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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)**

### **DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 85% ISSUED SHARE CAPITAL OF LUCRATIVE SKILL HOLDINGS LIMITED INVOLVING AN ISSUE OF 87,051,143 SHARES UNDER THE GENERAL MANDATE**

On 22 January 2016 (after trading hours), the Purchaser (an indirectly wholly-owned subsidiary of the Company) entered into the following sale and purchase agreements:

- (a) the Magic Well SPA for the purchase of 60% of the issued share capital of the Target Company at a consideration of HK\$95 million, as to HK\$30 million payable in cash and as to HK\$65 million by the issuance of the Promissory Note at completion; and
- (b) the Tse SPA for the purchase 25% of the issued share capital of the Target Company at a consideration of HK\$40 million, which is to be satisfied by the allotment and issue of 87,051,143 Consideration Shares at the issue price of HK\$0.4595 per Share at completion.

On completion of the Acquisition, the Purchaser and Mr. Tse will own 85% and 15% of the equity interest in the Target Company respectively, and they will enter into the Shareholders' Agreement to regulate their relationship as shareholders of the Target Company.

The Consideration Shares are to be issued under the General Mandate.

As more than one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Magic Well SPA and Tse SPA, when aggregated, are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

## INTRODUCTION

On 22 January 2016 (after trading hours), the Purchaser (an indirectly wholly-owned subsidiary of the Company) entered into the Magic Well SPA and the Tse SPA in relation to the Acquisition, on completion of which the Purchaser and Mr. Tse will own 85% and 15% of the equity interest in the Target Company respectively.

Further information on the Magic Well SPA, the Tse SPA and the businesses of the Target Group is set out below.

## ACQUISITION

### Magic Well SPA

The principal terms of the Magic Well SPA are set out below:

Date: 22 January 2016

Parties to the SPA:

- (1) DDPO (BVI) Company Limited (an indirect wholly-owned subsidiary of the Company) (as purchaser)
- (2) The Company, as guarantor of the Purchaser's obligations under the Magic Well SPA
- (3) Magic Well Holdings Limited (an indirect wholly-owned subsidiary of See Corporation) (as vendor)
- (4) See Corporation, as guarantor of Magic Well's obligations under the Magic Well SPA

To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, each of Magic Well and See Corporation are third parties independent of the Company and the connected persons of the Company.

Assets being acquired: The Magic Well Sale Shares, representing 60% of the issued share capital of the Target Company

Consideration: HK\$95 million, which is to be satisfied on completion:

- (a) as to HK\$30 million in cash; and
- (b) as to HK\$65 million by the issue of the Promissory Note by the Company in favour of See Corporation or its nominee(s).

The consideration for the Magic Well Sale Shares was arrived at after arm's length negotiations between the parties to the Magic Well SPA and with reference to the financial prospects and potential of the business of the Target Group discussed in the paragraph headed "Reasons for and benefits of the Acquisition" below.

Conditions precedent: The obligations of the parties to the Magic Well SPA to effect completion is conditional upon:

- (a) the approval by the shareholders of See Corporation of the Magic Well SPA and the transactions contemplated thereunder at the general meeting, in compliance with the requirements of the Listing Rules having been obtained;
- (b) the waiver in full of all shareholders loan in the amount of HK\$36,678,492.60 owed by the Target Company to Magic Well immediately prior to completion;
- (c) all necessary third party approvals and consents in respect of entering into the Magic Well SPA having been obtained by See Corporation; and
- (d) the warranties given by Magic Well remaining true and accurate in all material respects and to the belief and best knowledge of Magic Well as of the date of completion.

The conditions precedent in (c) and (d) may be waived by the Purchaser in writing, with or without conditions. Magic Well is to use its best endeavours to procure the fulfilment of the conditions precedent (to the extent not waived). If any of the conditions precedent (which is not waived by the Purchaser) is not fulfilled on or before 31 May 2016 (or such other date as Magic Well and the Purchaser may agree in writing), the rights and obligations of the parties to the Magic Well SPA will lapse and be of no further effect except for antecedent breach of any obligations of any parties.

Completion: Completion is to take place on or before the 7<sup>th</sup> Business Day after the conditions precedent in (a) and (c) have been fulfilled.

