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 2020

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 2020 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020**	2019
		HK$'000	*HK$'000*
			(Re-presented)
Continuing operations			
Revenue	4	**601,301**	548,125
Cost of sales and services rendered		**(536,571)**	(469,043)
Gross profit		**64,730**	79,082
Other income and gains	5	**146,948**	124,419
Selling and distribution expenses		**(28,235)**	(8,016)
Administrative expenses and other net operating expenses		**(403,049)**	(446,897)
Finance costs	7	**(29,217)**	(78,491)
Fair value gains on investment properties		**-**	700
Gain on disposal of subsidiaries		**-**	111,999
Impairment loss on goodwill		**(305,119)**	(74,419)
Reversal/(recognition) of impairment loss on trade receivables and contract assets		**1,440**	(5,142)
Impairment loss on other receivables		**(1,687)**	(7,151)
Impairment loss on amounts due from associates		**(36,365)**	(77,768)
Share of losses of associates		**(10,554)**	(21,988)
Loss before taxation		**(601,108)**	(403,672)
Taxation	8	**229**	(1,350)
Loss from continuing operations		**(600,879)**	(405,022)

	Notes	2020	2019
		HK$'000	*HK$'000*
			(Re-presented)
Discontinued operation			
Loss from discontinued operation		**(25,624)**	(14,557)
Loss for the year	*6*	**(626,503)**	(419,579)
Loss attributable to:			
Owners of the Company			
Loss for the year from continuing operations		**(584,205)**	(391,077)
Loss for the year from discontinued operation		**(14,322)**	(9,736)
		(598,527)	(400,813)
Non-controlling interest			
Loss for the year from continuing operations		**(16,674)**	(13,945)
Loss for the year from discontinued operation		**(11,302)**	(4,821)
		(27,976)	(18,766)
		(626,503)	(419,579)
Loss per share from continuing operations attributable to the owners of the Company			
Basic and diluted	*9*	**HK cents (1.611)**	HK cents (1.150)
Loss per share from discontinued operation attributable to the owners of the Company			
Basic and diluted	*9*	**HK cents (0.040)**	HK cents (0.029)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Loss for the year	**(626,503)**	(419,579)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	**733**	(1,489)
Share of other comprehensive income of associates	**(2,859)**	93
Share of other comprehensive income of a joint venture	**42**	(12)
Net other comprehensive income that may be reclassified to profit or loss	**(2,084)**	(1,408)
Items that will not be reclassified to profit or loss:		
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax	**-**	(165,976)
Net other comprehensive income that will not be reclassified to profit or loss	**-**	(165,976)
Other comprehensive income for the year, net of tax	**(2,084)**	(167,384)
Total comprehensive income for the year	**(628,587)**	(586,963)
Total comprehensive income attributable to:		
- Owners of the Company		
Loss from continuing operations	**(586,441)**	(556,589)
Loss from discontinued operation	**(14,321)**	(11,532)
	(600,762)	(568,121)
- Non-controlling interest		
Loss from continuing operations	**(16,256)**	(13,131)
Loss from discontinued operation	**(11,569)**	(5,711)
	(27,825)	(18,842)
	(628,587)	(586,963)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	**2020**	2019
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**75,477**	72,002
Right-of-use assets	*10*	**88,415**	132,749
Intangible assets	*11*	**737,030**	1,346,042
Interests in associates		**265,104**	79,973
Interests in a joint venture		**46**	4
Financial asset measured at fair value through other comprehensive income		**-**	-
Deposits and other receivables	*12*	**44,375**	12,857
Deferred tax assets		**445**	176
		1,210,892	1,643,803
Current assets			
Inventories		**-**	22,970
Trade receivables, other receivables and prepayments	*12*	**154,657**	169,674
Contract assets		**17,802**	13,170
Bank balances and cash		**113,899**	325,433
		286,358	531,247
Current liabilities			
Trade payables, other payables and accruals	*13*	**176,572**	108,821
Lease liabilities	*10*	**37,368**	49,672
Contract liabilities		**44,902**	66,873
Borrowings		**154,285**	54,870
Contingent consideration payable		**-**	14,259
Tax payable		**5,225**	5,073
		418,352	299,568
Net current (liabilities)/assets		**(131,994)**	231,679
Total assets less current liabilities		**1,078,898**	1,875,482
Non-current liabilities			
Borrowings		**142,309**	219,515
Lease liabilities	*10*	**77,220**	114,977
Deferred tax liabilities		**46,498**	63,795
		266,027	398,287
NET ASSETS		**812,871**	1,477,195
Capital and reserves			
Share capital		**340,754**	340,737
Reserves		**500,677**	1,085,815
Equity attributable to owners of the Company		**841,431**	1,426,552
Non-controlling interest		**(28,560)**	50,643
TOTAL EQUITY		**812,871**	1,477,195

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.

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

(a) Adoption of new or amended HKFRSs - effective 1 January 2020

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

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Hedge Accounting - Interest Rate Bench Mark Reform
- Amendments to HKFRS 16, Covid-19-Related Rent Concessions (early adoption)

None of these new or amended HKFRSs has a material impact on the Group's results and financial position for the current or prior period. Except for the amendment to HKFRS 16, Covid-19-Related Rent Concessions, the Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period. Impact on the applications of these amended HKFRSs are summarised below.

Amendment to HKFRS 16 – Covid-19-Related Rent Concessions

HKFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in HKFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

(i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
(iii) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of HKFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. In accordance with the transitional provisions, the Group has applied the amendment retrospectively, and has not restated prior period figure. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2020 on initial application of the amendment. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$813,000 has been accounted for as a negative variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year.

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

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

Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[4]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Annual Improvements to HKFRSs 2018-2020 Cycle	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

Amendments to HKFRS 3 - Reference to the Conceptual Framework
The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Company do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 - Interest Rate Benchmark Reform - Phase 2
The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Company do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

Amendments to HKFRS 10 and HKAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Company do not anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transaction arise.

Amendments to HKAS 1 - Classification of Liabilities as Current or Non-current
The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Company do not anticipate that the application of these amendments in the future will have an impact on the financial statements.

Amendments to HKAS 16 - Property, Plant and Equipment: Proceeds before Intended Use
The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to HKAS 37 - Onerous Contracts - Cost of Fulfilling a Contract
The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the financial statements.

Annual Improvements to HKFRSs 2018-2020 Cycle - Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41
The annual improvements amends a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Company do not anticipate that the application of these amendments in the future will have an impact on the 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:

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of		
– visual effects production service	**503,713**	469,807
– post production service	**40,886**	21,704
– 360 degree digital capture technology application and virtual reality services	**49,140**	56,548
– granting of licence for virtual reality contents	**7,562**	-
	601,301	548,059
Revenue from other sources		
Rental income	**-**	66
	601,301	548,125
Discontinued operation		
Revenue from contracts with customer within the scope of HKFRS 15:		
Provision of sales of hardware and solution services	**3,022**	77,321

Disaggregation of revenue from contracts with customers

	Media entertainment	
	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Types of goods or service		
Provision of		
– visual effects production service	**503,713**	469,807
– post production service	**40,886**	21,704
– 360 degree digital capture technology application and virtual reality services	**49,140**	56,548
– granting of licence for virtual reality contents	**7,562**	-
Total revenue from contracts with customers (continuing operations)	**601,301**	548,059
Total revenue from contracts with customers (discontinued operation)		
Provision of sales of hardware and solution services	**3,022**	77,321
Geographical markets		
Hong Kong (place of domicile)	**2,907**	912
The People's Republic of China (the "PRC")	**66,267**	94,227
The United States of America ("USA")	**203,697**	222,312
Canada	**317,962**	220,145
United Kingdom	**5,073**	2,981
Other countries/regions	**5,395**	7,482
Total revenue from contracts with customers (continuing operations)	**601,301**	548,059
Total revenue from contracts with customers (discontinued operation)		
The PRC	**3,022**	77,321
Timing of revenue recognition		
A point in time	**8,107**	54,803
Over time	**593,194**	493,256
Total revenue from contracts with customers (continuing operations)	**601,301**	548,059
Total revenue from contracts with customers (discontinued operation)		
A point in time	**3,022**	77,321

(a) Reportable segments

The Group determines its operating segment based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions. The Group has only one operating and reportable segment.

During the year, the operation for sale of hardware and solution services was discontinued upon the partial disposal of Lead Turbo Limited and its subsidiaries (collectively the "Lead Turbo Group"). The partial disposal by the Group resulted in loss of control of the Lead Turbo Group by the Group. The Group accounts for the retained interests in the Lead Turbo Group as interests in associates (refer to note 16). The following summary describes the operations in the Group's only reportable segment, media entertainment:

Continuing operations

- visual effects production service, post production service, 360 degree digital capture technology application and virtual reality services and granting of licence for virtual reality contents

Discontinued operation

- provision of sales of hardware and solution services

Management monitors the results of its operating segment for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before taxation. The adjusted loss before taxation is measured consistently with the Group's loss before taxation, except that segment loss from continuing operations, segment loss from discontinued operation, reversal/recognition of 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 on investment properties, share of losses of associates, 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 short-term lease 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 unallocated bank balances and cash, 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					
	Continuing operations		**Discontinued operation**		**Total**	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers and reportable segment revenue	**601,301**	548,059	**3,022**	77,321	**604,323**	625,380
Reportable segment loss	**(518,676)**	(277,867)	**(29,841)**	(18,621)	**(548,517)**	(296,488)
Additions to non-current assets	**152,036**	80,553	**7,488**	68,139	**159,524**	148,692
Depreciation and amortisation	**(86,454)**	(78,571)	**(30,371)**	(54,770)	**(116,825)**	(133,341)
Impairment loss on goodwill	**(305,119)**	(74,419)	**-**	-	**(305,119)**	(74,419)
Gain on disposal of intangible assets	**-**	-	**-**	2,735	**-**	2,735
Gain on disposal of property, plant and equipment	**357**	-	**-**	-	**357**	-
Taxation credited/(charged)	**229**	(1,350)	**4,217**	4,064	**4,446**	2,714
Reportable segment assets	**1,077,263**	1,339,121	**-**	438,937	**1,077,263**	1,778,058
Reportable segment liabilities	**556,815**	553,442	**-**	32,586	**556,815**	586,028

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

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Loss before taxation		
Segment loss from continuing operations	**(518, 676)**	(277,867)
Segment loss from discontinued operation	**(29,841)**	(18,621)
	(548,517)	(296,488)
Reversal/(recognition) of impairment loss on trade receivables and contract assets	**900**	(5,244)
Impairment loss on other receivables	**(1,687)**	(7,377)
Impairment loss on amounts due from associates	**(36,365)**	(77,768)
Loss on disposal of unallocated property, plant and equipment	**(83)**	(2,073)
Fair value gains on investment properties	**-**	700
Share of losses of associates	**(10,554)**	(21,988)
Auditor's remuneration	**(1,972)**	(2,093)
Depreciation of unallocated property, plant and equipment, depreciation of unallocated right-of-use assets and amortisation of unallocated intangible assets	**(44,925)**	(51,952)
Professional fees	**(21,770)**	(27,741)
Finance costs	**(29,276)**	(79,046)
Equity-settled share-based payment expenses	**(7,943)**	(5,113)
Unallocated short-term lease expenses	**(466)**	-
Gain on disposal of subsidiaries	**-**	111,999
Unallocated other income and gains	**132,327**	130,874
Other unallocated corporate expenses*	**(60,618)**	(88,983)
Consolidated loss before taxation	**(630,949)**	(422,293)
Assets		
Reportable segment assets	**1,077,263**	1,778,058
Unallocated bank balances and cash	**74,682**	212,906
Unallocated corporate assets	**345,305**	184,086
Consolidated total assets	**1,497,250**	2,175,050
Liabilities		
Reportable segment liabilities	**556,815**	586,028
Tax payable	**5,225**	5,073
Deferred tax liabilities	**46,498**	63,795
Unallocated borrowings	**4,909**	4,909
Unallocated corporate liabilities	**70,932**	38,050
Consolidated total liabilities	**684,379**	697,855

* 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

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Hong Kong (place of domicile)	**2,907**	978
The PRC	**66,267**	94,227
USA	**203,697**	222,312
Canada	**317,962**	220,145
United Kingdom	**5,073**	2,981
Other countries/regions	**5,395**	7,482
	601,301	548,125

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Discontinued operation		
The PRC	**3,022**	77,321

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

(ii) Specified Non-Current Assets

	2020	2019
	HK$'000	*HK$'000*
Hong Kong (place of domicile)	**12,830**	72,386
The PRC	**388,252**	571,598
Other regions of Asia	**10,103**	13,632
USA and Canada	**754,887**	973,154
	1,166,072	1,630,770

The information of Specified Non-Current Assets from the above is based on the location of assets.

