 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.

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, including any other unsecured long-term receivables, 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 useful lives are as follows:

Furniture, fixtures and equipment	1 to 10 years
Machineries	3 to 5 years

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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".

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 costs 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

(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 useful lives of intangible assets which are finite 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

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

(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:

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(i) Financial assets (continued)

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 and dividends are recognised in profit or loss.

(ii) Impairment loss on financial assets and contract assets

The Group recognises loss allowances for Expected Credit Loss ("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 (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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

(vi) 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.

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 (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (accounting policies applied from 1 January 2019) (continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property, which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets. The useful lives are as follows:

Buildings	2 to 11 years
Equipment	2 to 3 years

The Group has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that they are separate classes of assets apart from the leasehold land and buildings which are held for own use. As a result, the right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use on the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (accounting policies applied from 1 January 2019) (continued)

Accounting as a lessor

The Group leased out its investment properties to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

Leases (accounting policies applied until 31 December 2018)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(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.

(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.

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Contract liabilities

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.

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 of disposal.

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.

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 sectors in which the Group operates 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, 21(a) and 42(a) to the consolidated financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimates and judgements (continued)

Incremental borrowing rate on lease agreements

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses incremental borrowing rates ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

Useful lives of property, plant and equipment, right-of-use assets and intangible assets

The Group estimates the useful lives of property, plant and equipment, right-of-use assets 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 financial asset measured at FVOCI and investment properties at fair value as detailed in notes 19 and 33(b) respectively.

6. REVENUE AND SEGMENT REPORTING

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

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of		
– visual effects production service	469,807	438,197
– post production service	21,704	19,694
– 360 degree digital capture technology application, sales of hardware and solution services	133,869	138,026
	625,380	595,917
Revenue from other source		
Rental income	66	4,762
	625,446	600,679

Disaggregation of revenue from contracts with customers

	Media entertainment	
Segments	**2019** HK$'000	**2018** HK$'000
Types of goods or services		
Provision of		
– visual effects production service	469,807	438,197
– post production service	21,704	19,694
– 360 degree digital capture technology application, sales of hardware and solution services	133,869	138,026
Total	625,380	595,917
Geographical markets		
Hong Kong (place of domicile)	912	1,977
The People's Republic of China (the "PRC")	171,548	156,809
The United States of America ("USA")	222,312	201,126
Canada	220,145	201,723
United Kingdom	2,981	31,976
Other countries/regions	7,482	2,306
Total	625,380	595,917
Timing of revenue recognition		
A point in time	132,124	130,405
Over time	493,256	465,512
Total	625,380	595,917

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 service, post production service, 360 degree digital capture technology application and sale of hardware and solution service)

– Property investment

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

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

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Reportable segments (continued)

	Media entertainment		Property investment		Consolidated	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Revenue from external customers	625,380	595,917	66	4,762	625,446	600,679
Inter-segment revenue	–	–	–	–	–	–
Reportable segment revenue	625,380	595,917	66	4,762	625,446	600,679
Reportable segment (loss)/profit	(296,488)	(287,858)	(332)	3,602	(296,820)	(284,256)
Additions to non-current assets	148,692	448,682	–	–	148,692	448,682
Depreciation and amortisation	(133,341)	(103,285)	–	–	(133,341)	(103,285)
Impairment loss on goodwill	(74,419)	–	–	–	(74,419)	–
Gain on disposal of intangible assets	2,735	–	–	–	2,735	–
Loss on disposal of property, plant and equipment	–	(800)	–	–	–	(800)
Impairment loss on inventories	–	(268)	–	–	–	(268)
Taxation credited	2,714	2,506	–	–	2,714	2,506
Reportable segment assets	1,778,058	1,659,970	–	208,483	1,778,058	1,868,453
Reportable segment liabilities	586,028	589,041	–	95	586,028	589,136

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

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

	2019 HK$'000	2018 HK$'000
Loss before taxation		
Reportable segment loss	(296,820)	(284,256)
Impairment loss on trade receivables and contract assets	(5,244)	(3,399)
Impairment loss on other receivables	(7,377)	–
Impairment loss on amounts due from associates	(77,768)	–
Loss on disposal of unallocated property, plant and equipment	(2,073)	(146)
Fair value gains/(losses) on investment properties	700	(4,200)
Share of losses of associates	(21,988)	(19,645)
Share of losses of joint ventures	–	(7)
Auditor's remuneration	(2,093)	(1,948)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	(51,952)	(47,616)
Professional fees	(27,741)	(27,443)
Finance costs	(79,046)	(30,546)
Equity-settled share-based payment expenses	(5,113)	(7,782)
Unallocated rental expenses	–	(7,070)
Gain on disposal of subsidiaries	111,999	–
Unallocated other income and gains	130,808	31,670
Other unallocated corporate expenses*	(88,585)	(125,615)
Consolidated loss before taxation	(422,293)	(528,003)
Assets		
Reportable segment assets	1,778,058	1,868,453
Unallocated bank balances and cash	212,906	33,377
Unallocated corporate assets	184,086	323,009
Consolidated total assets	2,175,050	2,224,839
Liabilities		
Reportable segment liabilities	586,028	589,136
Tax payable	5,073	2,465
Deferred tax liabilities	63,795	66,621
Unallocated borrowings	4,909	62,125
Unallocated corporate liabilities	38,050	194,536
Consolidated total liabilities	697,855	914,883

* 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.

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

	2019 HK$'000	**2018** HK$'000
Hong Kong (place of domicile)	978	6,739
The PRC	171,548	156,809
USA	222,312	201,126
Canada	220,145	201,723
United Kingdom	2,981	31,976
Other countries/regions	7,482	2,306
	625,446	600,679

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

(ii) Specified non-current assets

	2019 HK$'000	**2018** HK$'000
Hong Kong (place of domicile)	74,026	208,238
The PRC	575,063	585,600
Other regions of Asia	15,502	18,074
USA and Canada	979,212	940,140
	1,643,803	1,752,052

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

None of the external customer contributed 10% or more of the Group's revenue during the year ended 31 December 2019. For the year ended 31 December 2018, revenue of approximately HK$120,240,000 was derived from media entertainment segment for service rendered to an external customer, which contributed over 10% or more of the Group's revenue.

(e) Revenue

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

	2019 HK$'000	2018 HK$'000
Trade receivables	46,678	51,679
Contract assets	13,170	7,731
Contract liabilities	66,873	28,892

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 service. 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.

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

	2019 HK$'000	2018 HK$'000
Income arising from broadcasting movies and TV dramas	74,178	5,176
Interest income	8,468	21,184
Gain on deemed disposal of an associate	–	3,994
Government subsidies	5,071	3,173
Change in fair value of contingent consideration payable	41,396	–
Others	3,789	3,318
	132,902	36,845

8. LOSS FOR THE YEAR

	2019 HK$'000	2018 HK$'000
This is arrived at after charging/(crediting):		
Cost of sales and services rendered *(Note (i))*	524,774	547,723
Loss on disposal of property, plant and equipment	2,073	946
Gain on disposal of intangible assets	(2,735)	–
Impairment loss on trade receivables and contract assets	5,244	3,399
Impairment loss on other receivables	7,377	–
Impairment loss on inventories	–	268
Exchange differences, net	(958)	1,854
Auditor's remuneration:		
– audit services	1,853	1,680
– non-audit services	240	268
Depreciation of property, plant and equipment *(Note (i))*	30,389	55,582
Depreciation of right-of-use assets *(Notes (i) & (ii))*	50,584	–
Amortisation of intangible assets *(Note (i))*	104,320	95,319
Research and development	25	78
Short-term lease expenses	672	–
Total minimum lease payment for leases previously classified as operating leases under HKAS 17 in respect of:		
– rented premises	–	51,329
– rented equipment	–	18,624
Staff costs *(Note (i))*:		
– Directors' remuneration	14,782	18,395
– Other staff costs:		
Salaries, wages and other benefits	566,071	627,971
Retirement benefit scheme contributions	4,161	4,355
Equity-settled share-based payment expenses	5,113	7,442
Total staff costs	590,127	658,163

Notes:

(i) Cost of sales and services rendered include HK$419,588,000 (2018: HK$444,666,000) relating to staff costs, depreciation of property, plant and equipment, depreciation of right-of-use assets and amortisation of intangible assets, for which the amounts are also included in the respective total amounts disclosed separately above.

(ii) The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated. Please refer to note 2(a)(i).