### Tse SPA

The principal terms of the Tse SPA are set out below:

Date: 22 January 2016

Parties to the SPA:

- (1) DDPO (BVI) Company Limited (an indirect wholly-owned subsidiary of the Company) (as purchaser)
- (2) Mr. Tse (as vendor)
- (3) Mr. Yeung (a director of certain Target Group companies and the legal representative of the PRC-incorporated subsidiaries of the Target Company, as warrantor to give certain representations, warranties, undertakings and covenants in respect of the business and operations of the Target Group)

To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, each of Mr. Tse and Mr. Yeung are third parties independent of the Company and the connected persons of the Company.

Assets being acquired: the Tse Sale Shares, representing 25% of the issued share capital of the Target Company

Consideration: HK\$40 million, which is to be satisfied on completion by the issue and allotment of 87,051,143 Consideration Shares credited as fully paid at the issue price of HK\$0.4595 per Share. The consideration for the Tse Sale Shares was arrived at after arm's length negotiations between the Purchaser and Mr. Tse and with reference to the financial prospects and potential of the business of the Target Group discussed in the paragraph headed "Reasons for and benefits of the Acquisition" below.

The 87,051,143 Consideration Shares represent approximately 0.81% of the total number of Shares in issue, and approximately 0.81% of the total number of Shares in issue as enlarged by the issue of the Consideration Shares. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects with the Shares then in issue.

The issue price for the Consideration Shares of HK\$0.4595 represents 12.07% premium to the closing price of HK\$0.41 per Share as quoted on the Stock Exchange on the date of this announcement; and 8.37% premium to the average closing price of HK\$0.424 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days prior to the date of this announcement.

The issue price of the Consideration Shares was arrived at after arm's length negotiations between the Purchaser and Mr. Tse and with reference to the prevailing market price of the Shares.

Lock-up: Mr. Tse has agreed that 39,173,014 Consideration Shares will be subject to a lock-up period of 3 months after completion, and 26,115,343 Consideration Share will be subject to a lock-up period of one year after completion.

Conditions precedent: The obligations of the parties to the Tse SPA to effect completion is conditional upon:

- (a) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (b) the Purchaser being satisfied with the results of the due diligence review of the Target Group (if no notice is served to Mr. Tse within two months from the date of the Tse SPA, it will be deemed that the Purchaser has completed the due diligence review and is satisfied with the results, and that the Purchaser has full knowledge of the actual state and condition of each member of the Target Group as at completion);
- (c) there being no Material Adverse Change from 31 December 2015 up to and including the date of completion;
- (d) execution of service agreements by Mr. Tse and Mr. Yeung with

the relevant member of the Target Group to expire on the third (3<sup>rd</sup>) anniversary of completion, and there being no breach of any terms of such agreements;

- (e) all necessary third party approvals and consents in respect of the execution of the Tse SPA having been obtained by Mr. Tse (if applicable);
- (f) Mr. Tse having advanced an additional shareholder's loan of HK\$20,000,000 to the Target Company;
- (g) the waiver in full of the shareholders' loan owed by the Target Company to Mr. Tse (including the amount advanced pursuant to (f) above) immediately prior to completion;
- (h) the completion of the Magic Well SPA simultaneously with the Tse SPA;
- (i) to the belief and best knowledge of Mr. Tse, the warranties given by him under the Tse SPA remaining true and accurate in all material respects and not misleading in any material respect as of the date of completion; and
- (j) to the belief and best knowledge of Mr. Yeung, the warranties given by him under the Tse SPA remaining true and accurate in all material aspects and not misleading in any material respect as of the date of completion.

The conditions precedent (other than (a)) may be waived by the Purchaser in writing, with or without conditions. Mr. Tse is to use his best endeavours to procure the fulfilment of the conditions precedent (to the extent not waived). If any of the conditions precedent (which is not waived by the Purchaser) is not fulfilled on or before 31 May 2016 (or such other date as Mr. Tse and the Purchaser may agree in writing), the rights and obligations of the parties to the Tse SPA will lapse and be of no further effect except for antecedent breach of any obligations of any parties hereto.