(d) Major customers

The Group's customer base is diversified and there were 2 customers (2019: Nil) from the media entertainment segment with whom transactions have exceeded 10% of the Group's total revenue as follows:

	2020	2019
	HK$'000	*HK$'000*
Customer A	**116,390**	N/A
Customer B	**67,931**	N/A

(e) Revenue

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

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**40,798**	46,678
Contract assets	**17,802**	13,170
Contract liabilities	**44,902**	66,873

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 visual effects 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

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Income arising from broadcasting movies and TV dramas	**62,393**	74,178
Interest income	**4,848**	8,378
Imputed interest on consideration receivables	**777**	-
Covid-19-related rent concessions	**813**	-
Change in fair value of contingent consideration payable	**-**	41,396
Government subsidies *(Note)*	**63,118**	413
Service income from development of intellectual property	**7,000**	-
Sponsorship received for certain research and development projects	**2,715**	-
Effect of lease modification	**431**	-
Others	**4,853**	54
	146,948	124,419

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Discontinued operation		
Interest income	**29**	90
Government subsidies *(Note)*	**608**	4,658
Others	**1,353**	3,735
	1,990	8,483

Note:
There are no unfulfilled conditions or other contingencies attaching to these grants, all government subsidies have been received during the year. The Group did not benefit directly from any other forms of government assistance.

6. LOSS FOR THE YEAR

	2020	2019
	HK$'000	*HK$'000*
Continuing operations		(Re-presented)
This is arrived at after charging/(crediting):		
Cost of sales and services rendered *(Note)*	**536,571**	469,043
(Gain)/loss on disposal of property, plant and equipment	**(274)**	2,073
Exchange differences, net	**(7,024)**	(1,427)
Auditor's remuneration:		
– audit services	**1,775**	1,853
– non-audit services	**197**	240
Depreciation of property, plant and equipment *(Note)*	**28,850**	28,369
Depreciation of right-of-use assets *(Note)*	**40,976**	47,549
Amortisation of intangible assets *(Note)*	**61,553**	54,605
Short-term lease expenses	**552**	310
Staff costs *(Note)*:		
– Directors' remuneration	**7,914**	14,782
– Other staff costs:		
Salaries, wages and other benefits	**602,666**	553,531
Retirement benefit scheme contributions	**5,999**	3,412
Equity-settled share-based payment expenses	**7,943**	5,113
Total staff costs	**624,522**	576,838

Note:
Cost of sales and services rendered include HK$468,354,000 (2019: HK$394,640,000 (re-presented)) 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.

Discontinued operation

On 17 July 2020, the Group entered into a sale agreement with an independent purchaser in connection with the disposal of 22.29% equity interest of the Lead Turbo Group. Further details were set out in note 16. The disposal was completed on 31 July 2020, the date on which the control of the Lead Turbo Group was passed to the purchaser. Revenue, results and cash flows of the Lead Turbo Group were as follows:

	Period from 1 January 2020 to 31 July 2020 *HK$'000*	Year ended 31 December 2019 *HK$'000*
Revenue	**3,022**	77,321
Expenses	**(41,963)**	(95,942)
Loss before gain on disposal of discontinued operation and taxation	**(38,941)**	(18,621)
Gain on disposal of discontinued operation	**9,100**	-
Loss before taxation from the discontinued operation	**(29,841)**	(18,621)
Taxation	**4,217**	4,064
Loss for the year from discontinued operation	**(25,624)**	(14,557)
Operating cash outflows	**(13,612)**	(26,174)
Investing cash outflows	**(1,026)**	(17,801)
Financing cash inflows	**-**	48,610
Total cash (outflows)/inflows	**(14,638)**	4,635

The carrying amounts of the assets and liabilities of the Lead Turbo Group at the date of disposal are disclosed in note 16 of this announcement.

A profit of HK$9,100,000 arose on disposal of the Lead Turbo Group, being the proceeds of disposal and the fair value of the Group's retained interests, less the carrying amount of the subsidiary's net assets attributable to the Group, foreign exchange reserve and attributable goodwill. No tax charge or credit arose from the disposal.

For the purpose of presenting discontinued operation, the comparative consolidated income statement, consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

7. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Imputed interest on:		
Lease liabilities	**14,362**	16,345
Contingent consideration payable	**158**	3,530
Interest on:		
Bank and other loans	**14,697**	57,928
Secured note	**-**	688
	29,217	78,491

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Discontinued operation		
Imputed interest on:		
Lease liabilities	**59**	555

8. TAXATION

Taxation (credited)/charged to the consolidated income statement represents:

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Current taxation - Hong Kong profits tax	**-**	-
Current taxation - Overseas tax		
- provision for the year	**587**	3,810
- over-provision in respect of prior years	**-**	(1,607)
Deferred taxation	**(816)**	(853)
	(229)	1,350

	2020	2019
	HK$'000	*HK$'000*
		(Re-presented)
Discontinued operation		
Current taxation - Hong Kong profits tax	**-**	-
Current taxation - Overseas tax		
- provision for the year	**-**	87
- over-provision in respect of prior years	**(85)**	-
Deferred taxation	**(4,132)**	(4,151)
	(4,217)	(4,064)

No provision for Hong Kong profits tax was made for the year ended 31 December 2020 as the Group had estimated tax losses brought forward to offset against the estimated assessable profits. No provision for Hong Kong profit tax has been made as the Group did not have any assessable profits for the year ended 31 December 2019.

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:

	2020	2019
	HK$'000	*HK$'000*
Continuing operations		(Re-presented)
Loss for the year attributable to owners of the Company from continuing operations for the purpose of basic loss per share	**(584,205)**	(391,077)
Discontinued operation		
Loss for the year attributable to owners of the Company from discontinued operation for the purpose of basic loss per share	**(14,322)**	(9,736)

	2020	2019
		(Re-presented)
Number of share		
Weighted average number of ordinary shares for the purposes of basic loss per share, adjusted for bonus elements in the issue of shares on 12 April 2019, 25 July 2019 and 18 January 2021 (Note)	**36,254,560,267**	34,005,935,656

Note:
The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the bonus elements of share subscriptions after the end of the reporting period.

For the year ended 31 December 2020 and 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.

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

Nature of leasing activities (as lessee)

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

The Group also leases certain items of equipment. In some contracts for services with distributors, those contracts contain a leases of equipment comprise only fixed payments over the lease terms. Leases of buildings generally have lease terms between 2 and 10 years, while equipment generally have lease terms between 2 and 3 years.

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

Extension options are included in certain property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

The Group reassessed and concluded that it was not reasonably certain to exercise these extension option. As a result, lease liabilities from the extension period were not included in the lease liabilities of the Group at reporting date. An additional cash outflow of HK$20,775,000 (2019: HK$21,382,000) was estimated if all the extension options were exercised.

RIGHT-OF-USE ASSETS

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

	Buildings	**Equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2019	120,144	21,231	141,375
Additions	37,428	4,892	42,320
Depreciation charge	(34,418)	(16,166)	(50,584)
Exchange realignment	(306)	(56)	(362)
As at 31 December 2019 and 1 January 2020	122,848	9,901	132,749
Additions	964	-	964
Depreciation charge	(35,745)	(6,938)	(42,683)
Effect of lease modification	(2,258)	-	(2,258)
Disposal of subsidiaries *(Note 16)*	(491)	-	(491)
Exchange realignment	151	(17)	134
As at 31 December 2020	85,469	2,946	88,415

LEASE LIABILITIES

	HK$'000
As at 1 January 2019	168,101
Additions	42,320
Interest expense	16,900
Lease payments	(62,255)
Foreign exchange movements	(417)
As at 31 December 2019 and 1 January 2020	164,649
Additions	963
Interest expense	14,421
Covid-19-related rent concessions	(813)
Disposal of subsidiaries *(Note 16)*	(528)
Lease payments	(60,749)
Effect of lease modification	(2,689)
Foreign exchange movements	(666)
As at 31 December 2020	114,588

As disclosed in note 2(a), the Group has elected to apply the practical expedient introduced by the amendment to HKFRS 16 to all rent concessions that satisfy the criteria. All of the rent concessions granted to the Group during the year ended 31 December 2020 satisfy the criteria to apply the practical expedient. The application of the practical expedient has resulted in the reduction of total lease liabilities of HK$813,000. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.

Future lease payments are due as follows:

As at 31 December 2020	**Minimum lease payments**	**Interest**	**Present value**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	47,348	9,980	37,368
Later than one year and not later than two years	33,494	7,058	26,436
Later than two years and not later than five years	47,385	12,450	34,935
Later than five years	17,166	1,317	15,849
	145,393	30,805	114,588

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

The present value of future lease payments are analysed as follows:

	2020	2019
	HK$'000	*HK$'000*
Current liabilities	**37,368**	49,672
Non-current liabilities	**77,220**	114,977
	114,588	164,649

The total cash outflow for leases for the year ended 31 December 2020 was HK$61,405,000 (2019: HK$63,855,000).

11. INTANGIBLE ASSETS

	Goodwill	Trademarks	Proprietary software	Participation rights	Patents	Virtual human know-how	Backlog contracts	Licences for intellectual property rights	Other licences	Film rights	Total
	HK$'000	*HK$'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))*	*(Note (j))*	
COST											
As at 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 and 1 January 2020	884,952	153,366	200,368	381,763	306,447	-	18,178	-	17,841	-	1,962,915
Additions	-	-	19,826	-	283	-	-	8,470	3,767	94,355	126,701
Disposal of subsidiaries *(Note 16)*	(195,193)	-	(14,320)	-	(200,256)	-	(18,178)	-	(21,486)	-	(449,433)
Exchange realignment	(174)	1,904	(31)	(1,283)	608	-	-	-	(122)	-	902
As at 31 December 2020	689,585	155,270	205,843	380,480	107,082	-	-	8,470	-	94,355	1,641,085
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS											
As at 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 and 1 January 2020	74,419	-	103,129	344,706	73,264	-	16,663	-	4,692	-	616,873
Amortisation for the year	-	-	13,103	37,057	24,859	-	1,514	7,809	4,792	-	89,134
Impairment for the year	305,119	-	-	-	-	-	-	-	-	-	305,119
Disposal of subsidiaries *(Note 16)*	-	-	(5,290)	-	(72,443)	-	(18,177)	-	(9,484)	-	(105,394)
Exchange realignment	-	-	(174)	(1,283)	(220)	-	-	-	-	-	(1,677)
As at 31 December 2020	379,538	-	110,768	380,480	25,460	-	-	7,809	-	-	904,055
CARRYING AMOUNT											
As at 31 December 2020	310,047	155,270	95,075	-	81,622	-	-	661	-	94,355	737,030
As at 31 December 2019	810,533	153,366	97,239	37,057	233,183	-	1,515	-	13,149	-	1,346,042

Notes:

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

	2020	2019
	HK$'000	*HK$'000*
Visual effects production service	**208,691**	208,863
Post production service	**85,186**	85,186
360 degree digital capture technology application	**16,170**	321,291
Sales of hardware and solution service	**-**	195,193
	310,047	810,533

The recoverable amounts of the CGUs have been determined by the directors of the Company (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 CGUs used cash flows projections based on latest financial budgets approved by the Group's management covering a period of 5 years, which is consistent with the cash flows projections period in 2019, except for the 360 degree digital capture technology application CGU.

