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D I G I T A L D O M A I N

DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the “Board”) of Digital Domain Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 (the “Review Period”) together with the comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT - UNAUDITED FOR THE SIX MONTHS ENDED 30 JUNE 2014

		For the six months ended 30 June	
	Notes	2014	2013
		HK\$'000	HK\$'000
Revenue	2	429,564	123,701
Cost of sales and services		(364,340)	(113,120)
Gross profit		65,224	10,581
Other revenue and gains		1,214	227
Selling and distribution expenses		(8,241)	(3)
Administrative expenses and other net operating expenses		(97,828)	(17,454)
Finance costs	3	(20,015)	(1,345)
Gain on disposal of subsidiaries		174	-
Fair value gains on investment properties	7	1,000	10,500
Share of losses of joint ventures		(45)	-
(Loss)/profit before taxation	4	(58,517)	2,506
Taxation	5	314	(510)
(Loss)/profit for the period		(58,203)	1,996
(Loss)/profit attributable to:			
- Owners of the Company		(46,181)	1,996
- Non-controlling interest		(12,022)	-
		(58,203)	1,996
(Loss)/earnings per share:	6		
- Basic and diluted		HK cent (0.470)	HK cent 0.020

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
(Loss)/profit for the period	(58,203)	1,996
Other comprehensive income		
<i>Item that may be subsequently classified to profit or loss:</i>		
Currency translation differences	<u>25</u>	<u>2</u>
Other comprehensive income for the period, net of tax	<u>25</u>	<u>2</u>
Total comprehensive income for the period	<u>(58,178)</u>	<u>1,998</u>
Total comprehensive income attributable to:		
- Owners of the Company	(46,160)	1,998
- Non-controlling interest	<u>(12,018)</u>	<u>-</u>
	<u>(58,178)</u>	<u>1,998</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Non-current assets			
Property, plant and equipment		53,468	47,887
Investment properties	7	156,100	155,100
Intangible assets	8	306,695	329,044
Interests in joint ventures		10,871	11,048
		<u>527,134</u>	<u>543,079</u>
Current assets			
Trading merchandise goods		21,164	8,626
Trade receivables, other receivables and prepayments	9	133,621	73,999
Bank balances and cash		166,745	209,338
		<u>321,530</u>	<u>291,963</u>
Current liabilities			
Trade payables, other payables and accruals	10	99,355	80,581
Deferred revenue		35,961	33,566
Borrowings		39,435	7,481
Obligations under finance leases		7,897	4,783
Tax payable		4,614	3,744
Amount due to a related company		-	1,824
		<u>187,262</u>	<u>131,979</u>
Net current assets		<u>134,268</u>	<u>159,984</u>
Total assets less current liabilities		<u>661,402</u>	<u>703,063</u>
Non-current liabilities			
Borrowings		124,443	122,796
Obligations under finance leases		6,719	8,582
Deferred tax liabilities		5,921	7,398
Convertible notes		354,540	337,267
		<u>491,623</u>	<u>476,043</u>
Net assets		<u>169,779</u>	<u>227,020</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2014

		Unaudited	Audited
		30 June	31 December
		2014	2013
	Note	HK\$'000	HK\$'000
EQUITY			
Capital and reserves			
Share capital	11	98,327	98,327
Reserves		74,641	119,864
Equity attributable to owners of the Company		172,968	218,191
Non-controlling interest		(3,189)	8,829
Total equity		169,779	227,020