Completion: Completion is to take place on or before the 7<sup>th</sup> Business Day after the conditions precedent in (a), (d) and (e) have been fulfilled.

Termination: If at any time before completion of the Tse SPA:

- (a) any breach of the warranties given by Mr. Tse and Mr. Yeung comes to the notice of the Purchaser; or
- (b) Mr. Tse is in breach in any material respect of any obligation on its part under the Tse SPA; or
- (c) anything occurs which constitute, or is likely to constitute, a Material Adverse Change,

then the Purchaser may without any liability to Mr. Tse elect not to complete the purchase of the Tse Sale Shares by giving notice in writing to Mr. Tse.

Shareholders' agreement:

Upon completion of the Tse SPA, a Shareholders' Agreement will be entered into between Mr. Tse, the Purchaser and the Target Company to regulate their relationship as shareholders of the Target Company. Under the Shareholders' Agreement:

- (a) the board of directors of each member of the Target Group will consist of not more than five directors, of which four will be appointed by the Purchaser and one will be appointed by Mr. Tse;
- (b) the legal representatives of the PRC-incorporated members of the Target Group are to be jointly appointed by the Purchaser and Mr. Tse;
- (c) Mr. Tse has given a non-competition undertaking during the term of the Shareholders' Agreement not to engaged in the business of providing post production services to TV commercials and films in the PRC and Hong Kong;
- (d) if any shareholder of the Target Company seeks to dispose of any of its/his shares in the Target Company to a third party, the other shareholder has the right to purchase all such shares at the same price and on the same terms offered to the third party;
- (e) the shareholders of the Target Company have a first right of refusal in respect of any new securities to be issued by the Target Company;
- (f) If the Purchaser seeks to sell all its shares to a third party:
  - (i) the Purchaser has a drag-along right to require Mr. Tse to sell all his shares in Target Company on the same terms to a third party; and
  - (ii) Mr. Tse has a tag-along right to sell all his shares in the Target Company for at least the same price per share.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) media entertainment business, (ii) property investment business and (iii) trading business. The Purchaser is a company incorporated under the laws of the British Virgin Islands and an indirect wholly-owned subsidiary of the Company. It is an investment holding company.

The Target Group is principally engaged in conducting post production work on advertisements, featured films, TV programmes, music videos, internet and mobile applications content, visual matters on corporate events. The Target Group has set up a comprehensive visual effect ("VFX") and computer graphic production house in Beijing and Shanghai for large budget VFX-intensive movies. The Directors noted that the Target Group recorded unaudited net loss before and after taxation in 2014 and 2015, which included the Hong Kong operations of the Target Group which have ceased operations during the last quarter of 2015 to enable the Target Group to focus its resources towards its better performing operations in the PRC. The Directors believe that with the Target Group's footprint in the PRC, the Acquisition can help expand the Group VFX business in the PRC, and bring synergy to the Group's existing VFX business based in the North America by more efficient deployment of resources and talents.

While the Target Group recorded unaudited consolidated net liabilities as at 31 December 2015, the net liability position was primarily attributable to the shareholders loans provided by See Corporation and Mr. Tse, which are to be waived immediately prior to completion of the Acquisition. After adjustment for the waiver of the shareholders loans, the Target Group would record unaudited consolidated net assets of approximately HK\$38.8 million as at 31 December 2015.

In view of the above, the Directors are of the view that the terms of the Magic Well SPA and Tse SPA and the transactions contemplated thereunder (including the issue of the Consideration Shares), are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **INFORMATION ON THE TARGET COMPANY**

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability and owned as to 60% by Magic Well and 40% by Mr. Tse.

Set out below is the summary of the Target Group's unaudited financial information for the two years ended 31 December 2015 prepared in accordance with generally accepted accounting standards in Hong Kong:

	<b>For the year ended 31 December 2015 (unaudited)</b>	<b>For the year ended 31 December 2014 (Note) (unaudited)</b>
Loss before taxation	approximately HK\$23.94 million	Approximately HK\$8.53 million
Loss after taxation	approximately HK\$24.44 million	Approximately HK\$9.43 million

*Note: The Target Company was incorporated on 11 July 2014 and became the holding company of the operating subsidiaries of the Target Group on 30 September 2014. The above shows the combined results of the Target Group members for the year ended 31 December 2014.*

The unaudited consolidated net liabilities of the Target Group as at 31 December 2015 were approximately HK\$50.1 million.