In 2019, the value-in-use for 360 degree digital capture technology application CGU was calculated using a cash flow projection based on a financial budgets covering a longer period of 7 years because the management considered the technology for this CGU was relatively new to the media industry, the development of the technology and related products required 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.

During the year, the outbreak of Covid-19 impacted the global economic environment and increased the uncertainty of future cash flows that could be generated by this CGU. The management did not think they could justify a cash flows projection cover a period longer than 5 years. Consequently, the projection period of 5 years was adopted.

The cash flow projections beyond the budget period are extrapolated using a growth rate of 2% to 2.5% (2019: 2% to 2.5%), which do not exceed the long-term growth rates for the industry in the corresponding countries.

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

2020	**Visual effects production service CGU**	**Post production service CGU**	**360 degree digital capture technology application CGU**	**Sales of hardware and solution service CGU**
Average revenue growth rate within budget period	**19.3%**	**22.2%**	**22.5%**	**N/A**
Pre-tax discount rate	**17.6%**	**20.6%**	**18.0%**	**N/A**
Average gross margin	**15.9%**	**48.9%**	**36.1%**	**N/A**

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 revenue 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 margin	16.1%	43.9%	43.8%	36.7%

(a) The pre-tax discount rate and other key assumptions for the value in use calculation, as disclosed in the above table, relate to the estimation of cash inflows/outflows which include budgeted service revenue and gross margin. Such estimations are based on the CGUs' past performance and the management's expectations for the market development.

During the year, the global health emergency resulting from the Covid-19 pandemic has led to social distancing requirements and travel restriction measure been introduced in most territories, which has significantly impacted the travel, sports, concerts and other mass events which the 360 digital capture and live streaming services from the 360 degree digital capture technology application CGU is dependent on.

Contracts in the 360 degree digital capture technology application CGU are generally characterised by short period of time between contracts, a significant slowdown in demand of services in Mainland of China, North America and other parts of the world led to the reduction in delivery of projects and the prospects of growth in this CGU. This places intense pressure on the business of 360 degree digital capture technology application CGU and causes an adverse impact on the estimated value in use of the 360 degree digital capture technology application CGU.

Accordingly, impairment loss on goodwill of HK$305,119,000 for 360 degree digital capture technology application CGU was recognised in profit or loss. (2019: impairment loss on goodwill in the aggregate of HK$57,218,000 for 360 degree digital capture technology application CGU and HK$17,201,000 for post production CGU was recognised in profit or loss.)

If the budgeted gross margin used in the value-in-use calculation for the 360 degree digital capture technology application CGU had been 2% lower than management's estimates at 31 December 2020 (i.e. 34.1% instead of 36.1%), and this reasonably possible change of 2% reduction in budgeted gross margin represents a reasonably possible reduction in sales price of 0.9% (i.e. revenue growth rate of 21.6% instead of 22.5%), the carrying amount of the CGU would have exceeded its recoverable amount by HK$315,815,000, resulting in an additional impairment loss against the goodwill allocated to 360 degree digital capture technology application CGU by HK$12,615,000.

If the pre-tax discount rate applied to the cash flow projections of this CGU had been 1% higher than management's estimates (i.e. 19.0% instead of 18.0%), the carrying amount of the CGU would have exceeded its recoverable amount by HK$314,910,000, resulting in an additional impairment loss against goodwill for 360 degree digital capture technology application CGU by HK$11,710,000.

The recoverable amounts for the visual effects production service CGU, post production service CGU and 360 degree digital capture technology application CGU are HK$584,453,000, HK$178,735,000 and HK$202,925,000 respectively.

Except as described above, the recoverable amounts in relation to other CGUs determined by value-in-use calculations suggested that there was no impairment in the values of goodwill and other non-financial assets as at 31 December 2020 and 2019. The management was of the opinion that a reasonably possible change in key assumptions for other CGUs on which the management had based its determination of the CGUs' 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 2021 and 2023. The Directors are of the opinion that the Group would renew the trademarks continuously and has the ability to do so. In the opinion of the Directors, the trademarks can provide continuing economic benefits to the Group taking into account (i) the long-term expected usage of the trademarks by the Group with reference to the history of operations and considering that such trademarks could be managed efficiently by another management team; and (ii) the long product life cycles for the trademarks.

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

	2020	2019
	HK$000	*HK$000*
Visual effects production business	**19,382**	19,478
360 degree digital capture technology application	**135,888**	133,888
	155,270	153,366

(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 (2019: visual effects production business CGU and sales of hardware and solution service CGU) for the purpose of impairment testing. As further detailed in note 16 "Disposal of subsidiaries during the year", certain proprietary software has been disposed of during the year.

(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.

Patents are allocated to the Group's 360 degree digital capture technology application CGU for the purpose of impairment testing. Patents allocated to sales of hardware and solutions CGU was disposed of during the year, as further detailed in note 16 "Disposal of subsidiaries during the year".

(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 was allocated to the CGU on virtual human and holograms which has been disposed of in the prior year.

(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 which has been disposed of during the year, as further detailed in note 16 "Disposal of subsidiaries during the year".

(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, which were allocated to the CGU on virtual human and holograms which has been disposed of in the prior year; 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, which were allocated to the CGU on 360 degree digital capture technology application.

(i) Other licences represent the technology licences leased from third parties, which are amortised over the terms of the relevant licensing agreements.

(j) Film rights represent films produced or films production in progress by the Group. As at 31 December 2020, there is a film that was in production but no other produced film. Accordingly, no amortisation was recognised during the year. The film is internally produced by the Group, and the Group is subject to all retained profit generated from the film right, after shared by producers and other independent parties by certain percentage mentioned in the agreements between the Group and the other parties. The film is expected to be wide released in 2021, and upon the release, amortisation of the capitalised production costs will commence over the best estimate of its useful life.

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2020	2019
	HK$'000	*HK$'000*
Non-current portion:		
Deposits	**12,004**	12,857
Consideration receivable	**32,371**	-
	44,375	12,857
Current portion:		
Trade receivables *(Notes (i) and (ii))*	**40,798**	46,678
Consideration receivable	**33,648**	-
Other receivables *(Notes (i))*	**57,433**	66,003
Deposits *(Note (i))*	**2,750**	5,307
Prepayments	**20,028**	51,686
	154,657	169,674
Total trade receivables, other receivables and prepayment	**199,032**	182,531

Notes:

(i) The Directors consider that the carrying amounts of trade receivables, other receivables and deposits approximate their fair values as at 31 December 2020 and 2019.

(ii) The Group normally allows an average credit period of 30 days (2019: 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:

	2020	2019
	HK$'000	*HK$'000*
0 to 30 days	**17,031**	26,347
31 to 60 days	**5,702**	2,415
61 to 90 days	**4,815**	5,428
91 to 365 days	**10,913**	5,159
Over 365 days	**2,337**	7,329
	40,798	46,678

13. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**37,943**	27,348
Other payables	**66,654**	25,347
Accruals	**71,975**	56,126
	176,572	108,821

The Directors consider that the carrying amounts of trade payables, other payables and accruals approximate their fair values as at 31 December 2020 and 2019.

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

	2020	2019
	HK$'000	*HK$'000*
0 to 30 days	**15,595**	7,407
31 to 60 days	**8,087**	4,248
61 to 90 days	**1,327**	1,263
91 to 365 days	**7,736**	4,373
Over 365 days	**5,198**	10,057
	37,943	27,348

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 licence from the Original Owner and completed certain visual effect projects for these customers.

The US Subsidiary submitted these indemnity requests to one of its insurance companies that may provide insurance coverage for indemnity claims brought against it. The insurance company believed that coverage was no longer existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuits.

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 2020 (2019: 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 IN PRIOR YEAR

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

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

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

	HK$'000
Property, plant and equipment	14
Intangible assets	1,211
Trade receivables, other receivables and prepayments	680
Amount due from related parties	815
Bank balances and cash	2,866
Trade payables, other payables and accruals	(3,787)
Contract liabilities	(2,959)
Amounts due to related parties	(7,408)
Net liabilities	(8,568)
Goodwill *(note 11)*	30,484
Total consideration	21,916
Total consideration at fair value consisted of:	
– Cash consideration	21,916
	21,916

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

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

The fair value of trade and other receivables acquired as of the acquisition date amounted to HK$680,000. The gross contractual amount of these receivables is HK$680,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill, which was not deductible for tax purposes, comprised the acquired workforce and the expected future growth of the VR business (production of VR contents) to diversify the revenue stream of the existing businesses of the Group.

16. DISPOSAL OF SUBSIDIARIES DURING THE YEAR

On 17 July 2020, the Group entered into a sale and purchase agreement with an independent purchaser in connection with the disposal of 22.29% equity interest in the Lead Turbo Group. The total consideration with carrying amount of HK$99,242,000 will be settled in cash by three instalments of HK34,000,000 each. The 1st instalment has been received on the completion date. The 2nd and 3rd instalments with carrying amount at completion date of HK$33,300,000 and HK$31,942,000, are receivable within 1st and 2nd anniversary dates to the completion date, respectively. The disposal would facilitate the organic growth of the Lead Turbo Group by introducing a strategic partner that may support the Lead Turbo Group in its business expansion and its future capital requirements to fund technological development.

On 31 July 2020, the disposal was completed. Upon the completion of the disposal, the Group's equity interests in the Lead Turbo Group was reduced from 66.88% to 44.59%, the Group lost control over the Lead Turbo Group but retained significant influence over the Lead Turbo Group. Accordingly, the Group will account for its retained interest in the Lead Turbo Group as its interests in associates. The net assets at the date of disposal were as follows:

	31 July 2020 *HK$'000*
Property, plant and equipment	4,859
Right-of-use assets	491
Intangible assets (other than goodwill)	148,846
Goodwill	195,193
Amount due from related parties	1,645
Prepayments – non-current portion	862
Deferred tax assets	2,295
Inventories	22,766
Trade and other receivables	5,522
Prepayments – current portion	3,765
Cash and cash equivalents	10,488
Trade and other payables	(4,607)
Lease liabilities	(528)
Contract liabilities	(309)
Other loan	(22,222)
Amounts due to related parties	(33,788)
Deferred tax liabilities	(15,563)
Net assets disposed of	319,715
Fair value of the Group's retained interest	(185,815)
Non-controlling interest	(51,378)
Cumulative exchange difference in respect of the net assets reclassified from equity to income statement	7,620
Gain on disposal of subsidiaries included in loss for the year from discontinued operation	9,100
Total consideration (present value of cash consideration)	99,242
Satisfied by:	
- Cash	34,000
- Deferred cash consideration	65,242
	99,242
Net cash inflow arising from disposal	
- Total cash consideration received	34,000
- Cash and bank balances disposed of	(10,488)
	23,512

Upon the completion of disposal, cash consideration of HK$34,000,000 was received and a gain on disposal of subsidiaries of HK$9,100,000 was recognised. The deferred consideration will be settled in cash by the purchaser on or before 31 July 2022.

17. DISPOSAL OF SUBSIDIARIES IN PRIOR YEAR

(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 ("Disposal Group"). 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 Group's investment properties were located in Hong Kong.

The fair value of the Group's investment properties as at 18 June 2019 has been arrived at on market value basis based on valuations carried out by Knight Frank Petty Limited, which is independent firm of professionally qualified valuers, who holds recognised and relevant professional qualification and has recent experience in the locations and category of properties being valued.

18. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) Share Placement

On 11 December 2020, the Company entered into a share subscription agreement with an independent third party to allot and issue 6,814,760,000 new ordinary shares with par value of HK$0.01 at a discounted subscription price of HK$0.05 each at an aggregate consideration of HK$340,538,000 net of issuing expenses. Further details were set out in the Company's announcements dated 11 December 2020 and 27 December 2020.