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2014

Attributable to owners of the Company

	Share capital HK\$'000 (Note 11)	Share premium HK\$'000	Convertible notes – equity component HK\$'000	Land and buildings revaluation reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non- controlling interest HK\$'000	Total equity HK\$'000
As at 1 January 2013	98,327	245,047	-	7,355	49,510	45	(60,488)	339,796	-	339,796
Changes in equity for the six months ended 30 June 2013										
Profit for the period	-	-	-	-	-	-	1,996	1,996	-	1,996
Other comprehensive income	-	-	-	-	-	2	-	2	-	2
Total comprehensive income for the period	-	-	-	-	-	2	1,996	1,998	-	1,998
As at 30 June 2013 and 1 July 2013	98,327	245,047	-	7,355	49,510	47	(58,492)	341,794	-	341,794
Changes in equity for the six months ended 31 December 2013										
Issue of convertible notes on business combination	-	-	70,986	-	-	-	-	70,986	-	70,986
Addition from business combination	-	-	-	-	-	-	-	-	82,537	82,537
Loss for the period	-	-	-	-	-	-	(194,211)	(194,211)	(73,573)	(267,784)
Other comprehensive income	-	-	-	-	-	(378)	-	(378)	(135)	(513)
Total comprehensive income for the period	-	-	-	-	-	(378)	(194,211)	(194,589)	(73,708)	(268,297)
As at 31 December 2013	98,327	245,047	70,986	7,355	49,510	(331)	(252,703)	218,191	8,829	227,020

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company										
	Share capital	Share premium	Convertible notes – equity component	Land and buildings revaluation reserve	Contributed surplus	Share options reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 11)										
As at 1 January 2014	98,327	245,047	70,986	7,355	49,510	-	(331)	(252,703)	218,191	8,829	227,020
Changes in equity for the six months ended 30 June 2014											
Recognition of equity settled share-based payments (Note 11)	-	-	-	-	-	937	-	-	937	-	937
Loss for the period	-	-	-	-	-	-	-	(46,181)	(46,181)	(12,022)	(58,203)
Other comprehensive income	-	-	-	-	-	-	21	-	21	4	25
Total comprehensive income for the period	-	-	-	-	-	-	21	(46,181)	(46,160)	(12,018)	(58,178)
As at 30 June 2014	98,327	245,047	70,986	7,355	49,510	937	(310)	(298,884)	172,968	(3,189)	169,779

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June 2014 HK\$'000	2013 HK\$'000
Net cash used in operating activities	(55,869)	(6,924)
Net cash (used in)/generated from investing activities	(21,496)	169
Net cash generated from/(used in) financing activities	34,869	(1,236)
Net decrease in cash and cash equivalents	(42,496)	(7,991)
Cash and cash equivalents at 1 January	209,338	238,873
Effect of foreign exchange rate changes	(97)	4
Cash and cash equivalents at 30 June	166,745	230,886
Represented by:		
Bank balances and cash	166,745	230,886

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 – “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis, as modified for investment properties, which are carried at fair value.

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2013.

In the current period, the Group has applied, for the first time, the following accounting policy:

Share-based payments

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

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

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

In the current period, the Group has adopted all the new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the financial statements of the Group for both the current and prior reporting periods.

The Group has not early adopted the following new or revised HKFRSs that have been issued, potentially relevant to the Group’s operations, but are not yet effective. The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs and the directors of the Company so far concluded that the application of these HKFRSs will have no material impact on the financial statements of the Group:

		Effective date
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle	(ii)
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle	(i)
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations	(iii)
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	(iii)
HKFRS 15	Revenue from Contracts with Customers	(iv)
HKFRS 9	Financial Instruments	(v)

Effective date:

- (i) Annual periods beginning on or after 1 July 2014
- (ii) Annual periods beginning, or transactions occurring, on or after 1 July 2014
- (iii) Annual periods beginning on or after 1 January 2016
- (iv) Annual periods beginning on or after 1 January 2017
- (v) Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

2. REVENUE AND SEGMENT REPORTING

Reportable segments

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

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

- Property investment
- Trading
- Media entertainment (visual effects production)

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

- (a) Analysis of the Group's revenue and results for the period and assets and liabilities by business segment are as follows:

	Property investment		Trading		Media entertainment		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue from external customers	<u>2,977</u>	<u>2,793</u>	<u>173,061</u>	<u>120,908</u>	<u>253,526</u>	<u>-</u>	<u>429,564</u>	<u>123,701</u>
Reportable segment profit/(loss)	<u>2,448</u>	<u>2,302</u>	<u>12,168</u>	<u>7,369</u>	<u>(41,246)</u>	<u>-</u>	<u>(26,630)</u>	<u>9,671</u>
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	<u>157,456</u>	<u>156,202</u>	<u>128,924</u>	<u>96,176</u>	<u>456,450</u>	<u>441,052</u>	<u>742,830</u>	<u>693,430</u>
Reportable segment liabilities	<u>1,504</u>	<u>1,440</u>	<u>45,454</u>	<u>31,198</u>	<u>196,303</u>	<u>155,316</u>	<u>243,261</u>	<u>187,954</u>

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

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
(Loss)/profit before taxation		
Reportable segment (loss)/profit	(26,630)	9,671
Other revenue and gains	1,214	227
Unallocated corporate expenses	(14,215)	(16,547)
Gain on disposal of subsidiaries	174	-
Fair value gains on investment properties	1,000	10,500
Share of losses of joint ventures	(45)	-
Finance costs	(20,015)	(1,345)
Consolidated (loss)/profit before taxation	<u>(58,517)</u>	<u>2,506</u>

	As at	
	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	742,830	693,430
Unallocated bank balances and cash	92,364	127,462
Unallocated corporate assets	13,470	14,150
Consolidated total assets	<u>848,664</u>	<u>835,042</u>

	As at	
	30 June	31 December
	2014	2013
	HK\$'000	HK\$'000
Liabilities		
Reportable segment liabilities	243,261	187,954
Unallocated borrowings	67,030	69,199
Tax payable	4,614	3,744
Deferred tax liabilities	5,921	7,398
Convertible notes	354,540	337,267
Unallocated corporate liabilities	3,519	2,460
Consolidated total liabilities	<u>678,885</u>	<u>608,022</u>

(c) Geographic information

An analysis of the Group's revenue from external customers by geographic location is as follows:

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Hong Kong (place of domicile)	2,977	2,793
Mainland China	173,061	120,908
The United States of America	164,814	-
Canada	88,602	-
Other countries	110	-
	<u>429,564</u>	<u>123,701</u>

3. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Imputed interest on convertible notes	17,272	-
Interests on:		
Borrowings wholly repayable within five years	625	285
Borrowings not wholly repayable within five years	1,019	1,060
Finance leases	1,099	-
	<u>20,015</u>	<u>1,345</u>

4. (LOSS)/PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
This is arrived at after:		
<i>Crediting:</i>		
Interest income	<u>174</u>	<u>227</u>
<i>Charging:</i>		
Staff costs (including directors' remuneration)	201,574	5,696
Depreciation of property, plant and equipment	9,279	167
Amortisation of intangible assets	<u>30,525</u>	<u>-</u>

5. TAXATION

Taxation (credited)/charged in the unaudited condensed consolidated income statement represents:

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Current taxation – Hong Kong profits tax for the period	1,100	510
Current taxation – Overseas tax for the period	44	-
Deferred taxation	<u>(1,458)</u>	<u>-</u>
	<u>(314)</u>	<u>510</u>

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the following data:

	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
(Loss)/profit for the period attributable to owners of the Company for the purpose of basic (loss)/earnings per share	<u>(46,181)</u>	<u>1,996</u>
	Number of shares	
	2014	2013
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>9,832,685,768</u>	<u>9,832,685,768</u>

Diluted (loss)/earnings per share

As both convertible notes and share options outstanding during the period had an anti-dilutive effect on the basic loss per share during the period, the conversion of outstanding convertible notes and 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 periods. Therefore, the basic and diluted (loss)/earnings per share in the current and prior periods are equal.

7. INVESTMENT PROPERTIES

	HK\$'000
FAIR VALUE	
As at 1 January 2014	155,100
Fair value gains	<u>1,000</u>
As at 30 June 2014	<u>156,100</u>

The property rental income earned by the Group from its investment properties, most of which are leased out under operating leases, amounted to HK\$2,977,000 (2013: HK\$2,793,000) during the period. Direct operating expenses arising on the investment properties during the period amounted to HK\$435,000 (2013: HK\$427,000).