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Imputed interest on:		
Contingent consideration payable	3,530	2,731
Lease liabilities	16,900	–
Interest on:		
Bank and other loans	57,928	20,383
Secured note	688	2,380
Finance leases	–	5,052
	79,046	30,546

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

The Directors' remuneration is analysed as follows:

	2019 HK$'000	2018 HK$'000
Fees:		
Independent non-executive directors	2,035	2,035
Other emoluments paid to executive directors:		
Salaries and other benefits	12,729	16,001
Equity-settled share-based payment expenses	–	341
Retirement benefit scheme contributions	18	18
	12,747	16,360
	14,782	18,395

No directors waived any remuneration in respect of the years ended 31 December 2019 and 2018.

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

Directors' remuneration (continued)

	2019 HK$'000	2018 HK$'000
Peter Chou		
– Salaries and other benefits	8,344	8,338
Seah Ang		
– Salaries and other benefits	3,535	3,530
– Retirement benefit scheme contributions	18	18
	3,553	3,548
Amit Chopra (Resigned on 24 May 2019)		
– Salaries and other benefits	600	2,949
– Equity-settled share-based payment expenses	–	341
	600	3,290
Wei Ming (Resigned on 24 May 2019)		
– Salaries and other benefits	250	1,184
Pu Jian (Resigned on 2 August 2019)		
– Salaries and other benefits	–	–
Song Alan Anlan (Resigned on 24 May 2019)		
– Salaries and other benefits	–	–
Jiang Yingchun (Appointed on 30 May 2019)		
– Salaries and other benefits	–	–
Cui Hao (Appointed on 30 May 2019)		
– Salaries and other benefits	–	–
Wang Wei-Chung (Appointed on 30 May 2019)		
– Salaries and other benefits	–	–

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

Directors' remuneration (continued)

	2019 HK$'000	2018 HK$'000
John Alexander Lagerling		
– Fee	1,567	1,567
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 one executive director (2018: two executive directors) of the Company, details of whose remuneration are set out above. The remuneration of the remaining four (2018: three) highest paid employees, other than the directors of the Company (the "Directors"), is as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other benefits	15,886	9,699
Recognition/(reversal) of equity-settled share-based payment expenses	4,968	(234)
Retirement benefit scheme contributions	36	18
	20,890	9,483

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

	2019	2018
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$4,000,001 to HK$4,500,000	1	–
HK$4,500,001 to HK$5,000,000	1	–
HK$6,000,001 to HK$6,500,000	2	–

11. TAXATION

	Note	2019 HK$'000	2018 HK$'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		3,897	2,295
– over-provision in respect of prior years		(1,607)	(881)
Deferred taxation	*11(b)*	(5,004)	(3,920)
		(2,714)	(2,506)

No provision for Hong Kong profit tax has been made as the Group did not have any assessable profits for the year ended 31 December 2019.

No provision for Hong Kong profits tax was made for the year ended 31 December 2018 as the Group had 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.

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

	2019 HK$'000	2018 HK$'000
Loss before taxation	(422,293)	(528,003)
Taxation calculated at applicable rates of Hong Kong profits tax	(69,678)	(87,120)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(13,710)	(18,970)
Tax effect of expenses not deductible for tax purposes	36,240	24,949
Tax effect of non-taxable income	(18,849)	(7,808)
Tax effect of utilisation of previously unrecognised tax losses and other deductible temporary differences	(7,115)	(2,511)
Tax effect of unrecognised tax losses and temporary differences	72,005	89,835
Over-provision in respect of prior years	(1,607)	(881)
Taxation for the year	(2,714)	(2,506)

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 2018		(6,574)	6,574	(49,330)	(49,330)
Addition from business combination *(Note 32)*		–	–	(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)
Disposal of subsidiaries		6,293	(6,293)	–	–
Credited to profit or loss for the year	*11(a)*	204	93	4,707	5,004
Exchange realignment		(2)	–	(2,000)	(2,002)
As at 31 December 2019		(242)	418	(63,795)	(63,619)

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:

	2019 HK$'000	**2018** HK$'000
Deferred tax liabilities	(63,795)	(66,621)
Deferred tax assets	176	–
	(63,619)	(66,621)

At the end of reporting period, the Group had unused tax losses of HK$1,439,366,000 (2018: HK$1,344,544,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$879,000 (2018: HK$39,582,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,438,487,000 (2018: HK$1,304,962,000) due to the unpredictability of future profit streams. As at 31 December 2019, included in unrecognised tax losses are losses of HK$235,557,000 (2018: HK$117,825,000) that will expire in 5 years from the respective dates of incurrence and tax losses of HK$2,243,000 (2018: HK$19,568,000), HK$4,580,000 (2018: HK$24,117,000) and HK$1,063,002,000 (2018: HK$918,291,000) 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:

	2019 HK$'000	2018 HK$'000
Loss for the year attributable to owners of the Company for the purpose of basic loss per share	(400,813)	(518,030)

	Number of shares	
	2019	2018 (Re-presented)
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted for a bonus element in the issue of shares on 12 April 2019 and 25 July 2019	31,960,465,842	28,268,636,585

Note:

For the year ended 31 December 2019, since the share options outstanding had an anti-dilutive effect on the basic loss per share, the exercise of outstanding share options were not assumed in the computation of diluted loss per share.

For the year ended 31 December 2018, 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 2018	237,790	5,535	1,329	244,654
Transfers	396	–	(396)	–
Additions from business combination *(Note 32)*	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 as originally presented	270,430	5,292	936	276,658
Initial application of HKFRS 16	(40,109)	–	–	(40,109)
Restated balances as at 1 January 2019	230,321	5,292	936	236,549
Additions from business combination *(Note 31)*	14	–	–	14
Additions	26,004	359	–	26,363
Disposals	(3,905)	–	–	(3,905)
Disposals of subsidiaries	(23,955)	–	–	(23,955)
Exchange realignment	377	23	(5)	395
As at 31 December 2019	228,856	5,674	931	235,461
ACCUMULATED DEPRECIATION				
As at 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 as originally presented	165,381	4,360	–	169,741
Initial application of HKFRS 16	(19,071)	–	–	(19,071)
Restated balances as at 1 January 2019	146,310	4,360	–	150,670
Depreciation charge for the year	29,828	561	–	30,389
Disposals	(1,832)	–	–	(1,832)
Disposals of subsidiaries	(16,632)	–	–	(16,632)
Exchange realignment	833	31	–	864
As at 31 December 2019	158,507	4,952	–	163,459
NET CARRYING AMOUNT				
As at 31 December 2019	70,349	722	931	72,002
As at 31 December 2018	105,049	932	936	106,917

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

14. LEASES

HKFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, please refer to note 2(a)(i).

Nature of leasing activities (as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The Group also leases certain items of equipment. In some contracts for services with distributors, those contracts contain a leases of equipment comprise only fixed payments over the lease terms.

None of the lease contracts entered by the Group contains a variable lease payments scheme.

Extension and termination options are included in certain property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination option held are exercisable only by the Group and not by the respective lessor. An additional cash outflow of HK$21,382,000 was estimated if all the extension options were exercised and no termination options were not exercised.

RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings HK$'000	**Equipment** HK$'000	**Total** HK$'000
As at 1 January 2019	120,144	21,231	141,375
Additions	37,428	4,892	42,320
Depreciation charge	(34,418)	(16,166)	(50,584)
Exchange realignment	(306)	(56)	(362)
As at 31 December 2019	122,848	9,901	132,749

Note: In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance lease" under HKAS 17. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2(a).

14. LEASES (CONTINUED)

LEASE LIABILITIES

	HK$'000
As at 1 January 2019	168,101
Additions	42,320
Interest expense	16,900
Lease payments	(62,255)
Foreign exchange movements	(417)
As at 31 December 2019	164,649

Future lease payments are due as follows:

	Minimum lease payments As at 31 December 2019 HK$'000	**Interest As at 31 December 2019** HK$'000	**Present value As at 31 December 2019** HK$'000
Not later than one year	63,437	13,765	49,672
Later than one year and not later than two years	50,355	10,090	40,265
Later than two years and not later than five years	62,508	16,870	45,638
Later than five years	33,008	3,934	29,074
	209,308	44,659	164,649

	Minimum lease payments As at 1 January 2019 *Note* HK$'000	**Interest As at 1 January 2019** *Note* HK$'000	**Present value As at 1 January 2019** *Note* HK$'000
Not later than one year	58,112	16,157	41,955
Later than one year and not later than two years	50,342	11,200	39,142
Later than two years and not later than five years	85,696	22,898	62,798
Later than five years	26,912	2,706	24,206
	221,062	52,961	168,101

14. LEASES (CONTINUED)

LEASE LIABILITIES (continued)

	Minimum lease payments As at 31 December 2018 *Note* HK$'000	**Interest As at 31 December 2018** *Note* HK$'000	**Present value As at 31 December 2018** *Note* HK$'000
Not later than one year	17,142	3,160	13,982
Later than one year and not later than two years	12,475	602	11,873
Later than two years and not later than five years	–	–	–
Later than five years	–	–	–
	29,617	3,762	25,855

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Please refer to note 2(a)(v) for further details about transition.