On 18 January 2021, the share subscription was completed and the Company raised additional cash of HK$340,538,000 by means of a share placing of 6,814,760,000 ordinary shares.

(ii) Impact of Covid-19

The World Health Organisation declared coronavirus and Covid-19 a global health emergency on 30 January 2020. Since then, the Group has experienced significant disruption to its operations in the following respects:

- interruptions to production activities
- significant uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the long-term effects of the pandemic on the demand for the Group's primary services

Governments in the countries in which the Group operates also implemented various measures which might mitigate some of the impact of the Covid-19 pandemic to the results and liquidity position of the Group. To the extent appropriate, the Group applies for such government assistance. Details of all of the arrangements that might be available and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty.

The directors of the Company are continuing to assess the implications of Covid-19 pandemic to the business in which the Group operates. Depending on the duration of the Covid-19 pandemic and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 2021. However, the exact impact in the remainder of 2021 and thereafter cannot be predicted.

(iii) Acquisition of common shares of a listed company

On 1 February 2021, a 60% indirectly-owned subsidiary of the Company (the "Purchaser") was set up for the purpose of preparation of acquisition as follows:

On 3 February 2021, the Purchaser entered into a sale and purchase agreement with an independent third party for the acquisition of 248,431 common shares of a publicly traded German ecommerce company, with its shares listed on the Frankfurt Stock Exchange (the "Target A"), representing approximately 19% of the total issued common shares of the Target A, for an aggregate consideration of EUR3,709,000 (approximately HK$34,976,000). There is no condition precedent and the transaction was completed immediately on 3 February 2021. Upon the completion of acquisition, the Group owns 19% equity interests in the Target A. In the opinion of the Directors, the investment is for the investment provides the Group opportunities to explore the media entertainment market in Europe. Further details of the transaction were set out in the announcement of the Company on 3 February 2021.

On 26 February 2021, the Purchaser entered into a sale and purchase agreement with an independent third party for the acquisition of 260,000 common shares ("Sales Shares") of a publicly traded Swiss media and sports marketing company ("Target B"), with its shares listed on the Swiss Stock Exchange for an aggregate consideration of EUR7,064,000 (approximately HK$66,617,000). The Sales Shares represent approximately 2.91% of the total issued common shares of Target B on 26 February 2021. Target B carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

REVIEW AND OUTLOOK

FINANCIAL AND BUSINESS REVIEW

During the year ended 31 December 2020, the Group achieved a revenue from continuing operations of HK$601,301,000 (2019: HK$548,125,000), showing an increase of approximately 10% compared to that of the previous year. The gross profit from continuing operations of the Group amounted to HK$64,730,000 (2019: HK$79,082,000) during the year under review, showing a decrease of approximately 18%. The increase in turnover and decrease in gross profit were attributable to the media entertainment segment. As at 31 December 2020, the total assets of the Group amounted to HK$1,497,250,000 (as at 31 December 2019: HK$2,175,050,000). The loss attributable to the owners of the Company from continuing operations for the year was HK$584,205,000 (2019: HK$391,077,000). The loss for the year was approximately HK$626,503,000 (2019: HK$419,579,000). 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 2020 to the value of HK$7,943,000 (2019: HK$5,113,000);

  (b) amortisation and depreciation expenses from the acquisition of 3Glasses Group of HK$28,664,000 (2019: HK$51,735,000);

  (c) amortisation expenses from the investment in episodes series (grouped under "Participation Rights") of HK$37,057,000 (2019: HK$43,967,000);

  (d) other amortisation and depreciation expenses (besides the two items mentioned above but excluding depreciation related to Right-of-use Assets) to the value of HK$53,346,000 (2019: HK$39,007,000); and

  (e) impairment losses of cash generating units (CGUs) of HK$305,119,000 (2019: HK$74,419,000);

(ii) administrative and other project expenses; and

(iii) operating losses from the media entertainment segment.

MEDIA ENTERTAINMENT SEGMENT

During the year under review, this segment from continuing operations recorded a revenue of approximately HK$601,301,000 (2019: HK$548,059,000) and incurred a loss of approximately HK$518,676,000 (2019: HK$277,867,000). The loss included the impairment loss on goodwill of HK$305,119,000 (2019: HK$74,419,000) and research and development costs incurred during the year under review relating to virtual reality technology and virtual human technology.

"The earnings before interest, tax, depreciation and amortisation (EBITDA)" of the media entertainment segment from continuing operations (including the impairment loss on goodwill of HK$305,119,000 (2019: HK$74,419,000)) for the year ended 31 December 2020 was a loss of HK$432,222,000 (2019: HK$199,296,000). EBITDA is not a standard measure under the Hong Kong Financial Reporting Standards (HKFRS) but is a widely used financial indicator of a company's operating performance. EBITDA should not be considered in isolation or be construed as an alternative to cash flows, net income or any other measure of performance, or as an indicator 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 amortisation 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 include 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 (DDNA) - USA and Canada:

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

The Telly Awards

Director of the Virtual Human Group, Mr. Darren HENDLER; Senior Director of Software R&D, Dr. Doug ROBLE, and their team won a silver craft award for "Digital Humans that Look Just Like Us".

Director Mr. Pierre MICHEL-ESTIVAL, Visual Effects Supervisor Mr. Matt DOUGAN, Producer Ms. Alexandra MICHAEL, and their team won a bronze craft award for the online commercial spot for "Tom Clancy's The Division 2".

Association of Independent Commercial Producers (AICP)

Visual Effects Supervisor Mr. Matt DOUGAN and his team were shortlisted for an AICP Post Award in the CGI category for their work on "Tom Clancy's The Division 2".

Lead Compositor Mr. John BRENNICK and his team were shortlisted for an AICP Post Award in the Compositing and Visual Effects category for their work on P!NK's "Walk Me Home (Official Music Video)".

Hollywood Professional Association (HPA)
Visual Effects Supervisor Mr. Aladino DEBERT and his team were awarded a HPA award for Outstanding Visual Effects – Episodic Feature (Under 13 Episodes) for “Lost in Space – Shipwrecked”.

Since 1 January 2020, the artists of Digital Domain 3.0, Inc. (DD3I), a subsidiary of the Company, have provided VFX services for work including:

- ***“The Rescue”*** Visual Effects Supervisors Mr. Jay BARTON and Mr. Jean-Luc DINSDALE delivered this Dante Lam film.

- **“*Morbius*”** - Visual Effects Supervisors Mr. Joel BEHRENS, Mr. Matthew BUTLER and their team worked on this highly anticipated Sony Pictures film directed by Daniel Espinosa, scheduled for release in 2022.

- **“*Free Guy*”** - Visual Effects Supervisor Mr. Nikos KALAITZIDIS and his team worked on Shawn Levy’s action-comedy following a bank teller who discovers that he’s actually an NPC inside a brutal, open world video game. The film is scheduled for release in 2021.

- **“*Black Widow*”** - Visual Effects Supervisor Mr. Dave HODGINS and his team worked on Marvel Studios’ film following Natasha Romanoff on her quests between the films “Captain America: Civil War” and “Avengers: Infinity War”. The film is scheduled for release in 2021.

- **“*Chaos Walking*”** - Visual Effects Supervisor Mr. Mitch DRAIN and his team continue to work on director Doug Liman’s film about a dystopian world where there are no women and all living creatures can hear each other’s thoughts in a stream of images, words, and sounds called Noise. The film is scheduled for release in 2021.

- **“*Shang-Chi and the Legend of the Ten Rings*”** – Visual Effects Supervisor Mr. Hanzhi TANG and his team began work on the Marvel Studios film scheduled for release in 2021.

- **“*Doctor Strange in the Multiverse of Madness*”** – DDNA team began work on the next installation in the Doctor Strange series. The film is scheduled for release in March 2022.

- ***“Fantastic Beasts and Where to Find Them 3”*** **–** Visual Effects Supervisor Mr. Jay BARTON and his team began work on Warner Bros.’ third installation in the “Fantastic Beasts” series expected in July 2022.

- ***“Untitled Spider-Man Sequel*”** – Visual Effects Supervisor Mr. Scott EDELSTEIN and his team began work on the third instalment of the Spider-Man franchise expected in December 2021.

- The DDNA team also contributed to a promotional piece for ***“Black Adam”*** due out in 2022.

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

- CBS's **"*Twilight Zone*"** – Visual Effects Supervisor Mr. Mitchell S. DRAIN led a team of artists in creating the visual effects for five episodes of Netflix's second season of "*The Twilight Zone*". Digital Domain's artists produced a total of 140 shots across the season which included the creation of a very complex creature.

- **"*Perry Mason*"** – Visual Effects Supervisor Mr. Mitchell S. DRAIN led artists based in Los Angeles to complete nearly 140 shots for the HBO miniseries that included historically accurate environment work reconstructing 1930s LA surrounding the "Angel's Flight" railway.

- **"*WandaVision*"** – Visual Effects Supervisor Mr. Marion SPATES and his team delivered work on the new Marvel Studios series scheduled for release in 2021.

- **"*Carnival Row*"** season 2 – Visual Effects Supervisor Mr. Aladino DEBERT and his team continue to work on the second season of Amazon Studios' fantasy series scheduled for release in 2021.

- **"*Loki*"** – Visual Effects Supervisor Mr. Jean-Luc DINSDALE and his team have begun work on the new Marvel Studios series scheduled for release in 2021.

- ***"Ms. Marvel"*** – the DDNA team began work on the new Marvel Studios series, scheduled for release in late 2021.

Digital Domain's visualisation studio provided previsualisation services for features and shows such as:

- Marvel Studios' ***"Dr. Strange 2"***
- Fox's **"*The Orville*"**
- Fox Studios' ***"Free Guy"***
- Sony Pictures' ***"Morbius"***
- Marvel Studios' yet-to-be-titled third ***"Spider-Man"*** instalment
- Warner Bros.' ***"Fantastic Beasts and Where to Find Them 3"***
- Marvel Studios' untitled ***"Black Panther"*** sequel

Additionally, the visualisation team provided previsualisation services for the following commercials: **"*Cross X*"**, a :40 game trailer, and a :60 trailer for the game known as ***"Game for Peace/PUBG"***.

The team also provided motion capture services for a number of projects including:

- An undisclosed AAA video game company for a game cinematic;
- *“**Clash of Clans: King of Clash Trivia Show**”*
- Legendary Film’s *“**Dune**”* for a stunt motion capture shoot
- Sucker Punch Productions/Sony Interactive’s *“**Ghost of Tsushima**”* game cinematic which provided final body and face animation
- A motion capture shoot for a AAA game cinematic releasing in 2021 for The Werk Howse

We provided VFX services for advertisements, special venue projects and games. Work completed in 2020 includes:

- Led by Director Mr. Aladino DEBERT and Visual Effects Supervisor, Mr. Matt DOUGAN, Digital Domain partnered with agency AKQA, to create a :60 game cinematic with additional cutdowns for the game “***Ghost of Tsushima.***”
- Director Mr. Pierre MICHEL-ESTIVAL and team partnered with DD China and DD India to direct and provide previsualisation services for Tencent, for a :60 CG trailer for “***Game of Peace.***”
- Visual Effects Supervisor Mr. Piotr KARWAS partnered with 72andSunny for a 2D flame job for Pluto TV.
- Visual Effects Supervisor Mr. Piotr KARWAS and team worked on Magic Leap’s watch video ad for HBO.
- For Microsoft’s Xbox, Visual Effects Supervisor Mr. Piotr KARWAS and team delivered a two-minute game cinematic trailer for *“**Perfect Dark.**”* This was a collaboration with The Initiative and Buddha Jones.
- For Reynolds, Digital Domain teamed up with Havas Chicago to create three fifteen second spots that included live action shoot, design, editorial and finishing services.
- The team delivered a :30 game trailer for Microsoft’s “***CrossfireX,***” utilising the Unreal engine. The work also included capturing the likeness of four high profile influencers to create and include in the trailer.
- For 72andSunny, the team delivered 80+ versions of a live action spot for American celebrity skateboarder Tony HAWK, for which we handled all finishing work (cleanup, beauty and online).