## EFFECTS ON THE SHARE CAPITAL OF THE COMPANY

The table below show the shareholding structure of the Company (i) as at the date of this announcement and (ii) immediately upon completion of the Acquisition, assuming no other changes to the share capital structure of the Company or shareholding of the parties identified:

	As at the date of this announcement		Immediately upon completion of the Acquisition	
	Number of Shares	Approximate %	Number of Shares	Approximate %
<i>Directors</i>				
Peter Chou (Note 1)	714,401,746	6.68	714,401,746	6.62
Seah Ang (Note 2)	502,134,789	4.69	502,134,789	4.65
Amit Chopra (Note 3)	502,134,789	4.69	502,134,789	4.65
<i>Substantial shareholders</i>				
Zhang Xiaoqun (Note 4)	1,672,035,000	15.63	1,672,035,000	15.50
<i>Public Shareholders</i>				
Mr. Tse	-	-	87,051,143	0.81
Other public Shareholders	7,309,851,082	68.31	7,309,851,082	67.76
<b>Total</b>	<b>10,700,557,406</b>	<b>100.00</b>	<b>10,787,608,549</b>	<b>100.00</b>

*Notes:*

- Mr. Peter Chou holds these Shares through his wholly-owned companies, Kabo Limited and Honarn Inc. Kabo Limited holds 602,561,746 Shares and Honarn Inc. holds 111,840,000 Shares.*
- Mr. Seah Ang holds these Shares through his wholly-owned company, Global Domain Investments Limited. Mr. Seah Ang also holds 100,000,000 outstanding share options granted under the Company's share option scheme.*
- Mr. Amit Chopra holds these Shares through his wholly-owned company, Redmount Ventures Limited. Mr. Amit Chopra also holds 63,000,000 outstanding share options granted under the Company's share option scheme.*
- Mr. Zhang Xiaoqun holds these Shares through his wholly-owned company, Fortune Source International Limited.*
- As at the date of this announcement, the Company has in issue 10,700,557,406 Shares, options to subscribe for 954,210,000 Shares granted pursuant to the share option scheme of the Company, HK\$392,000,000 in principal amount of convertible notes that are convertible into Shares at the conversion price of HK\$0.04 per Share, subject to adjustments. An aggregate of 310,870,361 Shares are to be issued in connection with the Group's acquisition of further interest in Immersive Ventures Inc., which was the subject of the Company's announcements dated 11 December 2015 and 30 December 2015 respectively.*
- The aggregate of the percentage figures in the above table may not add up to 100% due to rounding of the percentage figures to two decimal places.*

## FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below are the fund raising activities announced by the Company in the past twelve months prior to the date of this announcement:

<b>Date of announcement</b>	<b>Fund raising activity</b>	<b>Net proceeds raised</b>	<b>Proposed use of proceeds</b>	<b>Actual use of the net proceeds up to date of this announcement</b>
25 June 2015 and 8 July 2015	Top-up placing of 210,000,000 Shares	Approximately HK\$96.17 million	media entertainment segment and as general working capital purposes of the Group	media entertainment segment: approximately HK\$57.26 million; and general working capital (including but not limited to salary and rental): approximately HK\$38.91 million
16 December 2015 and 28 December 2015	Placing of 560,000,000 Shares	Approximately HK\$235.34 million	media entertainment segment and as general working capital purposes of the Group	media entertainment segment: approximately HK\$77.59 million; and general working capital (including but not limited to salary and rental): approximately HK\$3.20 million; unutilised portion: approximately HK\$154.55 million

## LISTING RULES IMPLICATIONS

As more than one of the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Magic Well SPA and Tse SPA, when aggregated, are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

The Consideration Shares to be issued to Mr. Tse pursuant to the Tse SPA will be issued under the General Mandate. Pursuant to the General Mandate, the total number of new Shares that the Company is authorised to issue is 1,966,537,153 Shares, representing 20% of the issued nominal capital of the Company as at the date of the AGM. Since the date of the