As at 31 December 2018, 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% per annum. All leases are on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

The present value of future lease payments are analysed as at 31 December 2019:

	HK$'000
Current liabilities	49,672
Non-current liabilities	114,977
	164,649

The total cash outflow for leases for the year ended 31 December 2019 was HK$63,855,000.

14. LEASES (CONTINUED)

LEASE LIABILITIES (continued)

As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018	
	Land and buildings HK$'000	Equipment HK$'000
Not later than one year	41,208	6,425
Later than one year and not later than five years	110,531	17,599
Later than five years	41,126	-
	192,865	24,024

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.

Operating leases – lessor

As at 31 December 2019, undiscounted minimum lease payments receivables by the Group in future period under non-cancellable operating leases are as follows:

	Investment properties	
	2019 HK$'000	**2018** HK$'000
Not later than one year	–	140
Later than one year and not later than five years	–	36
Later than five years	–	–
	–	176

As at 31 December 2018, the investment properties have committed tenants for an average term of one year.

15. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

During the year, the board disposed of 100% interest in Sun Innovation HK Properties Holdings Limited, a wholly owned subsidiary of the Company, and its subsidiaries (collectively known as "Disposal Group"). The Disposal Group is principally engaged in property investment. The Group intends to realise its investment in the properties and to deploy its financial resources through this disposal. Please refer to note 33(b) for details.

The following major classes of assets and liabilities relating to this operation were 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

16. INTANGIBLE ASSETS

	Goodwill HK$'000 *(Note (a))*	Trademarks HK$'000 *(Note (b))*	Proprietary software HK$'000 *(Note (c))*	Participation rights HK$'000 *(Note (d))*	Patents HK$'000 *(Note (e))*	Virtual human know-how HK$'000 *(Note (f))*	Backlog contracts HK$'000 *(Note (g))*	Licences for intellectual property rights HK$'000 *(Note (h))*	Other licences HK$'000 *(Note (i))*	Total HK$'000
COST										
As at 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 32)*	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 and 1 January 2019	854,831	147,739	164,998	383,112	294,400	31,446	18,178	26,082	2,198	1,922,984
Additions	–	–	33,628	–	11,243	–	–	–	16,524	61,395
Additions from business combination *(Note 31)*	30,484	–	1,211	–	–	–	–	–	–	31,695
Disposal	–	–	–	–	(1,196)	–	–	–	–	(1,196)
Disposal of subsidiaries	–	–	–	–	–	(31,446)	–	(22,000)	–	(53,446)
Write off	–	–	–	–	–	–	–	(4,082)	(860)	(4,942)
Exchange realignment	(363)	5,627	531	(1,349)	2,000	–	–	–	(21)	6,425
As at 31 December 2019	884,952	153,366	200,368	381,763	306,447	–	18,178	–	17,841	1,962,915
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS										
As at 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 and 1 January 2019	–	–	96,478	301,199	34,437	10,151	7,574	11,206	1,086	462,131
Amortisation for the year	–	–	6,751	44,857	38,038	273	9,089	781	4,531	104,320
Impairment for the year	74,419	–	–	–	–	–	–	–	–	74,419
Disposal	–	–	–	–	(202)	–	–	–	–	(202)
Disposal of subsidiaries	–	–	–	–	–	(10,424)	–	(7,905)	–	(18,329)
Write off	–	–	–	–	–	–	–	(4,082)	(860)	(4,942)
Exchange realignment	–	–	(100)	(1,350)	991	–	–	–	(65)	(524)
As at 31 December 2019	74,419	–	103,129	344,706	73,264	–	16,663	–	4,692	616,873
CARRYING AMOUNT										
As at 31 December 2019	810,533	153,366	97,239	37,057	233,183	–	1,515	–	13,149	1,346,042
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

16. INTANGIBLE ASSETS (CONTINUED)

Notes:

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

	2019 HK$'000	2018 HK$'000
Visual effects production service	208,863	209,226
Post production service	85,186	102,387
360 degree digital capture technology application	321,291	378,509
Sales of hardware and solution service	195,193	164,709
	810,533	854,831

The goodwill from current year's business combination is allocated to the Group's sales of hardware and solution service CGU for the purpose of impairment testing. Please refer to note 31 for details of business combination during the year.

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 7 years. The long period of 7 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 2.5%.

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

2019	Visual effects production service CGU	Post production service CGU	360 degree digital capture technology application CGU	Sales of hardware and solution service CGU
Average growth rate within budget period	19.4%	30.1%	31.5%	52.4%
Pre-tax discount rate	17.0%	20.5%	17.8%	19.1%
Average gross margins	16.1%	43.9%	43.8%	36.7%

2018	Visual effects production service CGU	Post production service 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%
Average gross margins	14.5%	49.9%	54.5%	63.9%

16. INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(a) (continued)

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

The recoverable amount of CGUs was based on the value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the Management covering a five-year period for post production CGU and a seven-year period for 360 degree digital capture technology application CGU. The pre-tax discount rate and other key assumption for the value in use calculation, as disclosed in the above table, relates to the estimation of cash inflows/outflows which include budgeted service revenue. Such estimations are based on the CGUs' past performance and the Management's expectations for the market development. The growth rate used to extrapolate the cash flows beyond the financial budgets period are 2.5% for post production CGU and 2% for 360 degree digital capture technology application CGU, which do not exceed the long-term growth rate for the industry in the corresponding country. The Management believes that any reasonable and possible change in any of this assumption would not cause the aggregate carrying amount to exceed the aggregate recoverable amount. Accordingly, impairment loss in the aggregate of HK$17,201,000 for post production CGU and HK$57,218,000 for 360 degree digital capture technology application CGU was recognised in profit or loss.

Except as described above, the recoverable amounts of the goodwill in relation to other CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill as at 31 December 2019. The Management was of the opinion that a reasonable change in key assumptions for these CGUs which the Management had based its determination of the CGU's recoverable amount would not cause an impairment loss.

(b) Trademarks were considered as having indefinite useful lives as they are considered renewable at minimal costs. Trademarks will expire between 2020 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:

	2019 HK$'000	**2018** HK$'000
Visual effects production business	19,478	19,579
360 degree digital capture technology application	133,888	128,160
	153,366	147,739

(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.

(d) Participation rights represented the contractual rights to income arising from broadcasting movies and TV dramas.

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

16. INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(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 and 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.

17. INTERESTS IN ASSOCIATES

	2019 HK$'000	**2018** HK$'000
Share of net assets	–	5,705
Amounts due from associates	79,973	–
	79,973	5,705

17. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information below represents amounts shown in the associates' financial statements adjusted by the Group to conform with HKFRSs for equity accounting purposes. The associates are accounted for using the equity method in the consolidated financial statements.

The amounts due from associates are unsecured, interest-free and repayable on demand. In the opinion of the directors, these amounts due from associates are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associates.

Management reassessed the ECL of amounts due from associates. As at 31 December 2019, loss allowances of HK$77,768,000 were recognised (2018: Nil).

Details of the Group's material associates are as follows.

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Effective equity interest attributable to the Company as at 31 December 2019 and 2018	Principal activity
DD & TT Company Limited*	Incorporated	Hong Kong	HK$55,000,000	18% (2018: 60%)	Holding licence for intellectual property right of a well-known deceased singer
Digital Domain (Taiwan) Company Limited#	Incorporated	The British Virgin Islands/ Hong Kong	US$1	30% (2018: 100%)	Investment holdings
Digital Domain Media (AM) Company Limited#	Incorporated	Hong Kong	HK$1	30% (2018: 100%)	Virtual human business
Digital Domain Virtual Human Group Limited	Incorporated	The British Virgin Islands	US$1	30% (2018: 100%)	Investment holdings
數字王國空間(北京)傳媒科技有限公司	Incorporated	The PRC	RMB5,084,746	34.42%	VR Theater
虛谷未來科技(北京)有限公司#	Incorporated	The PRC	RMB500,000	30% (2018: –)	Virtual human business

* The associate is partially indirectly owned 60% by Digital Domain Virtual Human Group Limited, an associate of the Group with 30% equity held by the Group.