- Partnering again with 72andSunny, the Digital Domain ad/games group completed 2D logo animation for *“**Call of Duty**”*.

- Director Aladino DEBERT is directing a 5-minute game trailer for Tencent called *“**Perfect World**”*. DDNA is responsible for script writing, previsualisation, motion capture and creative direction. The project is due to be delivered in 2021.

- For *“**World of Warcraft**”* the team completed finishing work executing 500 final deliverables for the 72andSunny spots.

- VFX Supervisor Mr. Piotr KARWAS and team are working on an 8-minute film for Electronic Arts Inc.’s *“**APEX Legends**”* involving a blend of design, CG, 2.5D and cell animation. The work is due to be delivered in 2021.

- Led by Executive Creative Director Mr. Kevin LAU, the team has completed work on three separate campaigns for the popular fast food chain **Wendy’s** which include design, motion graphics, edit, flame, colour and finishing work.

- Partnering with 72andSunny, the team delivered 2D design and flame finishing work for **Smirnoff**.

- For *“**League of Legends**”*, the team conducted a Riot animation test.

- VFX Supervisor Mr. Scott EDELSTEIN and team delivered a :90 game trailer for *“**Call of Duty: Mobile**”* in China in collaboration with client Tencent.

- Partnering with 72andSunny and **The National Football League (NFL)**, the ad/games group begun producing a large-scale project for the SuperBowl. The project involves recreating a deceased American football legend and utilises our proprietary Charlatan software along with 2D Flame manipulation. The team will be handling the day of the event, showcasing a hologram on the field as well as delivering a pre-rendered :90 commercial. All traditional VFX (matte painting, sky replacement and cleanup) and finishing is to be done by DDNA. The project debuts in February 2021.

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 alternative technologies. On appeal of the statement of decision, the court of appeal upheld the decision of the trial court that the Claimant was the owner of the Disputed IP.

During 2017, the Claimant filed four separate lawsuits against certain clients of the US Subsidiary relating to the use of the Disputed IP for certain visual effects projects that the US Subsidiary had completed ("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 the Claimant to proceed with litigation on the remaining portion of the claims for unspecified monetary damages. The 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 additional research and investigation into these remaining claims before hearing further arguments both in favour of and against the motion. Both parties have now submitted their written legal briefs. The court may decide the motion without holding a hearing to allow oral argument or will schedule oral argument before issuing a decision. No hearing date is presently scheduled.

In its production services agreements for the projects that are the subject of the Other Lawsuits, 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 has submitted these indemnity requests 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 for the US Subsidiary's clients, but subsequently communicated to the US Subsidiary that it no longer believed that coverage existed under the insurance policy but would continue to negotiate with the US Subsidiary about contributing to the defence of the clients in the Other Lawsuit. 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 and colour grading services delivered for feature films and TV drama series this year include "***Leap***", "***Coffee or Tea?***", "***Soul Snatcher***", "***Legend of Fei***", "***The Rescue***", "***The Yin-Yang Master: Dream of Eternity***", "***The Yin-Yang Master: Dream of Eternity***" (Dolby Vision), "***Summer Blur***", and "***Ban Lang Chuan Shuo***", as well as the upcoming "***National Interest Absolute Loyalty***".

In 2020, DD China continued to provide post-production and production (e.g. shooting, editing, colour grading and music production) services for various high-profile commercials profiling leading brands like **adidas**, **Biotherm**, **BMW**, **BVLGARI** (ft. Maizi), **Coca-Cola**, **DIOR**, **Dove**, **FAW-Volkswagen**, **FOREO**, **fresh**, **Greenpeace**, **Häagen-Dazs**, **HUAWEI**, **L'Oréal Paris**, **McDonald's**, **Mercedes-Benz**, **OMO**, **OPPO** (ft. Derek Tsang, Zhou Dongyu and Li Yifeng), **PizzaHut**, **PHILIPS**, **Porsche**, **SHISEIDO**, **SINOBO GROUP**, **Taobao** (ft. Derek Tsang), Tmall - **CHINA COOL**, Tencent Games - "***Call of Duty: Mobile (CODM)***", Tencent Games - "***Game For Peace***", Tencent Video - "***Everybody Stand By***" Season 2, ***VOGUE China***, **Yili**, **Youdao**, and Youku - "***We Are Young***".

Digital Domain India:

Since 2017, Digital Domain's facility in Hyderabad has worked closely with our North America and China studios and has been an integral part of the Global Production Strategy as well as adding value to the growing visual effects market in India.

Digital Domain India ("DD India") provides services across platforms for features, television, web and over-the-top (OTT) media. DD India considers data security to be of the utmost importance and has undertaken content security audits from The Motion Picture Association of America, Inc. ("MPAA"), Walt Disney Studios Motion Pictures ("Disney") and Marvel Studios, LLC ("Marvel"). DD India is a certified and secure facility which can handle content for all A-list Hollywood and other international shows. DD India also completed the annual assessment process conducted by Trusted Partner Network (TPN), a joint venture between two major entertainment industry associations, the MPAA and the Content Delivery & Security Association (CDSA), the worldwide leaders in third-party entertainment industry assessments.

In 2020, DD India has delivered quality work on schedule while dealing with global COVID-19 challenges. Going into 2021, DD India plans to increase its overall production contribution and increase delivery volumes as part of a long-term expansion plan.

B. Virtual Reality, Augmented Reality, New Media and Experiential

This segment includes augmented reality ("AR"), immersive and virtual reality ("VR") technology services using 360 degree 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 degree 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 in 2020:

- In December 2020, the Digital Domain team delivered the ***"ARK II"*** Reveal Trailer that aired at the 2020 Game Awards. The work included video game cinematic asset work for two characters. Supervised by Mr. Matt DOUGAN, VFX Supervisor, Digital Domain teamed up with Studio Wildcard to create a near-photo real likeness of Vin Diesel playing 'Santiago', the main character, as well as the main female child character. Digital Domain was responsible for asset look development and talent acquisition.

- Digital Domain and an undisclosed AAA Game Company partnered up in 2019 to embark on their biggest, highest quality video game featuring over 30 hours of captured facial and body performance capture. The project leverages Masquerade 2.0, Digital Domain's proprietary facial capture process throughout all talent capture on this truly massive new game project. Supervised by Mr. Aruna INVERSIN, VFX Supervisor and Creative Director of New Media, this undisclosed AAA game title is currently in production and scheduled for release in 2022.

- In collaboration with the Advertising, Games and New Media + Experiential teams, virtual human team's face-swapping technology, "Charlatan", was used to help add 30 years to David Beckham's face for a powerful new campaign from the charity Malaria No More. The film, titled ***"Malaria Must Die"*** was supervised by Mr. Dan BARTELUCCI, VFX Supervisor, and released in December 2020.

- Digital Domain joined forces with Las Vegas powerhouse agency R&R Partners to continue DD's relationship with Blockchains LLC, one of R&R's main accounts, to produce five 2-minute explainer films showcasing their proposed new "**smart city**". This will be a physical but virtually supported, brand new city that is currently being planned for construction in Nevada, run entirely on cryptocurrency. Executive Creative Director Mr. Kevin LAU and DD's motion graphics team took on this story-telling challenge to create beautiful yet simple graphics that explain very complex themes and the various structures that it takes to build a "decentralised" city. This project will be delivered in 2021.

- Digital Domain teamed up with TIME magazine and other partners to create an immersive VR experience with a 3D re-creation of Dr. Martin Luther King Jr. (MLK) at the 1963 March on Washington called ***"The March"***, which premiered at the DuSable Museum of African American History in Chicago in February 2020. Supervised by Mr. Aruna INVERSIN, this fully immersive experience begins with a walk down Constitution Avenue. As MLK begins to speak, the viewer travels closer to his podium ultimately coming to stand just a few feet away to experience five minutes of key moments from his iconic "I Have a Dream" speech. TIME magazine did a multi-article issue on this project in February 2020 which featured Digital Domain's digital likeness/recreation of MLK on the cover, marking a truly historic moment for the Company.

- Digital Domain teamed up with artist Lina RASSBAKKEN and team to create 11 unique real-time characters and assets for use in the interactive VR experience titled ***"NORN"***. Based on Nordic mythology and folklore, this story called for Digital Domain to create various organic models, from human apparitions to fantastical animals that resemble a water bear. Executed by Digital Domain's studio in Beijing, this project was delivered in December 2020 and there are plans for an awards circuit tour as well as public release in the first quarter of 2021.

Digital Domain staff from the global studio participated in several events this year:

- Mr. Deke KINCAID, Senior Pipeline Supervisor, shared his insights and experience at the ***"Nuke TD Roundtable"***, part of Foundry's Virtual Events Series, exploring what technical directors and technical artists do and why it's a good career.

- Mr. John CANNING, Executive Producer of New Media + Experiential, gave a ***"Trailblazer Talk"*** for #**AIShowBiz** on the topic of "Creating Digital Characters and Worlds in the New Normal."

- Mr. John CANNING participated in a panel for **VES online** discussing Real-Time Virtual Humans.

- Mr. John CANNING participated as a moderator for **Digital Hollywood** on a panel discussion titled "Virtual Hollywood Production and Immersive Entertainment".

- Mr. John CANNING joined Keran Malicki-Sanchez for a conversation at the **Virtual & Augmented Reality World Conference & Expo (VRTO)**, covering a wide range of concepts and production anecdotes centred around the art of capturing humans, monsters and historic figures in such a way that they are indistinguishable from the real thing.

- For the **CANNES XR festival**, Mr. John CANNING presented a keynote titled "Being Digital: Building Characters in the World Today" which focused on the intersection of video with the interactivity of real-time engines and how this is creating brave new possibilities for digital characters and performances.

- Mr. Jan Philip CRAMER, Head of Animation, presented a master class on facial animation for the **Langara Centre for Entertainment Arts** to showcase techniques that result in the most realistic and best possible facial animation from motion capture or keyframe animation.

- Ms. Asuka Tohda KINNEY, CG Supervisor, presented "Close-up Ready: Creating High-Fidelity Facial Detail at Digital Domain" for the **Chaos Group's *"24 Hours of Chaos"*** virtual conference.

- Mr. Aruna INVERSIN participated in a VFX tell all for the **Visual Effects Society/AutoDesk's *"Ask Me Anything"*** series.

- Mr. Pierre MICHEL-ESTIVAL, Director & Creative Director of Advertising and Games, discussed his work and process at **Poolhouse's *"Let's Get Remote: The Post-Production Series"*** online forum.

C. Virtual Human Business (North America and Greater China regions)

The Group remains strongly committed to business development in the area of virtual human technology, and continues to seek opportunities for financing and collaboration with strategic partners, and the recruitment of appropriate global talent.

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

- Dr. Doug ROBLE, Senior Director of Software R&D, was invited to give an online keynote presentation at **the RealTime Conference 2020** which detailed how he and our VHG successfully introduced the world to DigiDoug, a photorealistic avatar who took the stage in real-time for the TED Conference in 2019. This presentation discussed where we are now with the technology, concentrating on the "real" in both 'real-time' and 'photoreal'.

- At NVIDIA's GTC, Dr. Doug ROBLE also presented "Photorealistic, Real-Time, Digital Humans: From Our TED Talk to Now" which delved into how the team achieved their **2019 TED** presentation solving real-time human problems and what they've been working on since: increasing the fidelity of the rendered character, creating the ability to easily have someone else drive a character, creating autonomous characters who can drive themselves and creating new ways to render the character for ultimate fidelity.

- Dr. Doug ROBLE gave an additional internal presentation for **NVIDIA**.

- Mr. Darren HENDLER, Director of VHG, participated in **SIGGRAPH's** spotlight podcast on "Age Manipulation in VFX" which dove into the science, technology and technique behind age manipulation in VFX.