AGM and up to the date of this announcement, an aggregate of 1,178,731,999 Shares have been/are committed to be allotted and issued under the General Mandate. Application will be made by the Company to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

## DEFINITIONS

In this announcement, the following terms have the meanings set forth opposite them:

“Acquisition”	the proposed acquisition by the Purchaser of the Magic Well Sale Shares and the Tse Sale Shares pursuant to the Magic Well SPA and the Tse SPA
“AGM”	the annual general meeting of the Company held on 15 May 2015
“Board”	the board of Directors of the Company
“Business Day”	any day (other than a Saturday, a Sunday or a public holiday or a day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.), on which banks are open for general banking business in Hong Kong
“Company”	Digital Domain Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 547)
“Consideration Shares”	87,051,143 new Shares to be allotted and issued to Mr. Tse, credited as fully paid at an issue price of HK\$0.4595 per Share as consideration for the acquisition of the Tse Sale Shares
“connected person(s)”	the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the AGM to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the AGM
“Group”	the Company and its subsidiaries (as defined in the Listing Rules)
“HK\$” or “HK dollar”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Magic Well”	Magic Well Holdings Limited, a company incorporated under the laws of the British Virgin Islands and an indirect wholly-owned subsidiary of See Corporation
“Magic Well Sale Shares”	60 shares of the Target Company, representing 60% of the issued share capital of the Target Company held and to be disposed by Magic Well pursuant to the Magic Well SPA
“Magic Well SPA”	the sale and purchase agreement dated 22 January 2016 entered into among Magic Well, the Purchaser, See Corporation and the Company in respect of the sale and purchase of the Magic Well Sale Shares
“Material Adverse Change”	<p>any change, event, circumstance or other matter that has, or would reasonably be expected to have, either individually or in the aggregate, a material adverse change on:</p> <ul style="list-style-type: none"> <li>(a) the ability of Mr. Tse to perform his obligations under the Tse SPA or any other documents entered into pursuant to or in relation to the Tse SPA;</li> <li>(b) the business, assets and liabilities, condition (financial or otherwise), or results of operations of the Target Group as a whole</li> </ul>
“Mr. Tse”	Mr. Nicholas Tse
“Mr. Yeung”	Mr. Yeung Man Kit Dennis
“PRC”	the People’s Republic of China
“Promissory Note”	the promissory note in the principal amount of HK\$65 million to be issued by the Company in favour of See Corporation (freely transferable other than to connected persons of the Company) to settle part of the consideration for the Magic Well Sale Shares, pursuant to which the principal amount of HK\$30 million is to be paid on the day falling three months after completion of the Magic Well SPA, and the principal amount of HK\$35 million is to be paid on the first anniversary of the completion of the Magic Well SPA, and a default interest at the rate of 2% per month will be charged for any default payment
“Purchaser”	DDPO (BVI) Company Limited, a company incorporated under the laws of the British Virgin Islands
“See Corporation”	See Corporation Limited, a company incorporated under the laws of Bermuda with limited liability whose shares are listed on the main board of the Stock Exchange (stock code: 491)

“Shares”	share(s) with a par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between the Purchaser and Mr. Tse on completion of the Acquisition in respect of the Target Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Lucrative Skill Holdings Limited, a company incorporated under the laws of the British Virgin Islands
“Target Group”	the Target Company and its subsidiaries
“Tse Sale Shares”	25 shares of the Target Company, representing 25% of the issued share capital of the Target Company held and to be disposed by Mr. Tse pursuant to the Tse SPA
“Tse SPA”	the sale and purchase agreement dated 22 January 2016 entered into among Mr. Tse, the Purchaser and Mr. Yeung in respect of the sale and purchase of the Tse Sale Shares
“%”	per cent.

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

Hong Kong, 22 January 2016

*As at the date of this announcement, Mr. Peter Chou, Mr. Seah Ang and Mr. Amit Chopra are the executive directors of the Company and Ms. Lau Cheong, Mr. Duan Xiongfei and Mr. Wong Ka Kong Adam are the independent non-executive directors of the Company.*