\# Wholly-owned subsidiary of Digital Domain Virtual Human Group Limited.

17. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the Group's material associates is set out below.

	Digital Domain Virtual Human Group Limited		數字王國空間(北京)傳媒科技有限公司	
	2019	**2018**	**2019**	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December:				
Current assets	9,589	N/A	18,741	17,161
Non-current assets	32,907	N/A	28,168	18,086
Current liabilities	(135,769)	N/A	(70,573)	(18,672)
Non-current liabilities	–	N/A	–	–
Net (liabilities)/assets	(93,273)	N/A	(23,664)	16,575
Group's share of net assets *(Note)*	–	N/A	–	5,705
Included in the above amounts are:				
Year ended 31 December:				
Revenue	5,700	N/A	19,967	7,681
Loss for the year	(26,036)	N/A	(40,508)	(56,309)
Other comprehensive income	(391)	N/A	269	29,635
Total comprehensive income	(26,427)	N/A	(40,239)	(26,674)
Group's share of losses	(8,045)	N/A	(13,943)	(19,645)
Group's share of other comprehensive income	–	N/A	93	(13,346)

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.

Note: The Group continues recognised share of loss of HK$8,045,000 and HK$13,943,000 to Group's long-term interest.

18. INTERESTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets	4	16
Amounts due from joint ventures	2,878	2,878
	2,882	2,894
Less: Impairment loss on amounts due from joint ventures	(2,878)	(2,878)
	4	16

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 (2018: Nil) has been recognised for the year ended 31 December 2019 since the amount is immaterial.

Particulars of material joint ventures as at 31 December 2019 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% (2018: 50%)	Visual effects production

18. 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	
	2019	**2018**
	HK$'000	HK$'000
At 31 December:		
Current assets	1,375	1,400
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–
Net assets	1,375	1,400
Group's share of net assets	4	16
Included in the above amounts are:		
Cash and cash equivalents included in current assets	85	257
Year ended 31 December:		
Revenue	–	45
Interest income	–	5
Taxation	–	(4)
Loss for the year	–	(14)
Other comprehensive income	(25)	(77)
Total comprehensive income	(25)	(91)
Group's share of losses	–	(7)
Group's share of other comprehensive income	(12)	(38)

19. FINANCIAL ASSET MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at	
	31 December 2019	**31 December 2018**
	HK$'000	HK$'000
Unlisted equity investment, at fair value	–	165,976

Note:

In prior year, the Group has acquired the unlisted equity instrument at the consideration of US$25,000,000 (equivalent to approximately HK$196,213,000). During the year, fair value loss of HK$165,976,000 (2018: HK$30,237,000) has been recognised in other comprehensive income. Please refer to note 43(b) for details on fair value measurement of the FVOCI.

The above investment represents an unlisted equity instrument which is held for medium or long-term strategic purpose. The Group has designated the investment in equity instrument as at fair value through other comprehensive income as the directors believe that this provides a more meaningful presentation for medium or long-term strategic investment, than reflecting changes in fair value immediately in profit or loss.

20. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2019	**2018**
	HK$'000	HK$'000
Non-current portion:		
Deposits	12,857	12,585
Current portion:		
Trade receivables (Notes (i) and (ii))	46,678	51,679
Other receivables (Notes (i) and (iii))	66,003	67,506
Deposits (Note (i))	5,307	3,002
Prepayments	51,686	42,207
	169,674	164,394
Total trade receivables, other receivables and prepayments	182,531	176,979

20. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(i) The Directors consider that the carrying amounts of trade receivables, other receivables and deposits approximate their fair values as at 31 December 2019 and 2018.

Except for a receivable included in other receivables with carrying amount of approximately HK$51,440,000 (2018: HK$33,856,000) bearing interest at 12% per annum (2018: 2% per month), no interest is charged on trade and other receivables.

(ii) The Group normally allows an average credit period of 30 days (2018: 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:

	2019 HK$'000	**2018** HK$'000
0 to 30 days	26,347	31,576
31 to 60 days	2,415	1,197
61 to 90 days	5,428	2,288
91 to 365 days	5,159	15,843
Over 365 days	7,329	775
	46,678	51,679

(iii) As at 31 December 2019, included in other receivables is a receivable with carrying amount of approximately HK$51,440,000 (2018: HK$33,856,000) from an independent third party which entered into agreements with the Group during the year to extend the repayment date. The receivable is unsecured, interest bearing at 12% per annum (2018: 2% per month) and repayable in 2020 (2018: repayable in 2019). The Directors are of the opinion that, after taking into account the past payment history of the principal and related interest receivables, impairment of the receivable of HK$6,725,000 (2018: Nil) is made at the end of the reporting period.

21. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 HK$'000	2018 HK$'000
Contract assets arising from:		
Visual effects production service	13,170	4,931
Post production service	–	2,800
	13,170	7,731

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 2019 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:

	2019 HK$'000	2018 HK$'000
At beginning of year	1	–
(Reversal of)/recognition of impairment losses	(1)	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.

21. 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:

	2019 HK$'000	2018 HK$'000
At 31 December	13,170	7,731
ECL rate	0.01%	0.01%

	HK$'000	HK$'000
Gross carrying amount	13,170	7,731
ECLs	–	1

(b) Contract liabilities

	2019 HK$'000	2018 HK$'000
Contract liabilities arising from:		
Visual effects production service	66,255	20,498
Sales of hardware and solution service	618	8,394
	66,873	28,892

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

	2019 HK$'000	2018 HK$'000
Balance as at 1 January	28,892	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	(28,892)	(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	66,873	28,892
Balance at 31 December	66,873	28,892

22. BANK BALANCES AND CASH

As at 31 December 2019, included in the bank balances and cash of the Group was an amount of HK$68,876,000 (2018: HK$11,493,000) 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.

23. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Trade payables	27,348	33,692
Other payables	25,347	47,715
Accruals	56,126	57,034
	108,821	138,441

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2019 and 2018.

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

	2019 HK$'000	2018 HK$'000
0 to 30 days	7,407	17,045
31 to 60 days	4,248	1,598
61 to 90 days	1,263	994
91 to 365 days	4,373	10,171
Over 365 days	10,057	3,884
	27,348	33,692

24. BORROWINGS

	2019 HK$'000	2018 HK$'000
Current		
Bank loans due for repayment within one year *(Notes (i) & (ii))*	32,494	41,909
Bank loans due for repayment after one year which contain a repayment on demand clause *(Note (iii))*	–	54,789
Other loans *(Note (v))*	22,376	172,774
Secured note *(Note (vii))*	–	59,357
	54,870	328,829
Non-current		
Bank loans *(Note (iv))*	70,121	46,989
Other loans *(Note (vi))*	149,394	178,153
	219,515	225,142

The Group's borrowings consisted of the following:

(i) During the year ended 31 December 2019, a lease facility loan with the principal amount of CAD2,021,000 (equivalent to HK$12,120,000) is guaranteed by the subsidiaries, of which, CAD643,000 (equivalent to HK$3,857,000) is settled and CAD1,378,000 (equivalent to HK$8,263,000) was outstanding as at 31 December 2019.

As at 31 December 2019, bank loan with principal amount of RMB11,620,000 (equivalent to HK$13,001,000) is guaranteed by facilities from another subsidiary and secured by bank deposit. Another bank loan with principal amount of RMB5,650,000 (equivalent to HK$6,321,000) was secured by bank deposits.

As at 31 December 2018, bank loans with principal amount of RMB9,730,000 (equivalent to HK$11,079,000) were guaranteed by a standby letter of credit issued by another bank. The loans were settled during the year.

As at 31 December 2018, mortgage bank loans with the principal amount of HK$60,000,000 are secured by investment properties of the Group located in Hong Kong and assignment of rental proceeds duly executed in respect of the pledged investment properties. The mortgage bank loans were fully settled in June 2019.

24. 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 2019, 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 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012.

As at 31 December 2019, the carrying amount of the SME loan and the related accrued interest payable was HK$4,854,000 (2018: HK$4,854,000) and HK$9,896,000 (2018: HK$7,586,000), 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 2019 and 2018. 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.

24. BORROWINGS (CONTINUED)

(iii) As at 31 December 2018, the current liabilities include mortgage bank loans of HK$54,789,000, the amount were fully settled during the year.