- For **Cannes XR festival**, Mr. Darren HENDLER and Mr. John CANNING participated in a panel called "Welcome to the age (and magic) of Virtual Humans," which explored Virtual Humans, their revolution in cinema and Digital Domain's vision for real-life applications. Exclusive Fireside chat with Digital Domain" at CANNES XR festival.

- Dr. Doug ROBLE and Mr. Darren HENDLER presented "Digital Humans Are Back! Creating and using believable avatars in the age of COVID" at **SIGGRAPH Asia**.

- For **SIGGRAPH LA**, Dr. Doug ROBLE presented on AI in VFX.

- For **VFXRio**, Mr. Lucio MOSER, Principal Engineer, presented "Machine Learning Is Disrupting The Entire VFX Pipeline: A Case Study On Facial Motion Capture"

- Dr. Doug ROBLE joined the host of **Intel's AI Podcast** to discuss the technology and AI models that go into creating the complex visuals and virtual humans Digital Domain is working on.

- Ms. Melissa CELL, Software Engineer, participated in a panel for **NVIDIA's GTC** titled "The Future of Location-based Entertainment."

Digital Domain's VHG's research and development aided multiple projects and resulted in new developments in 2020:

- The team introduced **Masquerade 2.0**, the next iteration of its in-house facial capture system, rebuilt from the ground up to bring feature film-quality characters to next-gen games, episodes and commercials.

- In November 2020, the team debuted **Douglas**, one of the most realistic real-time, autonomous, digital humans in the world. Currently in development, Douglas is designed to break down the barriers in human-to-machine interactions, yielding conversations that feel natural and easy.

- In collaboration with the Advertising/Games and New Media + Experiential teams, VHG's "Charlatan" was applied to help add 30 years to David Beckham's face for a powerful new campaign from client **Malaria No More**.

In addition to Virtual Human Teresa Teng, the Group developed other virtual human characters with different business partners (such as famous singers, movie stars or corporations) in the Greater China Region. Since 2018, the Group has created a range of its own virtual human characters/IPs including Lydia, STAR, M.E., ZEN, and Alice. The Group also deployed resources towards research and development to improve the interaction between virtual human characters and their audiences.

The Group produced or launched other types of virtual human projects in 2020, including:

- In **May 2020**, The Group produced the publicity film ***"IMAGINE"*** in collaboration with JFJ PRODUCTIONS. **Virtual Human M.E.** appeared in the last shot of the film as a hint of his return in the future.

- In **October 2020**, M.E. appeared as a secret guest in JJ LIN's ***"DRIFTER • LIKE YOU DO"*** livestream concert. The online concert received 16 million views on that night.

- In **October 2020**, M.E. started his own **social media accounts** including on Weibo, Facebook, and Instagram.

- In **December 2020**, **Virtual Human ZEN** was designed and created by **Nicholas TSE** and Digital Domain as a virtual human idol, and made her official debut as the MC of Nicholas TSE's online concert ***"TME LIVE Rock Concert"***. The astonishing content and captivating interaction at the concert attracted millions of viewers online.

- In **December 2020**, **ZEN** officially launched **her Weibo account**. Interactions between ZEN and Nicholas gained a lot attention from fans. Future performance opportunities and a diversified development plan will be explored and launched for ZEN in 2021.

D. Co-Productions

Feature Film:
The film **"*Ender's Game*"** was released in November 2013 in the US. The film continues to generate income from non-box office channels both within and outside the US. *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 under "Other income and gains" in the Group's consolidated income statement.

Episodes Series:
Digital Domain entered a collaboration with Talent Television and Film and Cenic Media to produce ***"Ten Years Late"***, an episode which tells an inspiring workplace story set across multiple cities. Digital Domain provided VFX and VR solutions for the drama, to give viewers 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$55,324,000 (2019: HK$62,095,000) from *The Legends of Monkey King* (2019: *Ten Years Late*) was recognised as income arising from broadcasting movies and episodes and was grouped under "Other income and gains" in the Group's consolidated income statement. There were amortisation expenses from investment in the TV drama series mentioned above (grouped under "Participation Rights") of HK$37,058,000 (2019: HK$43,967,000).

E. Investment in "handy"

In 2018, the Group made a US$25,000,000 (approximately HK$196,213,000) equity investment in Mango International Group Limited ("Mango"), and its flagship product **"handy"** which leverages 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 and 31 December 2019, the investment was classified as a financial asset measured at fair value through other comprehensive income. For the preparation of the annual audit for 2018 and 2019, the Group engaged an independent professional valuer to estimate the fair value of Mango at year end and fair value adjustments (downward) have been made for these two financial years. The fair value adjustment was reflected in the consolidated statement of other comprehensive income with items that will not be reclassified to profit or loss. As at 31 December 2019 and 31 December 2020, the value of the financial asset measured at fair value through other comprehensive income is nil.

INTERESTS IN ASSOCIATES

3Glasses Group

On 22 March 2018, Digital Domain Network Technology Limited ("DD Network", an indirect wholly-owned subsidiary of the Company), Mr. Lin Che Chu George (the "Vendor"), Lead Turbo Limited (the "Target") and a guarantor entered into the agreement (the "Agreement"), pursuant to which DD Network conditionally agreed to acquire (or procure the acquisition of), and the Vendor conditionally agreed to sell, 6,688 ordinary shares of the Target, representing 66.88% of the issued share capital of the Target, at an aggregate consideration (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 actual profit for 2019 was lower than the target profit for 2019, therefore, the Group paid part of the contingent consideration (based on the proportion of the actual profit against the target profit) of approximately RMB13,000,000 (approximately HK$14,259,000) according to the terms of the acquisition. The remaining amount of approximately RMB37,000,000 (approximately HK$41,396,000) of contingent consideration being no longer payable was recognised as a change in fair value of contingent consideration and was reflected on the Group's consolidated income statement for the 2019 financial year. For full details of the calculation mechanism, please refer to the Company's announcement dated 22 March 2018.

Pursuant to the Agreement, the Vendor and the guarantor have jointly and severally undertaken to provide a non-interest bearing loan for the amount of RMB20,000,000 (equivalent to approximately HK$25,000,000), and DD Network has undertaken to provide a non-interest bearing loan for the amount of RMB30,000,000 (equivalent to approximately HK$37,000,000), to the Target.

Contractual Arrangements – please refer to pages 17 to 21 of the Company's Annual Report 2019.

On 17 July 2020 (after the trading hours of the Stock Exchange), DD Network and a purchaser ("Purchaser") entered into a disposal agreement, pursuant to which the Purchaser conditionally agreed to acquire, and DD Network conditionally agreed to sell, the relevant shares, representing 22.29% of the issued share capital of the Target, at an aggregate consideration of HK$102,000,000.

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the disposal exceed 5% but are less than 25%, the disposal constitutes a disclosable transaction for the Company pursuant to Rule 14.06 of the Listing Rules and is therefore subject to notification and announcement requirements under the Listing Rules. For details, please refer to the Company's announcement dated 17 July 2020.

The above mentioned disposal was completed on 31 July 2020 and 3Glasses Group become a group of associates (changed from a group of non-wholly owned subsidiaries) of the Company.

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 3Glasses Group management team has more than 10 years of experience in VR technology development and is a pioneer in providing VR solutions in the PRC. 3Glasses Group's major product is a self-developed VR headset, which is a head-mounted display device that provides a VR experience for wearers and is widely used with computer games, simulators and trainers. 3Glasses Group 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.

In 2019, 3Glasses Group released the world's first ultra-thin consumer VR glasses, "3Glasses X1", weighing only one-third of comparable products currently on the market. In 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 a 5G mobile phone. Also in 2019, 3Glasses Group launched D4, an improved VR headset based on their D series, with optical upgrades, industrial design and a double-strengthened and longer cable for increased freedom of movement in the VR experience.

On 17 March 2020, 3Glasses Group and China Unicom jointly held an online conference for strategic cooperation. At a press conference entitled "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 Group became one of the first partners of China Unicom's "terminal + application" and "online + offline" integration to implement cooperation agreements. In addition, the X1S, the 3Glasses Group's brand new addition to the X series of VR glasses made its debut at the press conference.

3Glasses Group was the first official certified partner of the Qualcomm XR SIMPLEVIEW program, and is also working with other famous corporations such as BOE Technology Group Co., Ltd. on the development of ultra-thin VR optical components to move the VR industry forwards. Furthermore, with the laying of 5G networks by telecommunication operators in the PRC, 3Glasses X1 and the new X1S, as carriers of 5G applications tethered to 5G smartphones, will serve as key consumer VR hardware for families and individual users to provide immersive and seamless VR experiences over 5G.

As at 31 December 2020, 3Glasses Group has applied for 404 VR independent core patents. As an innovative technology company, while maintaining its technological leading edge in the area of hardware products such as VR headsets, 3Glasses Group is also actively expanding its solutions services (including VR hardware, VR games and content services and industry applications).

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 business development in the field of virtual humans, the Group continues to seek opportunities for financing and collaboration with strategic partners. In January 2019, the Group invited strategic investors to commit funds to specific virtual human business initiatives in the Greater China Region and these companies have been reclassified as associates of the Company since 1 February 2019.

Virtual Human Teresa Teng

In 2014, Digital Domain Media (HK) Limited (DDM), (originally an indirect wholly-owned subsidiary of the Company, now an associate of the Company since 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 relating to 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 events and activities, 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.

- 2020, **Virtual Human Teresa Teng exhibition and hologram show, at Merlot City Global Centre, Handan:** The setup and rehearsal of the exhibition and hologram show was completed in May 2020, and the show has been running successfully since then with high levels of audience attendance.

- October 2020, **Virtual Human Teresa Teng show "Looking for Teresa Teng" at Hongyadong, Chongqing:** This holographic mixed reality (MR) interactive music show recreated the elegant charm of Teresa Teng in the form of holographic images, creating an immersive, multi-sensory experience for the audience.

- October 2020, **Virtual Human Teresa Teng show "Teresa Teng · Legend of Fairy Lake" at Fairy Lake Scenic area, Xinyu, Jiangxi:** This holographic MR interactive light and shadow show recreated performances of Teresa Teng's love songs.

Beijing Xu Gu
In 2019, Beijing Xu Gu was set up as an associate of the Company and operates several virtual human projects within Mainland of China. Using Digital Domain Group's virtual human technology, Beijing Xu Gu continues to innovate and develop virtual IP live broadcasts, content marketing and business development, around the four core strengths of "new technology lightweight operation, multi-form virtual person creation, multi-content development, and multi-scenario business development". Beijing Xu Gu's projects break the barriers between virtual space and the real world, and create a "real person + virtual human" immersive live broadcast experience based on high-precision real-time interaction, and lightweight operation. Beijing Xu Gu brings innovation and new opportunities to the live broadcast industry.

- May 2020, **Virtual Human Alice ("Alice") live broadcast:** Alice participated in the live broadcast of 520 public welfare concerts from the Communication University of China on TikTok as a special guest, where she spoke out for love to a vast number of artistic young people and students.

- June 2020, **Alice's debut:** Alice made her debut as the first virtual human children's reading promoter, the first children's virtual human idol, and the first virtual human children's knowledge sharing officer in Mainland of China.

- June 2020, **Alice x TikTok live tour for the Dragon Boat Festival:** Alice launched the Dragon Boat Festival live tour "Ming Xuan Emperor Playing" on TikTok, creating a series of "Famous Painting Tours" into the micro world, using futuristic technology to lead everyone into the world of traditional culture and art, and live broadcast fragments of famous paintings. The live broadcasts were played across all platforms more than 50,000 times.

- June 2020, **Alice's Taobao Live Channel:** Alice's personal Taobao live broadcast room was opened, and the highest number of views was 1.63 million for parent-child reading, children's books, stationery, and parent-child household consumer goods, which became the benchmark for the virtual anchor of the Taobao live broadcast "novel channel". Since then, Alice has broadcasted more than 130 live broadcasts on Taobao, and has cooperated with brands such as Dangdang, Jieli Publishing House, CITIC Publishing House, and Tmall Supermarket.