The Group's investment properties were located in Hong Kong, held under medium term leases, and pledged to secure banking facilities granted to the Group.

The fair value of the Group's investment properties as at 30 June 2014 have been arrived at on market value basis carried out by DTZ Debenham Tie Leung Limited, an independent firm of professionally qualified valuers, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the locations and category of properties being valued. This valuation gave rise to fair value gains of HK\$1,000,000 during the period (2013: HK\$10,500,000).

8. INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademarks HK\$'000	Proprietary software HK\$'000	Participation rights HK\$'000	Total HK\$'000
COST					
As at 1 January 2014	207,011	19,385	64,501	258,987	549,884
Additions	-	-	7,786	-	7,786
Exchange realignment	<u>393</u>	<u>(8)</u>	<u>6</u>	<u>(110)</u>	<u>281</u>
As at 30 June 2014	<u>207,404</u>	<u>19,377</u>	<u>72,293</u>	<u>258,877</u>	<u>557,951</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS					
As at 1 January 2014	-	-	14,271	206,569	220,840
Amortisation for the period	-	-	12,019	18,506	30,525
Exchange realignment	<u>-</u>	<u>-</u>	<u>(9)</u>	<u>(100)</u>	<u>(109)</u>
As at 30 June 2014	<u>-</u>	<u>-</u>	<u>26,281</u>	<u>224,975</u>	<u>251,256</u>
CARRYING AMOUNT					
As at 30 June 2014	<u>207,404</u>	<u>19,377</u>	<u>46,012</u>	<u>33,902</u>	<u>306,695</u>
As at 31 December 2013	<u>207,011</u>	<u>19,385</u>	<u>50,230</u>	<u>52,418</u>	<u>329,044</u>

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

The Group normally allows an average credit period of 30 to 60 days (2013: 30 to 60 days) to trade customers. The ageing analysis of the Group's trade receivables, net of allowance for doubtful debts, based on the due date, is as follows:

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Trade receivables		
Current	70,969	54,825
1 to 30 days	27,908	5,831
31 to 60 days	730	2,112
61 to 90 days	<u>12,867</u>	<u>1,292</u>
	112,474	64,060
Other receivables and prepayments	<u>21,147</u>	<u>9,939</u>
	<u>133,621</u>	<u>73,999</u>

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The ageing analysis of the Group's trade payables, based on due date, is as follows:

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Trade payables		
Current	45,404	31,269
1 to 30 days	345	357
31 to 60 days	101	697
61 to 90 days	-	135
Over 90 days	96	542
	45,946	33,000
Other payables and accruals	53,409	47,581
	99,355	80,581

**11. SHARE CAPITAL
Ordinary Shares**

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2013 and 30 June 2014	<u>75,000,000,000</u>	<u>750,000</u>
Issued and fully paid:		
As at 31 December 2013 and 30 June 2014	<u>9,832,685,768</u>	<u>98,327</u>

EQUITY SETTLED SHARE-BASED TRANSACTION

On 28 May 2014, 980,060,000 share options were granted to the Company's directors and the Group's employees at a consideration of HK\$1 per each grantee under the Company's share option scheme (no share options were granted during the six months ended 30 June 2013). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 28 May 2017, and then be exercisable until 27 May 2024. The exercise price is HK\$0.098, being the average closing price of the Company's ordinary shares for the five business days immediately before the date of grant.

During the six months ended 30 June 2014, 5,000,000 share options (2013: Nil) were forfeited and no share options were exercised (2013: Nil).

As at 30 June 2014, the average exercise price of share options outstanding is HK\$0.098 and their average remaining contractual life is 9.92 years.