(iv) As at 31 December 2019, bank loans with principal amount of US$9,000,000 (equivalent to HK$70,121,000) (2018: US$6,000,000 (equivalent to HK$46,989,000)) were secured by bank deposits of the same amount placed in the banks that are not repayable within 13 months from 31 December 2019 (2018: not repayable within 13 months from 31 December 2018).

(v) As at 31 December 2019, there were loans with principal amount of RMB20,000,000 (equivalent to HK$22,376,000) (2018: RMB20,000,000 (equivalent to HK$22,772,000)) provided by a non-controlling shareholder of a 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.

As at 31 December 2018, a 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, which was settled during the year.

As at 31 December 2018, a loan amounted to HK$92,774,000 was pledged by the guaranteed returns from the two joint invested TV drama series, which was settled during the year.

(vi) As at 31 December 2019, one of other loans with a principal amount US$3,500,000 (equivalent to HK$27,065,000) (2018: US$3,500,000 (equivalent to HK$27,065,000)) and a new other loan with the principal amount of HK$10,000,000 (2018: Nil) are unsecured, interest-free and not repayable within 13 months from 31 December 2019.

As at 31 December 2019, the other loan with a principal amount of US$8,000,000 (equivalent to HK$62,329,000) (2018: US$10,000,000 (equivalent to HK$78,316,000)) and HK$50,000,000 (2018: HK$50,000,000) are interest-bearing at interest rate from prime rate quoted by a bank in Hong Kong and not repayable within 13 months from 31 December 2019.

(vii) As at 31 December 2018, 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 settled during the year ended 31 December 2019.

As at 31 December 2019 and 2018, all the loans of the Group are denominated in either HK$, RMB, Canadian dollar ("CAD") or United States dollars ("US$").

The bank loans bear floating interest rates at effective rates ranging from 4.57% to 6.25% (2018: 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 2019 and 2018.

24. BORROWINGS (CONTINUED)

At 31 December, total current and non-current borrowings were scheduled to repay as follows:

	2019 HK$'000	**2018** HK$'000
On demand or within one year	54,870	305,334
After one year but within two years	219,515	248,637
In the second to fifth years inclusive	–	–
Over five years	–	–
	274,385	553,971

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.

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 42(b). As at 31 December 2019 none of the covenants relating to drawn down facilities had been breached.

25. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2019	**2018**	**2019** HK$'000	**2018** HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
As at 1 January 2018, 31 December 2018 and 31 December 2019 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	26,731,511,340	24,441,754,094	267,314	244,418
Issue of shares on exercise of share options *(Note (a))*	6,000,000	500,000	60	5
Issue of shares on placement *(Note (b))*	7,323,600,000	2,175,780,000	73,236	21,757
Issue of shares for acquisition of subsidiaries completed in previous years *(Note (c))*	–	100,772,328	–	1,007
Issue of shares for acquisition of intangible assets completed in previous years *(Note (d))*	12,704,918	12,704,918	127	127
As at 31 December	34,073,816,258	26,731,511,340	340,737	267,314

Notes:

(a) During the year, 6,000,000 (2018: 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 (2018: HK$0.098) each. The conversion gave rise to a credit of HK$519,000 (2018: 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 announcements dated 1 March 2018 and 16 March 2018.

On 12 April 2019, 5,323,600,000 new ordinary shares of par value HK$0.01 each were issued at subscription price of HK$0.104 each to an independent third party of the Group at an aggregate consideration of HK$553,556,000 net of issuing expenses, of which HK$53,236,000 was credited to the share capital and the remaining balance of HK$500,320,000 was credited to the share premium account. Further details were set out in the Company's announcements dated 22 March 2019 and 12 April 2019.

On 25 July 2019, 2,000,000,000 new ordinary shares of par value HK$0.01 each were issued at placing price of HK$0.104 each to independent third parties of the Group at an aggregate consideration of HK$205,806,000 net of issuing expenses, of which HK$20,000,000 was credited to the share capital and the remaining balance of HK$185,806,000 was credited to the share premium account. Further details were set out in the Company's announcements dated 3 July 2019, 18 July 2019 and 25 July 2019.

(c) On 28 December 2018, the Company issued 100,772,328 shares of the Company as part of the consideration 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 of the Company 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.

On 9 December 2019, the Company issued 12,704,918 shares of the Company as part of the consideration for the acquisition of intangible assets during the year ended 31 December 2016, resulting in a balance of HK$7,580,000 credited to share premium. Further details were set out in the Company's announcement dated 9 December 2019.

26. RESERVES

Company

	Share premium HK$'000 *(Note (i))*	Contributed surplus HK$'000 *(Note (iii))*	Share options reserve HK$'000 *(Note (iv))*	Deferred shares reserve HK$'000 *(Note (v))*	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2018	840,678	594,690	167,762	64,950	(793,081)	874,999
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
As at 1 January 2019	1,290,487	594,690	169,132	7,767	(1,051,262)	1,010,814
Recognition of equity-settled share-based payment	–	–	5,113	–	–	5,113
Issue of shares on placement, net of expenses	686,126	–	–	–	–	686,126
Issue of shares for acquisition of intangible assets completed in previous years	7,580	–	–	(7,767)	–	(187)
Issue of shares on exercise of share options	519	–	(206)	–	206	519
Loss and total comprehensive income for the year	–	–	–	–	(621,839)	(621,839)
As at 31 December 2019	1,984,712	594,690	174,039	–	(1,672,895)	1,080,546

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) Buildings revaluation reserve

Buildings revaluation reserve arose in 2005 upon the fair value adjustment when the Group reclassified its land and buildings as investment properties.

(iii) 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.

(iv) Share options reserve

This reserve represents cumulative expenses recognised on the granting of unexercised share options to the participants over the vesting period.

(v) Deferred shares reserve

The reserve represents the shares to be issued as part of the considerations for the acquisition of intangible assets during the year ended 31 December 2016. On 9 December 2019, shares of HK$7,767,000 were issued, being the third and final instalment for the acquisition. As at 31 December 2019, there is no deferred shares to be issued (2018: HK$7,767,000).

(vi) 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".

26. RESERVES (CONTINUED)

Notes: (continued)

(vii) 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.

(viii) 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 2019, nor has any dividend been proposed since the end of reporting period (2018: 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.

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.

On 24 April 2019, 130,000,000 Options were conditionally granted to employees of the Group (the "Grantees"). 109,999,999 Options have immediately vested on 24 April 2019, while 6,666,667 Options, 3,333,333 Options, 6,666,667 Options and remaining 3,333,334 Options will be vested on 29 February 2020, 24 April 2020, 28 February 2021 and 24 April 2021, respectively. All Options will be exercisable from their respective vesting dates until 23 April 2029. The exercise price of the Options is HK$0.130, being the average closing price of the Company's ordinary shares for the five business days immediately before 24 April 2019.

During the year, no Options (2018: 2,099,998) were forfeited and 6,000,000 Options (2018: 500,000) was exercised and the weighted average share price at the dates of exercise was HK$0.098 (2018: HK$0.098), the average remaining contractual life is 5.75 years (2018: 6.47 years).

27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

The Group recognised a share option expense in connection to all share options granted in current and prior years of approximately HK$5,113,000 (2018: HK$1,387,000) during the year ended 31 December 2019.

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, there was no share-based payment expenses recognised as remuneration cost in profit or loss (2018: HK$6,395,000).

In aggregate, the Group had recognised an equity-settled shared-based payment expenses of HK$5,113,000 (2018: HK$7,782,000) during the year ended 31 December 2019.