- July 2020, **CITIC Art Museum live broadcast:** After her first month, Alice was invited by TikTok to participate in the 270 million blockbuster topic #古都茶話會# live broadcast event. The director of CITIC Art Museum Zeng Zirong joined Alice to conduct a live broadcast of the "Famous Painting Tour", leading thousands of viewers to step into famous ancient paintings such as "Surfing the River at Qingming Festival", "Han Xizai's Night Banquet", and "Ming Xuan Emperor Playing", to appreciate the artistic charm and humanistic value of these ancient paintings in real time.

- July 2020, **Alice x People.cn live:** As a special charity ambassador, Alice participated in People.cn's live broadcast to help farmers in hundreds of cities and counties sell their agricultural products after the epidemic, using her strength and online presence to speak for a charitable cause.

- July 2020, **Alice x BTV live on TikTok:** Alice participated in the live broadcast of Beijing Television's "Classroom in Time and Space" on TikTok. She attended class with the children, and travelled through time and space to speak with the ancients.

- August 2020, **"CCTV Intangible Heritage Master":** Alice became the "CCTV Intangible Heritage Master" and gave an introduction to Guqin culture via a broadcast on China Central Television (CCTV) Children's Channel (CCTV-14).

- September 2020, **Alice x China Unicom x Apple Watch launch event live:** Alice participated in the live broadcast of China Unicom's x Apple Watch new product release as a special guest. The number of views in the live broadcast room exceeded 2.39 million.

- September 2020, **Beijing SASAC "New Products • New Technologies • New Application Scenarios" promotion meeting:** Alice participated in the meeting, organised by the Beijing State-owned Assets Supervision and Administration Committee (Beijing SASAC), as a special host and held three sessions as the "Capital Agribusiness Product Recommendation Officer". She helped to recommend SanYuan milk powder to the committee as a new product.

- September 2020, **Virtual Human Nonoka ("Nonoka") x Alice x Wong Lo Kat new product live stream:** Nonoka and Alice conducted a special live broadcast to promote Wong Lo Kat's new products. The popularity of the live broadcast room surpassed the brand's previous live broadcasts.

- October 2020, **"Colour of Home" Charity Concert:** as a special ambassador for cultural exchange, Alice attended the "Colour of Home" charity concert in Hong Kong and performed a song called "The Country". With her sweet singing voice and agile figure, she used music to convey the positive energy of patriotism, and prayed for the country and people, winning bursts of applause. In the interactive session, Alice guided the audience into the wonderful world of children's virtual human idols with a wealth of knowledge and experience.

- October 2020, **Launch of "Alice's Questions for Knowledge" short video series:** Alice's original children's fun and popular science series "Alice's Questions for Knowledge" (search for "班長小艾" on WeChat) was officially launched. Every day, there were parent-child topics related to animals, plants, the universe, humanity, the human body, geography, interesting science, and history suitable for parents and children. After the launch of the series, feedback from the market was good, and a large number of fans accumulated quickly. Alice also successfully certified the account "Mother and Child Parenting Blogger".

- November 2020: Alice participated in the **2020 Haidian District Culture and Technology Carnival** at Beijing.

- December 2020, **Golden Gyro Award:** Beijing Xu Gu was awarded the Fifth Golden Top Annual Outstanding Virtual Live Broadcasting Service Provider Award.

- December 2020, **10th QBW2020 Winter Maternal and Child Cross-border Innovation Fair:** Beijing Xu Gu was awarded the Industry Contribution Award at the 10th QBW2020 Winter Maternal and Child Cross-border Innovation Fair ("CCIF"). Alice was named the 10th QBW2020 Winter Maternal and Child Crossover and created the "Good Product of Science and Education" in the CCIF. Alice appeared at the event site as the first virtual host of the QBW Maternal and Child Cross-border Innovation Fair and interacted with the host and guests in real time. Alice's ability to interact with the audience like a real person surprised everyone and opened attendees' eyes to the many possibilities that virtual human technology and artificial intelligence could bring to the industry.

- December 2020, **6th "Chinese Poetry Conference" by CCTV:** Alice participated in the 6th "Chinese Poetry Conference" and served as young officer to ask questions. The program was released on CCTV-1 during the 2021 Spring Festival.

- December 2020, **Nonoka's video channel "Nonoka's Lingerie Life":** the channel was officially launched with the aim of reaching a female audience, using professional underwear expertise to produce the core content.

- December 2020, **Nonoka x Alice Christmas live broadcast for CELCIUS:** Nonoka and Alice conducted a special Christmas live broadcast for CELSIUS. Compared with CELSIUS' past performance, this livestream generated a staggering rate of growth in both viewing and interaction, which increased by 865% and 163% respectively. This also successfully helped CELSIUS obtain a sustained increase of 83% in customer engagement.

- December 2020, **Virtual Human Lydia ("Lydia") produced the ACGN song and dance content for social media platforms:** Lydia entered (a) TikTok as the "Twilight Girl" in October 2020, (b) WeChat Channel in November 2020, and (c) "Barta" on the iQiyi animation platform for performances related to anime, comics, games and novels (ACGN).

Digital Domain Space (VR Theatre and DD Land)
In September 2017, Digital Domain established **數字王國空間(北京)傳媒科技有限公司 (Digital Domain Space)** with several strategic partners.

Digital Domain Space's aim is to develop and execute an innovative VR experience with new VR theatres in China. Highlighting the interactive and entertaining nature of VR content, Digital Domain Space's VR theatres have already been installed inside a number of shopping malls, including locations in Guangzhou, Chongqing and Fushun. Compared to existing 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 amounted to approximately HK$8,440,000 (2019: HK$13,943,000).

Since the early control of the COVID-19 pandemic in Mainland of China, a decrease in global travel has prompted Chinese consumers to repatriate their purchases and travels nationally. This has been particularly evident in the tourism boom in Hainan Province that has been driven by attractive offshore duty-free shopping policy changes in 2020, part of the government's plan to keep Chinese consumption within Mainland of China. To grasp the opportunity and meet the increasingly diversified needs of consumers, especially those of Gen Z, in digital content experiences, Digital Domain Space and Zhongdi Jiye Hainan Investment Co., Ltd. jointly built "DD Land" (known as the "Cyberpunk Digital Theme Park") which officially launched on 24 December 2020 in Friend Sunny City Shopping Centre in downtown Haikou, Hainan Province. Using cutting-edge digital imaging technologies such as VR and holographic projections, the Park provides its customers with digital entertainment services such as holographic theatre, VR cinema, MR Future Arena, Immersive Oasis and Cyber Street, with premises of 4,800 square meters.

GOODWILL AND INTANGIBLE ASSETS OF THE GROUP

As at 31 December 2020, the Group had intangible assets of approximately HK$737,030,000 (being approximately 49% of the Group's total assets as at the same date). Such intangible assets comprised goodwill of approximately HK$310,047,000 that has been allocated to three 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"); and (iii) 360 degree digital capture technology applications ("360 CGU"), respectively; and trademarks of approximately HK$155,270,000 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 2020 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 2020 were determined on a basis consistent with that which was applied in the value-in-use calculations of the same CGUs as at 31 December 2019, 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 2021 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 the 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 in prior years.

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

Unlike contracts in other CGUs, contracts in the 360 CGU are generally characterised by short period of time between contract date and delivery of projects. Further, the prospects of growth in this CGU is highly dependent on the revival of demand for 360 digital capture and live streaming services from the travel, sports, concerts and other mass events sectors that have significantly been impacted by social distancing requirements and travel restriction measures in most territories. The growth rate(s) adopted for this CGU is/are based on historical growth rate, referenced against industry average(s) obtained from market research.

The Group's revenues are generally project based and the projects are often the subject of competitive tender, so it is not possible to make predictions with certainty. Shareholders should note that in addition to the 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 2020, the goodwill allocated to the VE CGU was approximately HK$208,691,000 (2019: HK$208,863,000) with headroom of approximately HK$168,196,000 (2019: HK$161,133,000) based on the value-in-use ascribed to this CGU. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years budget period of 19.3% (2019: 19.4%) and a pre-tax discount rate of 17.6% (2019: 17.0%). Based on a sensitivity analysis carried out by the independent valuer, the headroom attributable to the VE CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change 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, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

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

PP CGU

As at 31 December 2020, the goodwill allocated to the PP CGU was approximately HK$85,186,000 (2019: HK$85,186,000) with headroom of approximately HK$15,325,000 (2019: Nil) based on the value-in-use ascribed to this CGU. 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 years budget period of 22.2% (2019: 30.1%) and a pre-tax discount rate of 20.6% (2019: 20.5%). Based on a sensitivity analysis carried out by the independent valuer, the headroom attributable to the VE CGU would adequately cover a +/-0.5% change in the weighted average cost of capital and a +/- 0.5% change 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, any material changes in this CGU's market or operating environment that reduce its cash inflow or gross profit margin could have an adverse impact on the recoverable amount of this CGU.

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

360 CGU

As at 31 December 2020, the goodwill allocated to the 360 CGU was approximately HK$16,170,000 (2019: HK$321,291,000) based on the value-in-use ascribed to this CGU, as a result of which an impairment loss of approximately HK$305,119,000 was made against this CGU as at 31 December 2020. Key assumptions for the value-in-use calculations for this CGU included an average growth rate within the 5 years (2019: 7 years) budget period of 22.5% (2019: 31.5%) and a pre-tax discount rate of 18% (2019: 17.8%). The lower valuation of this CGU is mainly due to (i) the low revenue generated in the financial year ended 31 December 2020 that formed the basis of projection; (ii) a more conservative revenue growth (which resulted in the lower average growth rate) projected in the budget period due to lower average historical growth rate for the preceding three financial years and the uncertainties, in particular for 2021 and the years following, on when mass participation events (such as travel, sports events, concerts) served by the 360 CGU would meaningfully resume in that CGU's markets in Asia, US and Europe to generate sustainable demand for services 360 CGU, while the Group explores the business opportunities in non-media entertainment market (such as the education related market) for this CGU, as part of our VR offerings in the form of "360 degree type", "CG type" and "hardware type" products.

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

EVENTS AFTER THE REPORTING PERIOD

Subscription of New Shares under General Mandate

On 11 December 2020, the Company entered into a subscription agreement with HLEE Finance S.à r.l. (the "Subscriber") of Mr. Clive NG Cheang Neng ("Mr. NG") in relation to the subscription. Pursuant to the subscription agreement, the Company conditionally agreed to allot and issue 6,814,760,000 shares to the Subscriber at the subscription price of HK$0.05 per Subscription share (the "Subscription"). The Subscription was completed on 18 January 2021 and the subscription shares were allotted and issued pursuant to the general mandate of the Company. The Subscription shares represent approximately 20% of the issued share capital of the Company of 34,073,816,258 shares as at the date of announcement of the Subscription and approximately 16.67% of the issued share capital of the Company of 40,888,576,258 shares as enlarged by the Subscription.

The gross proceeds and net proceeds from the Subscription are approximately HK$340,738,000 and HK$340,538,000 respectively, and are intended to be applied towards the formation of the joint venture company, media entertainment segment and general working capital of the Group. For details, please refer to the Company's announcements dated 11 December 2020, 27 December 2020 and 18 January 2021.

Formation of a joint venture company and investment(s) in Europe

Formation of DDCP

The Company's indirectly wholly-owned subsidiary, Digital Domain Broadcasting (Hong Kong) Limited ("DDBL"), has formed Digital Domain Capital Partners S.à r.l. ("DDCP"), a company incorporated in the Grand Duchy of Luxembourg on 18 January 2021 with a joint venture partner, a wholly-owned company, Digital Knight Finance S.à r.l. ("DKF"), of Mr. NG, pursuant to the agreement that was the subject of the Company's announcements dated 11 December 2020 and 27 December 2020. The DDCP is an indirect non-wholly owned subsidiary (60% owned) of the Company.