The fair value of services received in return for share options granted on 28 May 2014 is measured by reference to the fair value of share options granted. The fair value of the share options granted on 28 May 2014 is determined based on binomial option pricing model. The weighted average fair value of each option granted during the six months ended 30 June 2014 was HK\$0.034. The key valuation parameters are as follows:

Share price at grant date	HK\$0.094
Exercise price	HK\$0.098
Expected volatility	33.59%
Life of the share options	10 years
Expected dividend yield	0%
Risk-free rate	1.91%
Forfeiture rate	10%
Suboptimal exercise behaviour multiple	2.1

Expected volatility is determined by considering the historical share price movement of the Company. Expected dividend yield is determined from the Company's historical payment of dividends. Risk-free rate is obtained from Hong Kong Exchange Fund Notes as at 28 May 2014. Forfeiture rate is determined from the Group's historical employee share options exit rate. And suboptimal exercise behaviour multiple is based on the Company's historical employee share options early exercise multiples.

There were no market vesting conditions associated with the share options granted.

Under this share option scheme, the Group has recognised an equity settled share-based payment expenses of HK\$937,000 during the six months ended 30 June 2014 (2013: Nil).

12. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2014, the Group had the following material related party transaction:

Related party relationship	Type of transaction	For the six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Related companies of the non-controlling interest	Production costs	4,728	-

13. CAPITAL COMMITMENT

The Group did not have any significant capital commitment as at 30 June 2014 and 31 December 2013.

14. COMPARATIVE FIGURES

Certain comparatives have been reclassified to conform with the current period presentation, in particular, loss for the period ended 30 June 2013 from discontinued operation has been reclassified to finance costs, and segment assets and liabilities of the discontinued operation have been reclassified to unallocated corporate assets and liabilities, as management considered the results as well as the assets and liabilities of the discontinued operation are insignificant.

INTERIM DIVIDEND

The directors of the Company (“Directors”) have resolved not to declare the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

FINANCIAL AND BUSINESS REVIEW

During the Review Period, the Group reported an unaudited consolidated revenue of HK\$429,564,000 (2013: HK\$123,701,000), representing an increase of approximately 247% from the previous corresponding period. The gross profit of the Group amounted to HK\$65,224,000 (2013: HK\$10,581,000) during the Review Period, representing an increase of approximately 516%. The increase in revenue and gross profit was mainly attributable to the revenue from new business segment (media entertainment – visual effects (“VFX”) production) which was acquired in July 2013 and growth in the trading segment. The total assets of the Group amounted to HK\$848,664,000 as at 30 June 2014 (as at 31 December 2013: HK\$835,042,000). The Group recorded a loss after taxation for the Review Period in the amount of HK\$58,203,000 (2013: profit of HK\$1,996,000). The loss for the Review Period was mainly caused by the increment of finance costs (including the imputed interest on convertible notes issued in July 2013), the operating loss from media entertainment segment (VFX production) and the recognition of equity settled share-based payments. Loss attributable to owners of the Company was HK\$46,181,000 (2013: profit of HK\$1,996,000) for the Review Period.

Media Entertainment Segment

During the Review Period, this segment recorded a revenue of HK\$253,526,000. The revenue of this segment accounted for approximately 59% of the Group’s revenue for the Review Period. This segment incurred loss of HK\$41,246,000 even though margins have improved since it was acquired in July 2013. The loss was primarily due to the operating loss (including the amortisation expense of an intangible asset, participation right in the film Ender’s Game). The segment loss before deduction of (a) depreciation of property, plant and equipment and (b) amortisation of intangible assets was HK\$1,595,000.

This segment mainly provides VFX productions for major motion picture studios and advertisers. The Group has provided VFX production services for feature films, such as X-Men: Days of Future Past and Maleficent which were released during the first half of 2014.

Property Investment Segment

During the first half of 2014, the revenue of the property investment segment increased by approximately 7% to HK\$2,977,000 (2013: HK\$2,793,000) with satisfactory rental and occupancy rates. The revenue accounted for approximately 1% of the Group’s overall revenue during the Review Period. The profit of this segment increased during the Review Period, amounting to HK\$2,448,000 (2013: HK\$2,302,000).

The Group owns two shops at the ground floor and ten car parks in the Citicorp Centre, Causeway Bay, Hong Kong. All shops and some of the car parks were leased out during the Review Period. The investment properties portfolio of this segment continues to contribute as a steady income stream for the Group.

