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

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the "Directors" and the "Board" respectively) of Digital Domain Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	4	**625,446**	600,679
Cost of sales and services rendered		**(524,774)**	(547,723)
Gross profit		**100,672**	52,956
Other income and gains	5	**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	7	**(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		**(21,988)**	(19,645)
Share of losses of joint ventures		**–**	(7)
Loss before taxation		**(422,293)**	(528,003)
Taxation	8	**2,714**	2,506
Loss for the year	6	**(419,579)**	(525,497)
Loss attributable to:			
– Owners of the Company		**(400,813)**	(518,030)
– Non-controlling interest		**(18,766)**	(7,467)
		(419,579)	(525,497)
Loss per share:	9		(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

	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	**93**	(13,346)
Share of other comprehensive income of joint ventures	**(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		**72,002**	106,917
Right-of-use assets	*10*	**132,749**	–
Intangible assets	*11*	**1,346,042**	1,460,853
Interests in associates		**79,973**	5,705
Interests in joint ventures		**4**	16
Financial asset measured at fair value through other comprehensive income		**–**	165,976
Deposits	*12*	**12,857**	12,585
Deferred tax assets		**176**	–
		1,643,803	1,752,052
Current assets			
Inventories		**22,970**	16,253
Trade receivables, other receivables and prepayments	*12*	**169,674**	164,394
Contract assets		**13,170**	7,731
Bank balances and cash		**325,433**	75,926
		531,247	264,304
Assets of a disposal group classified as held for sale		**–**	208,483
Current liabilities			
Trade payables, other payables and accruals	*13*	**108,821**	138,441
Lease liabilities	*10*	**49,672**	–
Contract liabilities		**66,873**	28,892
Borrowings		**54,870**	328,829
Obligations under finance leases		**–**	13,982
Contingent consideration payable		**14,259**	43,468
Tax payable		**5,073**	2,465
		299,568	556,077
Liabilities of a disposal group classified as held for sale		**–**	95
Net current assets/(liabilities)		**231,679**	(83,385)
Total assets less current liabilities		**1,875,482**	1,668,667

	Note	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Borrowings		**219,515**	225,142
Lease liabilities	*10*	**114,977**	–
Obligations under finance leases		**–**	11,873
Contingent consideration payable		**–**	55,075
Deferred tax liabilities		**63,795**	66,621
		398,287	358,711
NET ASSETS		**1,477,195**	1,309,956
Capital and reserves			
Share capital		**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		**50,643**	78,482
TOTAL EQUITY		**1,477,195**	1,309,956

NOTES

1. ORGANISATION AND OPERATIONS

Digital Domain Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has its principal place of business at 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 media entertainment and property investment.

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 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.

(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)

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 of 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 of 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.

(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.

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.

Amendments to HKFRS 9 - Prepayment Features with Negative Compensation

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

Amendments to 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.

(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.

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").

4. REVENUE AND SEGMENT REPORTING

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

	2019	2018
	HK$'000	*HK$'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**	2018
	HK$'000	*HK$'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

(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.

	Media entertainment		Property investment		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'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

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

	2019	2018
	HK$'000	*HK$'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.

(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	2018
	HK$'000	*HK$'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	2018
	HK$'000	*HK$'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.

(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$120,420,000 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	2018
	HK$'000	*HK$'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.

5. OTHER INCOME AND GAINS

	2019	2018
	HK$'000	*HK$'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

6. LOSS FOR THE YEAR

	2019	2018
	HK$'000	*HK$'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. See Note 2(a)(i).

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'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

8. TAXATION

	2019	2018
	HK$'000	*HK$'000*
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	**(5,004)**	(3,920)
	(2,714)	(2,506)

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

9. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'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.

10. 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, see Note 2(a)(i).

11. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Virtual human know-how	Backlog contracts	Licences for intellectual property rights	Other licences	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (a))	*(Note (b))*	*(Note (c))*	*(Note (d))*	*(Note (e))*	*(Note (f))*	*(Note (g))*	*(Note (h))*	*(Note (i))*	
COST										
As at 1 January 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	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 15)*	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

Notes:

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

	2019	2018
	HK$'000	*HK$'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. See Note 15 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%

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

The recoverable 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 2019 and 2023. The Directors are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. In the opinion of the Directors, the trademarks can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the trademarks by the Group with reference to the history of operations and considering that such trademarks could be managed efficiently by another management team; and (ii) the long product life cycles for the trademarks.

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

	2019	2018
	HK$'000	*HK$'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.

(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.

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

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

(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	2018
	HK$'000	*HK$'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

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	*HK$'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	2018
	HK$'000	*HK$'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

14. 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.

15. BUSINESS COMBINATION

On 1 September 2019, the Group completed its acquisition of 100% issued share capital of 深圳市維爾信息科技有限公司 ("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 Weier, the Group is able to effectively control, recognise and receive substantially all the economic benefit of the business and operations of 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 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 Weier of the principal present and future intellectual property rights of Weier; and

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

As a result, 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.

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 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 11)*	30,484
Total consideration	21,916
Total consideration at fair value consisted of:	
– Cash consideration	21,916
	21,916

16. 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.

(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.

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.

17. 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 announcement, such assessment is still ongoing.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

REVIEW AND OUTLOOK

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 but exclude depreciation related to Right-of-use Assets) to the value of HK$39,007,000 (2018: HK$80,364,000);

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

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

(iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the year under review, this segment recorded a revenue of approximately HK$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 also 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 previsualisation 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*.

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:

- "***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.

- "***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.

- "***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.

- "***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.

- "***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.

- "***Morbius***" - VFX Supervisor Mr. Joel BEHRENS and his team worked on the highly anticipated film Sony Pictures film directed by Daniel Espinosa due out summer 2020.

- "***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 summer 2020.

- "***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 summer 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 2020.

- 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***" - 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.

- Free Form'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.

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

- 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.

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

- 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.

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

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

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

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

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

- 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.

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

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

- 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.

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.

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.

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 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.

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.

The global studio participated in several events, including:

- **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."

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 the Note to "Business Combination" in this announcement.

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);

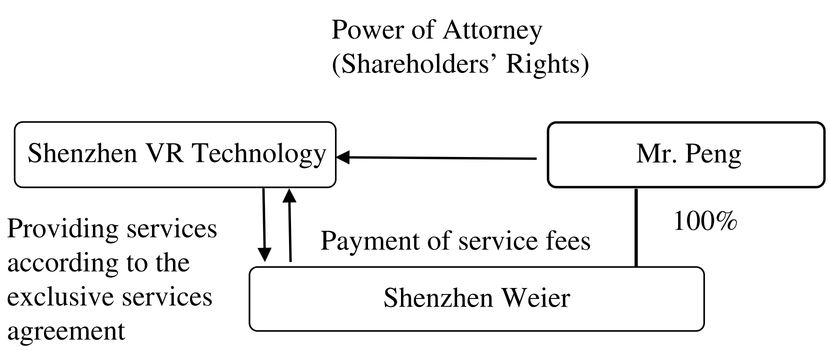
(iii) The Group has the right to purchase all or part of the assets of Shenzhen Weier;

(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.

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 (approximate 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**: Senior Director of Software Research and Development Mr. Doug ROBLE and the 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).

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 a 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 practical.

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.

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 11 to this announcement.

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.

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 million.

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.

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.

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.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

CORPORATE GOVERNANCE

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

During the financial year of 2019, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

1. During the year, the Company held two regular board meetings instead of at least four regular board meetings as required. In addition to two regular board meetings, there were 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;

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

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

4. Due to other pre-arranged business commitments which must be attended to by Mr. Peter Chou, the Chairman of the Board, 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.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2019.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

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

Hong Kong, 29 March 2020

As at the date of this announcement, Mr. Peter Chou and Mr. Seah Ang are the executive Directors; Mr. Jiang Yingchun, Mr. Cui Hao and Mr. Wang Wei-Chung are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Mr. Wong Ka Kong Adam and Mr. John Alexander Lagerling are the independent non-executive Directors.