The following tables disclose movements in the Company's share options during the years ended 31 December 2019 and 2018:

27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

2019

Name or category of participants	At 1 January 2019	Granted during the year	Exercised during the year	Forfeited/ lapsed during the year	At 31 December 2019	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
Wang Wei-Chung	1,666,667	–	–	–	1,666,667	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	1,666,667	–	–	–	1,666,667	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	1,666,666	–	–	–	1,666,666	29 Jan 2016	29 Jan 2018 to 28 Jan 2026	0.413
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	650,730,000	–	(6,000,000)	–	644,730,000	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	91,500,010	–	–	–	91,500,010	29 Jan 2016	29 Jan 2016 to 28 Jan 2026	0.413
	81,499,998	–	–	–	81,499,998	29 Jan 2016	29 Jan 2017 to 28 Jan 2026	0.413
	75,833,327	–	–	–	75,833,327	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
	8,433,324	–	–	–	8,433,324	29 Jul 2016	29 Jul 2018 to 28 Jul 2026	0.566
– 2019	–	109,999,999	–	–	109,999,999	24 Apr 2019	24 Apr 2019 to 23 Apr 2029	0.130
	–	6,666,667	–	–	6,666,667	24 Apr 2019	29 Feb 2020 to 23 Apr 2029	0.130
	–	3,333,333	–	–	3,333,333	24 Apr 2019	24 Apr 2020 to 23 Apr 2029	0.130
	–	6,666,667	–	–	6,666,667	24 Apr 2019	28 Feb 2021 to 23 Apr 2029	0.130
	–	3,333,334	–	–	3,333,334	24 Apr 2019	24 Apr 2021 to 23 Apr 2029	0.130
	1,664,353,349	130,000,000	(6,000,000)	–	1,788,353,349			
Weighted average exercise price	HK$0.321	N/A	HK$0.098	N/A	HK$0.308			

27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

(i) Share option scheme (continued)

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	N/A	HK$0.098	HK$0.542	HK$0.321			

(ii) Option granted under general mandate

No option was granted under general mandate during the year (2018: Nil).

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		24	36
Interests in subsidiaries		1,287,384	1,393,000
		1,287,408	1,393,036
Current assets			
Other receivables and prepayments		2,180	1,919
Bank balances and cash		138,206	29,440
		140,386	31,359
Current liabilities			
Other payables and accruals		6,511	9,051
Borrowings		–	137,216
		6,511	146,267
Net current assets/(liabilities)		133,875	(114,908)
Total assets less current liabilities		1,421,283	1,278,128
NET ASSETS		1,421,283	1,278,128
Capital and reserves			
Share capital	*25*	340,737	267,314
Reserves	*26*	1,080,546	1,010,814
TOTAL EQUITY		1,421,283	1,278,128

On behalf of the Board

Seah Ang
Director

On behalf of the Board

Peter Chou
Director

29. SUBSIDIARIES

Particulars of the Company's material subsidiaries as at 31 December 2019 and 2018 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 2019 and 2018		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
Cosmos Glory Limited	Hong Kong	HK$27,392,698	–	85%	Investment holdings
COTC Productions, Inc.#	USA	US$10	–	51%	Film investment and production
Creation Smart Investments Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
DD Asset Management (BVI) Limited	The British Virgin Islands	US$1	–	100%	Investment holdings
DD Fengshu Media 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
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

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 2019 and 2018		Nature of business
			Direct	Indirect	
DDVR, Inc.	USA	US$1	–	100%	Investment holdings and virtual reality businesses
Digital Domain (International) Limited	Hong Kong	HK$1	–	100%	Dormant
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
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%	Investment holdings
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

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 2019 and 2018		Nature of business
			Direct	Indirect	
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
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 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
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

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 2019 and 2018 Direct	Indirect	Nature of business
Digital Domain Productions Québec, Ltd.	Canada	CAD100	–	100%	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	The British Virgin Islands	US$1	–	100%	Dormant
Digital Domain Virtual Human (HK) Limited	Hong Kong	HK$1	–	80% (2018: 100%)	Investment holdings
Digital Domain Virtual Human (US), Inc.	USA	US$1	–	80% (2018: 100%)	Software development and research
Digital Domain Virtual Human Holdings Limited	The British Virgin Islands	US$2,000,160	–	80% (2018: 100%)	Investment holdings
Digital Domain Virtual Human Productions (BC), Ltd.	Canada	CAD1	–	80% (2018: 100%)	Software development and research
Digital Domain Virtual Reality 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

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 2019 and 2018		Nature of business
			Direct	Indirect	
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
Four Pillars Entertainment, Inc.#	USA	US$1	–	51%	Film investment and production
Four Pillars Media Development, Inc.#	USA	US$1	–	51%	Film investment and production
Golden Stream Global Limited	The British Virgin Islands	US$1	100%	–	Investment holdings
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%	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%	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 2019 and 2018		Nature of business
			Direct	Indirect	
S. I. Travel Group Limited	The British Virgin Islands/ Hong Kong	US$1	100%	–	Trading
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	–	100%	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%	Investment holdings
Well Venture Holdings Limited	Hong Kong	HK$1	–	100%	Securities investment and investment holding
數字王國文霆(北京)文化傳媒有限公司 (formerly known as "文霆廣告製作(北京)有限公司")	The PRC	RMB54,298,282	–	85%	Visual effects production and post production
台灣虛擬現實科技有限公司	Taiwan	NT$1,000,000	–	66.88%	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 2019 and 2018		Nature of business
			Direct	Indirect	
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%	Investment holdings
深圳市奇幻樂園科技有限公司*	The PRC	RMB100,000	–	60%	VR hardwares and solution services
深圳市虛擬現實技術有限公司	The PRC	RMB153,895	–	60%	VR hardwares and solution services
深圳市虛擬現實科技有限公司	The PRC	RMB10,000,000	–	60%	VR hardwares and solution services
數字王國朝霆(上海)文化傳媒有限公司 (formerly known as "朝霆廣告製作(上海)有限公司")	The PRC	RMB23,916,998	–	85%	Visual effects production and post production
數字王國(深圳)科技發展有限公司°	The PRC	HK$10,960,000	–	100%	Visual effects production
深圳市維爾信息科技有限公司^	The PRC	RMB20,000,000	–	60% (2018: –)	Online platform for VR solutions and services

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.

^ The Group does not have legal ownership in equity of 深圳市維爾信息科技有限公司 ("Shenzhen Weier"). Under a series of contractual arrangements (the "Structured Contracts") entered into with the registered shareholder of Shenzhen Weier, the Group controls effective interest of 60% by way of controlling the voting rights, governing their financial and operating policies, appointing or removing any directors from the board of directors of Shenzhen Weier. In addition, such Structured Contracts also transfer the risks and rewards of Shenzhen Weier to the Group. As a result, Shenzhen Weier is presented as controlled structured entity of the Group. For more details, please refer to note 31.

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 during the year.

30. NON-CONTROLLING INTEREST

The following table lists out the information relating to Immersive Ventures Inc., IM360 Entertainment Inc., Lead Turbo Limited, Four Pillars Entertainment, Inc., Digital Domain Virtual Human Holdings 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		Four Pillars Entertainment, Inc.		Digital Domain Virtual Human Holdings Limited		DD & TT Company Limited#		Lucrative Skill Holdings Limited	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
At 31 December:														
NCI percentage	16.9%	16.9%	8.281%	8.281%	33.12%	33.12%	49%	–	20%	–	40%	40%	15%	15%
Non-current assets	196,864	194,944	5,871	6,278	212,094	192,007	2,301	–	17,137	–	–	43,961	48,681	36,689
Current assets	539	791	31,154	33,376	61,784	87,264	9,683	–	16,571	–	–	1,730	81,530	37,542
Non-current liabilities	(46,379)	(44,935)	–	–	(19,992)	(44,339)	–	–	–	–	–	–	(12,450)	–
Current liabilities	(90,715)	(88,743)	(42,373)	(44,377)	(63,829)	(27,632)	(16,932)	–	(28,926)	–	–	(20,204)	(254,994)	(144,008)
Net assets/(liabilities)	60,309	62,057	(5,348)	(4,723)	190,057	207,300	(4,948)	–	4,782	–	–	25,487	(137,233)	(69,777)
Accumulated NCI	10,192*	10,488*	(443)*	(391)*	62,947*	68,658*	(2,424)*	–	956*	–	–	10,194*	(20,585)*	(10,467)*
Year ended 31 December:														
Revenue	30	4,052	–	8,648	79,054	87,377	–	–	–	–	517	3,769	43,018	62,625
(Loss)/profit for the year	(7,921)	(12,501)	(407)	(10,348)	(14,557)	20,472	(4,976)	–	(1,933)	–	(418)	(6,302)	(63,867)	(58,373)
Total comprehensive income	(1,748)	(21,000)	(625)	(10,251)	(17,243)	12,570	(4,948)	–	(2,086)	–	(418)	(6,302)	(65,165)	(58,756)
(Loss)/profit allocated to NCI	(1,339)*	(2,113)*	(34)*	(857)*	(4,821)*	6,780*	(2,438)*	–	(386)*	–	(166)*	(2,521)*	(9,582)*	(8,756)*
Total comprehensive income allocated to NCI	(296)	(3,550)	(52)	(849)	(5,711)	4,163	(2,424)	–	(417)	–	(166)	(2,521)	(9,776)	(8,813)
Dividend paid to NCI	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Net cash (outflows)/inflows from operating activities	(9)	(185)	(60)	(204)	(23,484)	(794)	6,037	–	(4,350)	–	(177)	(2,428)	21,357	1,989
Net cash inflow/(outflows) from investing activities	–	123	–	(143)	26,059	(71,487)	(728)	–	(11,206)	–	–	–	(7,273)	(22,703)
Net cash inflows from financing activities	–	–	–	–	51,557	26,221	–	–	15,685	–	–	–	8,243	5,720

* The aggregate NCI as at 31 December 2019 amounted to credit balance of approximately HK$50,643,000 (2018: HK$78,482,000) and the aggregate net losses allocated to NCI for the year then ended amounted to approximately HK$18,766,000 (2018: HK$7,467,000).