Pursuant to the JV formation agreement, the Company (through DDBL) and the Subscriber (through DKF) subscribed for shares in DDCP and holds 60% and 40% interests in DDCP, respectively in consideration of the subscription price of approximately HK$187,800,000 (equivalent to EUR20,000,000) and approximately HK$125,200,000 (equivalent to EUR13,333,333) in cash.

Investment in asknet

On 3 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 248,431 common shares ("Sales Shares") of asknet Solutions AG, a publicly traded German ecommerce company, the shares of which are traded on the Frankfurt Stock Exchange (ticker code: ASKN) ("Target Company") for an aggregate consideration of EUR3,709,075 (approximately HK$34,976,576), i.e. amounting to approximately EUR14.93 (approximately HK$140.79) per Sale Share. The Sales Shares represented approximately 19% of the total issued common shares of the Target Company on 3 February 2021.

Founded in 1995, the Target Company is an established procurement, e-commerce and payment specialist with a strong position in the German-speaking academic market providing access to software solutions and IT services with a focus on academic and educational sectors. Areas of collaboration between the Group and the Target Company under consideration include the deployment of the Group's virtual human technology in the form of a virtual teaching assistant for the education and lifelong learning sectors in the European market, the development of learning solutions that leverage mixed reality content and the distribution of the Group's software and hardware products to the education market in Europe. Considering the COVID-19 pandemic situation, the Group expects that the demand in education technology services is likely to increase. For details, please refer to the Company's announcements dated 3 February 2021.

Investment in HLEE

On 26 February 2021, DDCP as the purchaser entered into a sale and purchase agreement with a seller pursuant to which DDCP agreed to purchase and the seller agreed to sell 260,000 common shares ("Sales Shares") of Highlight Event and Entertainment AG, a publicly traded Swiss media and sports marketing company, the shares of which are traded on the Swiss Stock Exchange (ticker code: HLEE.SW) ("HLEE") for an aggregate consideration of EUR7,064,447.52 (approximately HK$66,617,740), i.e. amounting to approximately EUR27.17 (approximately HK$256.22) per Sale Share. The Sales Shares represent approximately 2.91% of the total issued common shares of the HLEE on 26 February 2021. HLEE carries its business in segments of film, sport- and event-marketing and sport events through its subsidiaries and affiliates in Europe.

CAPITAL

Shares

On 11 December 2020, the Company entered into a subscription agreement with the Subscriber in relation to the Subscription. For details, please refer to the above section named "Events after the Reporting Period", and the Company's announcements dated 11 December 2020, 27 December 2020 and 18 January 2021.

As at 31 December 2020, the total number of the Company shares of HK$0.01 each in issue (the "Shares") was 34,075,516,258 Shares. Upon the completion of the Subscription (mentioned above) on 18 January 2021, the total number of Shares in issue was 40,890,276,258 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, no share options were exercised, cancelled or have lapsed. 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 and since the grant-date (24 April 2019), no share options were exercised, cancelled or have lapsed.

On 21 May 2020, a total of 478,000,000 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 478,000,000 new Shares at an exercise price of HK$0.046 per Share. For details, please refer to the Company's announcement dated 21 May 2020. During the year under review, 1,700,000 share options were exercised and no share options were 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 2020, the Company had banking facilities from two banks in the United States amounting to US$11,000,000 (approximately HK$85,282,000). These banking facilities were secured by time deposits of the Group. The Group had banking facilities from a bank in Canada in amount of CAD5,924,000 (approximately HK$36,063,000) and the utilised portion of these banking facilities were CAD5,779,000 (approximately HK$35,181,000). These banking facilities were secured by corporate guarantees provided by several subsidiaries.

During the year under review, certain loans granted under emergencies loan schemes for COVID-19 are in amount of US$1,064,000 (approximately HK$8,251,000) and CAD40,000 (approximately HK$244,000). These loans are unsecured and not repayable within 12 months from 31 December 2020.

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

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 2020, the Group also had lease liabilities of HK$114,588,000, 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 RMB422,000 (approximately HK$501,000) and CAD493,000 (approximately HK$3,003,000) related to computer equipment and software (leased assets) secured by the lessor's charge over the leased assets. Among these leased assets, the terms of payments were 34 months and 42 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$162,729,000 as at 31 December 2020. One indirect wholly-owned subsidiary has a loan in amount of US$3,500,000 (approximately HK$27,065,000) which is unsecured, interest-free and is not repayable within 13 months from 31 December 2020. The Company and its indirect wholly-owned subsidiary had other loans in amount of HK$10,020,000 and US$429,000 (approximately HK$3,326,000) respectively. These other loans are unsecured, with a fixed interest rate and repayable within 12 months from 31 December 2020. One indirect wholly-owned subsidiary also had a term loan facility of US$10,000,000 (approximately HK$77,528,000) and HK$80,000,000, 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 2020 was US$8,000,000 (approximately HK$62,022,000 and HK$34,290,000. These loans are unsecured, with a floating interest rate (prime rate quoted by a bank in Hong Kong) and are not repayable within 13 months from 31 December 2020. There is an other loan in amount of US$3,354,000 (approximately HK$26,006,000) provided in relation to the production of a film with interest-bearing and secured by security interest in all right, title and interest in a film investment. During the year under review, the Company repaid an other loan in amount of HK$10,000,000. As at 31 December 2019, there were other loans with aggregated principal in amount of RMB20,000,000 (approximately HK$22,376,000), from a non-controlling shareholder of the 3Glasses Group. This other loan was derecognised upon disposal of subsidiaries during the year under review.

The total cash and bank balance as at 31 December 2020 was approximately HK$113,899,000. As at 31 December 2020, the Group had banking facilities of approximately HK$129,840,000. Utilised portions of these bank facilities were set at a floating interest rate. Of these bank loans, loans amounting to approximately HK$93,532,000 are denominated in United States dollars and loans amounting to approximately HK$35,425,000 are denominated in Canadian dollars. During the year under review, all of the Group's bank loans were classified as either current liabilities and repayable on demand 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 2020 was spread over a period of five years, with approximately 86% repayable within one year, 11% repayable between one to two years and 3% repayable between two and five years.

The Group's current assets were approximately HK$286,358,000 while the current liabilities were approximately HK$418,352,000 as at 31 December 2020. As at 31 December 2020, the Group's current ratio was 0.7 (as at 31 December 2019: 1.8).

As at 31 December 2020, the Group's gearing ratio, representing the Group's financial liabilities (i.e. bank loans, other loans and lease liabilities) divided by the equity attributable to owners of the Company was 49% (as at 31 December 2019: 31%)

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 the Media Entertainment Segment above, as at 31 December 2020, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 31 December 2020, the total headcount of the Group was 1,090. The Group believes that its employees play an important role in its success. Under the Group's remuneration policy, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Other benefits include discretionary bonuses, a share option scheme and retirement schemes.

PROSPECT

The global economy has been adversely affected by the outbreak of the new coronavirus (COVID-19) and associated government epidemic prevention and control measures in 2020 and we can see that 2021 will continue to be an extremely challenging year for a lot of businesses, including our media entertainment business. Given that the overall situation remains unstable and further impact may be reflected in the first half of 2021, we are adopting a prudent approach in our business strategies (including for example, cost control, business direction and production mix).

The Group continues to leverage its extensive experience in the VFX industry and proactively seeks new projects and business opportunities despite the highly competitive market environment in the US and China. However, government measures and public response to the outbreak of COVID-19 worldwide has had an impact on business activities (VFX work for feature films) in terms of extensions 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, while there were increased opportunities/quantities for providing VFX work for other type of products (e.g. online games, episodes and commercials). While we have noted more business opportunities in the US, China and Europe following the gradual resumption of commercial work, it is more challenging to predict trends in different segments given that the development of the pandemic in different countries remains unstable. With the official opening of our new studio in Montreal, Quebec, Canada in February 2020, we enjoy additional production capacity with tax and other benefits provided by the Quebec provincial/Canadian federal governments. The Group will continue to evaluate the cost structure, function and operation performance of each studio in North America and Asia to enhance the effectiveness and efficiency of our working capacity while reducing production costs in the long run.

The business activities of our VR business have experienced material slowdown in 2020 given the reduced expansion in Mainland of China, North America and other parts of the world which we believe has led to the reduction in the number or size of projects and/or the investment budgets. Although the 360 degree digital capture and livestreaming business had mainly served the sports, travel, concerts and mass public social events sectors that have additionally been affected by the COVID-19 pandemic related social distancing and travel restrictions measures, which may continue well into 2021, we are working towards expanding the non-media entertainment applications of the technology, for example, for the education related market and expand our offerings of “360 degree type”, “CG type” and “hardware type” products. In this regard, we are discussing with clients and investors who still have confidence in our VR business models and hardware products on business opportunities in both our traditional markets as well as the European market. The Group will further review the overall strategy (investment direction, product mix, distribution channels, etc.) of our VR business. However, the impact for financial year 2021 remains to be seen given that the overall situation remains in flux.

We will continue to explore new virtual human business opportunities and products (such as artificial intelligence (AI)) with strategic business partners and/or investors. We will continue to develop new technologies which will enhance the interactivity between virtual humans and the audience in social-networking platforms, entertainment businesses and in other environments such as education.

Alongside most advanced technology companies, we will continue to deploy substantial financial and human resources in continuing research and development in new technologies, and will seek to recruit and retain appropriate global talent to support the Group's future development. In line with our strategy to optimise our production capacity and costs, we will also explore appropriate strategically located properties for both operations and investment purposes. We will continue to seek opportunities for financing and collaboration with strategic partners/investors on the Group level or business project/subsidiary level. We believe that continuing efforts in these directions will help us enhance our business ecosystems and other capabilities.

Looking ahead, although there are uncertainties caused by the COVID-19 pandemic, Digital Domain turned a new page in early 2021 by stepping into the European market in cooperation with strategic partners with European business backgrounds and resources.

Last but not least, we will continue to build on our strengths and strive to provide quality services and products to our valued clients, especially during this challenging year, while we work towards maximising 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 2020.

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 2020, the Company was in compliance with the Code Provisions set out in the CG Code except for the following:

1. There is no separation of the roles of the chairman and the chief executive officer or chief executive during the period from 4 June 2020 to 31 December 2020. Mr. Seah Ang, the executive Director and chief executive officer of the Company, was appointed as the acting chairman of the Board following the resignation of Mr. Peter Chou as the chairman of the Board and the executive Director. The Board believed that at the time of vesting of the roles of chairman and chief executive officer in Mr. Seah Ang is beneficial to the operation and management of the Group due to his in-depth knowledge in the Group's operation and his extensive business network and connections. The Company would seek the suitable candidate to fill the vacancy of the position of the chairman of the Board;

2. 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 six 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;

3. 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. Seah Ang was appointed as acting chairman of the Board on 4 June 2020 but he has retired by rotation and was re-elected as executive Director at the annual general meeting of the Company on 5 June 2020. Mr. Seah Ang has entered into a service agreement for no fixed term but his appointment is terminable by either party by giving three months' prior notice;

4. 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 at least one month; and

5. Due to other pre-arranged business commitments which must be attended to by Mr. Jiang Yingchun and Mr. Wang Wei-Chung, the non-executive Directors, they were not present at the annual general meeting of the Company held on 5 June 2020.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the year ended 31 December 2020.

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 2020 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, 31 March 2021

As at the date of this announcement, Mr. Seah Ang are the executive Director; Mr. Jiang Yingchun, Mr. Cui Hao, Mr. Wang Wei-Chung and Mr. Sergei Skatershchikov are the non-executive Directors; and Ms. Lau Cheong, Mr. Duan Xiongfei, Mr. Wong Ka Kong Adam and Dr. Elizabeth Monk Daley are the independent non-executive Directors.