Trading Segment

During the Review Period, the trading segment has continued to flourish and achieved a revenue of HK\$173,061,000 (2013: HK\$120,908,000), representing a growth of approximately 43% compared to the previous corresponding period. The revenue of the trading segment made a contribution of approximately 40% to the overall revenue of the Group during the Review Period. The profit of the trading segment increased by approximately 65% to HK\$12,168,000 (2013: HK\$7,369,000).

This segment was engaged in the trading of metal scraps (e.g. copper wire) among Hong Kong, Mainland China and other countries/regions during the first half of 2014. As the performance of the trading business highly depends on regional and global economic conditions, the Group would adopt appropriate business strategies as well as explore suitable opportunities for the trading segment in order to maintain the growth and achieve further development under the prevailing economic environment.

INTEREST IN JOINT VENTURE

During the Review Period, the shared loss from the 50% owned joint venture between the Group and Tencent Holdings Limited (the shares of which are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 700)) was HK\$45,000. The co-operation started in September 2013. The joint venture has not conducted any material business activity since its incorporation and will continue to explore potential investment opportunities in the coming years.

CAPITAL

As at 30 June 2014, the total number of shares of HK\$0.01 each of the Company (the “Shares”) in issue was 9,832,685,768 Shares.

As at 30 June 2014, the aggregate outstanding principal amount of the convertible notes was HK\$392 million. Based on the initial conversion price of HK\$0.04 per conversion share, a number of 9,800,000,000 conversion shares will be allotted and issued if the conversion rights attaching to the convertible notes are exercised in full. During the Review Period, no convertible right attaching to the convertible notes had been exercised.

On 28 May 2014, a total of 980,060,000 share options were granted under the share option scheme of the Company to the grantees. The share options will 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 circular dated 2 July 2014 respectively. During the Review Period, no share option had been exercised and 5,000,000 share options had been cancelled or 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 secured basis, non-bank loans on unsecured basis and non-regular contributions (such as placement of shares or issuance of convertible notes or financing by shareholder’s loans) from the shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

During the Review Period, the Group had banking facilities in form of instalment loans in principal amount of approximately HK\$62,121,000, and a working capital loan in principal amount of approximately HK\$34,879,000. These banking facilities were secured by (a) the Group's investment properties with the aggregate net book value of HK\$156,100,000 as at 30 June 2014, (b) future receipts from a participation right in the film Ender's Game and (c) equity interests of two indirectly 70% owned subsidiaries in media entertainment segment (VFX production).

In addition to the banking facilities mentioned above, an indirectly-owned subsidiary of the Group, among the entertainment media segment which was discontinued in end of December 2010, had 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 Years 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 had provided 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, operation of the aforesaid subsidiary had been discontinued since end of December 2010. This Five Years Loan was fully classified as current liability.

The Group had a non-bank loan of approximately HK\$61,969,000 as at 30 June 2014. This non-bank loan was denominated in United States dollars, unsecured, interest-free and not repayable within thirteen months from 30 June 2014.

As at 30 June 2014, the Group also had obligations under finance leases of approximately HK\$14,616,000 and which were denominated in United States dollars. These obligations were for certain computer equipment and software (leased assets) and secured by the lessor's charge over the leased assets. The average term was 3 years. Interest rates underlying all obligations were fixed at respective contract dates. All obligations were on a fixed repayment basis and no arrangement had been entered into for contingent rental payments.

The cash and bank balances as at 30 June 2014 was approximately HK\$166,745,000. As at 30 June 2014, the Group had banking facilities of approximately HK\$101,909,000. These bank loans were at floating interest rate. Among these bank loans, loans amounting HK\$67,030,000 are denominated in Hong Kong dollars and loans amounting HK\$34,879,000 are denominated in United States dollars. During the Review Period, all bank loans of the Group (except the Five Years Loan mentioned above) were classified as current liability and non-current liability according to the agreed scheduled repayments dates. According to the agreed scheduled repayments dates, the maturity profile of the Group's bank borrowings (except the Five Years Loan that fully classified as current liability) as at 30 June 2014 was spread over a period of 19 years, with approximately 36% repayable within one year, 6% repayable between one to two years, 9% repayable between two to five years and 49% repayable over five years.