DD & TT Company Limited was disposed of on 31 January 2019 and becomes the associate of the Group. Details were described in the notes 17 and 33(a).

31. BUSINESS COMBINATION DURING THE YEAR

On 1 September 2019, the Group completed its acquisition of 100% issued share capital of Shenzhen Weier in consideration of RMB20,000,000 (equivalent to approximately HK$21,916,000). Under the structure contracts entered into among 深圳市虛擬現實技術有限公司 and the registered shareholder of Shenzhen Weier, the Group is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of Shenzhen Weier. In summary, the structure contracts provide the Group through 深圳市虛擬現實技術有限公司 with, among other things:

- the right to receive the cash received by Shenzhen Weier from its operations which is surplus to its requirements, having regard to its forecast working capital needs, capital expenditure, and other short-term anticipated expenditure through various commercial arrangements;

- the right to ensure that 深圳市虛擬現實技術有限公司 owns the valuable assets of the business through the assignment to Shenzhen Weier of the principal present and future intellectual property rights of Shenzhen Weier; and

- the right to control the management, financial and operating policies of Shenzhen Weier.

As a result, Shenzhen Weier is accounted for as a controlled structured entity and the formation of the structured entity was accounted for as a business combination. This approach was adopted because in management's belief it best reflected the substance of the formation.

Shenzhen Weier is principally engaged in providing VR content through the website and online platform. The acquisition was made by the Group with the aim to derive synergy effect to the existing VR services.

The fair value of identifiable assets and liabilities of Shenzhen Weier as at the date of completion was:

	HK$'000
Property, plant and equipment	14
Intangible assets	1,211
Trade receivables, other receivables and prepayments	680
Amount due from related parties	815
Bank balances and cash	2,866
Trade payables, other payables and accruals	(3,787)
Contract liabilities	(2,959)
Amounts due to related parties	(7,408)
Net liabilities	(8,568)
Goodwill *(Note 16)*	30,484
Total consideration	21,916
Total consideration at fair value consisted of:	
– Cash consideration	21,916
	21,916

31. BUSINESS COMBINATION DURING THE YEAR (CONTINUED)

An analysis of the cash flows in respect of the acquisition of Shenzhen Weier is as follows:

	HK$'000
Cash consideration	21,916
Bank balances and cash acquired	(2,866)
Net outflow of cash and cash equivalents included in cash flows from investing activities	19,050

The fair value of trade and other receivables acquired as of the acquisition date amounted to HK$680,000. The gross contractual amount of these receivables is HK$680,000. 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 (production of VR contents) to diversify the revenue stream of the existing businesses of the Group.

Since the completion of the acquisition, Shenzhen Weier has contributed approximately HK$6,421,000 to the Group's revenue and approximately HK$4,663,000 profit to the Group for the year. If the acquisition had occurred on 1 January 2019, the Group's revenue and loss for the year would have been approximately HK$626,853,000 and HK$434,076,000 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 2019, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK$23,000 have been expensed and are included in administrative expenses.

32. BUSINESS COMBINATION IN PRIOR YEAR

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.

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 16)*	164,709
Total consideration	292,616
Total consideration at fair value consisted of:	
– Cash consideration	186,699
– Contingent consideration payable	105,917
	292,616

32. BUSINESS COMBINATION IN PRIOR YEAR (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 for 2018 has been settled during the year and the adjustment for 2019 will be settled in cash after the issuance of 2019 consolidated audited financial statements of the Lead Turbo Group. As at 31 December 2019, the potential undiscounted amount of the contingent consideration adjustment that the Group could be required to make under this arrangement is between nil and RMB50,000,000 (equivalent to approximately HK$55,940,000), 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 the profit or loss for the year ended 31 December 2018. As of 31 December 2019, the fair value of contingent consideration payable was decreased by RMB37,000,000 (equivalent to HK$41,396,000) as the estimated profit after tax of Lead Turbo Group was recalculated to be approximately RMB13,000,000 (equivalent to HK$14,259,000) and the changes in fair value was recognised in current year's profit or loss.

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.

The acquisition-related costs of approximately HK$2,424,000 have been expensed and are included in administrative expenses.

33. DISPOSAL OF SUBSIDIARIES

(a) On 31 January 2019, the Group disposed of 70% interest of its subsidiaries which are engaged in virtual human business in the Greater China region. The disposal would allow the Group to retain certain equity interest in the virtual human business in the Greater China region and benefit from additional funding and other resources for future development from strategic investors. On 31 January 2019, the disposal has been completed. The net assets at the date of disposal were as follows:

	31 January 2019 HK$'000
Property, plant and equipment	7,323
Intangible assets	35,117
Trade and other receivables	2,339
Cash and cash equivalents	638
Trade and other payables	(6,411)
Amounts due to holding companies	(113,327)
Non-controlling interest	(10,028)
Net liabilities	(84,349)
Net asset value of subsidiaries disposed of	(84,349)
Fair value of identifiable assets retained by the Group	(2,678)
Gain on disposal of subsidiaries included in loss for the year in the consolidated income statement	105,275
Total consideration	18,248
Satisfied by:	
Cash	18,248
Total	18,248

Upon the completion of disposal, cash consideration of HK$18,248,000 was received and a gain on disposal of subsidiaries of HK$105,275,000 was recognised.

33. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(b) On 19 March 2019, the Group entered into a sale and purchase agreement with an independent purchaser in connection with disposal of a group of subsidiaries which are engaged in property investment business. The disposal was to realise the investment in property market due to the continuing softening of the real estate market in Hong Kong and also deploy its financial resources in the media entertainment business. On 18 June 2019, the disposal has been completed and a cash consideration of HK$215,802,000 (consideration of HK$216,000,000 per sale and purchase agreement adjusted by the net asset value of the Disposal Group at completion date). The net assets at the date of disposal were as follows:

	18 June 2019 HK$'000
Investment properties *(Note)*	209,000
Trade and other receivables	97
Trade and other payables	(19)
Net assets	209,078
Gain on disposal of subsidiaries included in loss for the year in the consolidated income statement	6,724
Total consideration	215,802
Satisfied by:	
Cash	215,802
Total	215,802

Upon the completion of disposal, cash consideration of HK$215,802,000 was received and a gain on disposal of subsidiaries of HK$6,724,000 was recognised.

33. DISPOSAL OF SUBSIDIARIES (CONTINUED)

Note:

Investment properties

Fair value

	HK'000
As at 1 January 2019	208,300
Fair value gains	700
As at completion date of disposal	209,000

The property rental income earned by the Group from its investment properties amounted to HK$66,000 (2018: HK$4,762,000). Direct operating expenses arising on the investment properties in the year amounted to HK$9,000 (2018: HK$1,021,000).

The Group's investment properties were located in Hong Kong.

The fair value of the Group's investment properties as at 18 June 2019 and 31 December 2018 have been arrived at on market value basis based on valuations carried out by Knight Frank Petty Limited and Cushman & Wakefield Limited respectively, both are independent firms of professionally qualified valuers, who hold recognised and relevant professional qualification and have recent experience in the locations and category of properties being valued.