The Group's current assets were approximately HK\$321,530,000 while the current liabilities were approximately HK\$187,262,000 as at 30 June 2014. As at 30 June 2014, the Group's current ratio was 1.7 (as at 31 December 2013: 2.2).

As at 30 June 2014, the Group's gearing ratio, representing the Group's bank loans, non-bank loan, convertible notes and obligations under finance leases, if any, divided by the equity attributable to owners of the Company was 308% (as at 31 December 2013: 220%).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's revenue, expenses, assets and liabilities were denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB"), United States dollars ("USD") and Canadian dollars ("CAD"). The exchange rates of USD against HKD remained relatively stable during the Review Period. As some of the financial statements of the business operations in the North America were reported in CAD, if CAD strengthens relative to HKD, reported earnings for Canadian portion would increase. Certain expenses of the Group incurred in RMB which had fluctuated in a relatively greater extent in the Review Period. However, the amount of RMB expenses incurred were immaterial, the fluctuation of RMB against HKD did not have material adverse effect on the operations of the Group for the Review Period.

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

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any material contingent liabilities.

EMPLOYEES OF THE GROUP AND REMUNERATION POLICY

As at 30 June 2014, the total headcount of the Group was 367. 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 bonus, share option scheme and retirement schemes.

PROSPECT

The market in the VFX industry is fiercely competitive and this caused a great challenge to the Group. As with other project based business, the performance of the VFX business will depend on the projects that the Group is able to secure and their production schedule, in addition to the effectiveness of financial and operational improvements which may take relatively longer time to be reflected in our results. The Group will continue to be proactive in seeking new projects and business opportunities. The Group will also continue to adopt cost control measures (including outsourcing, where appropriate, discreet parts of its VFX work to external vendors and minimise the number of unutilised production employees, etc.) with the aim of improving the profit margins of the VFX business. However, the results for the second half of 2014 are expected to remain volatile.

Besides, the Group is also exploring other business opportunities in order to maximise the value of the shareholders of the Company.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE “LISTING RULES”)

There was a banking facility (the “Facility”) with the principal amount of HK\$6,000,000 provided by a bank in Hong Kong to an indirectly-owned subsidiary of the Company (the “Subsidiary”), among the entertainment media segment which was discontinued by the end of December 2010, and imposed certain specific performance obligations on the Company, pursuant to which, the Company should not (i) hold less than 51% of the Subsidiary’s equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which held the Subsidiary (“Intermediate Holding Company”). The bank had the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions. As at 30 June 2014, the outstanding loan principal of this Facility amounted to approximately HK\$4,854,000 and the original last monthly instalment repayment should be in the year 2014.

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the Review Period.

CORPORATE GOVERNANCE

During the six months ended 30 June 2014, the Company was in compliance with the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules except for the following:

- (a) The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to bye-law 87(1) of the Company’s bye-laws (the “Bye-laws”);
- (b) There is no separation of the roles of the chairman and the chief executive officer (“CEO”) or chief executive. Mr. Zhou Jian is the Chairman of the Company and the Company does not have any chief executive or any officer with the title of CEO. The roles and functions of CEO or chief executive are performed by all the executive Directors collectively in view of the current size of the Group. The Board of the Company will periodically review such arrangement and may adopt appropriate measures in future during the further development of the Group’s businesses; and
- (c) The 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 independent non-executive Directors have a termination notice requirement of one month.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim results of the Group for the six months ended 30 June 2014.

By Order of the Board
DIGITAL DOMAIN HOLDINGS LIMITED

Zhou Jian

Chairman

Hong Kong, 28 August 2014

As at the date of this announcement, Mr. Zhou Jian and Mr. Fan Lei are the executive Directors and Ms. Lau Cheong, Mr. Duan Xiongfei and Mr. Wong Ka Kong Adam are the independent non-executive Directors.