34. NOTES SUPPORTING STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2019 HK$'000	**2018** HK$'000
Cash available on demand	197,052	52,212
Short-term deposits	112,799	23,818
As at 31 December	309,851	76,030

34. NOTES SUPPORTING STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities:

	Borrowings	Finance leases	Lease liabilities	Contingent consideration payable	Total
	(Note 24)	*(Note 14)*	*(Note 14)*	*(Note 43(b))*	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 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:					
– Arising from business combination	–	–	–	105,917	105,917
– Imputed interest expenses	–	–	–	2,731	2,731
Effects of foreign exchange	158	88	–	(10,105)	(9,859)
At 31 December 2018 and 1 January 2019	553,971	25,855	–	98,543	678,369
At 1 January 2019	553,971	25,855	–	98,543	678,369
Changes from cash flows:					
– Proceed from new borrowings	219,441	–	–	–	219,441
– Repayment of borrowings	(498,061)	–	–	–	(498,061)
– Repayment of lease liabilities	–	–	(62,255)	–	(62,255)
– Repayment of contingent consideration payable	–	–	–	(45,613)	(45,613)
Non-cash changes:					
– Effect on adoption of HKFRS 16	–	(25,855)	168,101	–	142,246
– Additions	–	–	42,320	–	42,320
– Imputed interest expenses	–	–	16,900	3,530	20,430
– Change in fair value	–	–	–	(41,396)	(41,396)
Effects of foreign exchange	(966)	–	(417)	(805)	(2,188)
As at 31 December 2019	274,385	–	164,649	14,259	453,293

35. 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 (2018: 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$669,000 (2018: HK$683,000).

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$7,983,000 (2018: HK$4,243,000).

36. CREDIT FACILITIES, PLEDGE OF ASSETS AND GUARANTEES

(a) As at 31 December 2019, the Group had aggregate banking facilities of HK$239,957,000 (2018: HK$198,318,000) 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 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 24.

(iii) As at 31 December 2019, 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 2019 (2018: Nil).

(iv) As at 31 December 2019, the Group's bank loan with a carrying amount of approximately HK$89,443,000 (2018: HK$23,495,000) 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 2019, a subsidiary obtained a term loan facility of HK$62,329,000 (2018: HK$78,316,000) denominated in US$ 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.

37. 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 2019 and 2018.

38. 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.

39. 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 license 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 late 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 2019 (2018: Nil) as, in the opinion of the Directors, the Group may or may not require a significant outflow of resource for the indemnification.

40. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Effect assessment of the Novel Coronavirus disease outbreak

Since the outbreak of the Novel Coronavirus (COVID-19) disease in China, ongoing prevention and control measures have been carries out throughout the whole country. The epidemic will impact business operations of certain industries as well as the overall economy. Therefore, the Group's operations and revenue may be affected to a certain extent depending on the effects of the prevention and control measures, duration of the outbreak and implementation of various policies.

The Group will closely monitor the situation, and assess its impacts on our financial position and operating results. As of the date of this report, such assessment is still ongoing.

41. 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 24, lease liabilities disclosed in note 14, less bank balances and cash disclosed in note 22) 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:

	2019 HK$'000	**2018** HK$'000
Debts	439,034	579,826
Bank balances and cash	(325,433)	(76,030)
Net debt	113,601	503,796
Total equity	1,477,195	1,309,956
Net debt to equity ratio	8%	38%

42. 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.

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 (2018: 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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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 2019, the Group has a concentration of credit risk as 17% and 46% (2018: 17% and 48%) 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.

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 2019 and 2018:

As at 31 December 2019	**Expected loss rate** %	**Gross carrying amount** $'000	**Loss allowance** $'000
Current (not past due)	0.02	25,119	6
1 to 3 months past due	0.08	17,127	13
3 to 6 months past due	0.45	5,428	24
6 to 12 months past due	2.68	5,220	140
More than 1 year past due	53.46	15,335	8,198
		68,229	8,381

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

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

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.

The following table reconciles the loss allowance account in respect of trade receivables and contract assets for the years ended 31 December 2019 and 2018:

	2019 HK$'000	**2018** HK$'000
At 1 January	3,507	3,223
Amounts written off during the year	(370)	(3,115)
Impairment loss recognised during the year	5,244	3,399
At 31 December	8,381	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$370,000 (2018: HK$3,115,000) resulted in a decrease in loss allowance of HK$370,000 (2018: HK$3,115,000).
- Increase in days past due over 30 days resulted in an increase in loss allowance of HK$5,244,000 (2018: HK$3,399,000).

Other receivables

The other receivables have been reviewed by the Management to assess impairment which are based on the evaluation of ECLs by assessing financial background of the counterparties.

The movements in the impairment allowance of other receivables were as follows:

	12-month ECL (Stage 1) HK$'000	**Lifetime ECL not credit-impaired (Stage 2)(Note)** HK$'000	**Lifetime ECL credit-impaired (Stage 3)** HK$'000	**Total** HK$'000
1 January 2018 and 31 December 2018	–	–	–	–
Amount written off during the year	(652)	–	–	(652)
Impairment loss recognised during the year	652	6,725	–	7,377
At 31 December 2019	–	6,725	–	6,725

Note: Included in the above allowance for doubtful debts in respect of other receivables is a provision for individually impaired other receivables of HK$44,715,000 with a carrying amount before provision of HK$51,440,000.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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.

Specifically, for bank 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
2019						
SME loan	4,854	5,125	5,125	–	–	–
Other bank loans	97,761	103,627	31,757	71,870	–	–
Other loan	171,770	177,879	5,632	172,247	–	–
Trade payables, other payables and accruals	106,028	106,028	106,028	–	–	–
Lease liabilities	164,649	209,308	63,437	50,355	62,508	33,008
Contingent consideration payable	14,259	14,259	14,259	–	–	–
	559,321	616,226	226,238	294,472	62,508	33,008
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 payable	98,543	102,474	45,544	56,930	–	–
	803,219	834,569	539,159	295,410	–	–

42. 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:

	2019		2018	
	Effective interest rate%	HK'000	Effective interest rate%	HK'000
Variable-rate borrowings				
Bank loans	4.57 – 6.25	102,615	2.3 – 6.25	143,689
Other loan	Prime rate	112,329	Prime rate	128,316
		214,944		272,005
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 24.

Sensitivity analysis

As at 31 December 2019, 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$1,105,000/HK$1,105,000 (2018: HK$2,719,000/HK$2,083,000) 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 2018.

(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 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.

43. 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 2019 and 2018 may be categorised as follows:

(a) Categories of financial assets and financial liabilities

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised costs (including cash and cash equivalents)	444,700	207,991
Financial assets at FVOCI	–	165,976
Financial liabilities		
Financial liabilities at amortised cost	545,062	704,676
Financial liabilities at FVTPL	14,259	98,543

(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.

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).

	2019			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVOCI				
– Unlisted equity investments	–	–	–	–
Financial liabilities at FVTPL				
– Contingent consideration payable	–	–	14,259	14,259

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.

43. 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	
	2019 HK$'000	**2018** HK$'000
Unlisted equity investments		
At 1 January	165,976	–
Purchases	–	196,213
Unrealised fair value loss	(165,976)	(30,237)
At 31 December	–	165,976

	2019 HK$'000	**2018** HK$'000
Contingent consideration payable		
At 1 January	98,543	–
Additions from business acquisition	–	105,917
Imputed interest	3,530	2,731
Repayment	(45,613)	–
Changes in fair value	(41,396)	–
Exchange realignment	(805)	(10,105)
At 31 December	14,259	98,543

The valuation technique as at 31 December 2019 is as follows:

Type of financial assets or financial liabilities	**Valuation technique**	**Significant unobservable inputs (level 3)**	**Sensitivity analysis**
Unlisted equity investment	Cost approach (2018: market approach) *(Note)*	N/A (2018: adjusted price-to-book ratio)	N/A (2018: 10% increase/(decrease) on adjusted price-to-book ratio would result a (decrease)/ increase in fair value by approximately HK$2,900,000)
Contingent consideration payable	Income approach	Estimated profit	10% increase/(decrease) on estimated profit would result a increase/(decrease) in fair value by approximately HK$1,426,000

Note: Due to downsizing of business operations that resulted in lack of marketability of the unlisted equity investment and the unavailability of updated financial information, the valuation technique adopted last year for the unlisted equity investment was no longer applicable. Accordingly, in carrying out the fair value assessment as at 31 December 2019, the Management assessed the assets and liabilities of the unlisted equity investment based on the latest available financial information at the end of the reporting period.

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:

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Results					
Revenue	625,446	600,679	703,004	763,501	527,341
Loss attributable to owners of the Company	(400,813)	(518,030)	(524,893)	(479,377)	(156,298)
Assets and Liabilities					
Total assets	2,175,050	2,224,839	1,893,029	1,919,803	1,540,353
Total liabilities	(697,855)	(914,883)	(489,998)	(854,375)	(838,112)
	1,477,195	1,309,956	1,403,031	1,065,428	702,241
Non-controlling interest	(50,643)	(78,482)	(25,558)	(42,774)	(28,813)
Equity attributable to owners of the Company	1,426,552	1,231,474	1,377,473	1,022,654	673,428