DIGITALDOMAIN

DIGITAL DOMAIN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 547)

PROFIT WARNING

This announcement is made by Digital Domain Holdings Limited (the "Company" and together with its subsidiaries, the "Group") pursuant to the Inside Information Provisions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and Rule 13.09 of the Listing Rules.

Further the Company's 2016 interim report, the Company has continued to dedicate its resources towards content development and research and development utilising the Group's technologies (including the patents of Micoy Corporation and Immersive Ventures Inc. ("IMV") acquired in 2016 and 2015), development in the Greater China market and building the core visual effects (VFX) capabilities of Digital Domain 3.0, Inc., which became wholly-owned by the Company in mid 2016.

While these efforts have resulted in a modest growth in revenue for the year ended 31 December 2016 ("FY2016") when compared with the year ended 31 December 2015 ("FY2015") and at a slight improvement in gross profit margin of approximately 17% compared with the gross profit margin of approximately 16% reported for FY2015, based on a preliminary review of the latest available unaudited consolidated financial statements of the Group for FY2016, the loss for FY2016 is expected to increase significantly as compared with FY2015. Such an increase was primarily attributable to:

(i) the recognition of estimated additional portions of approximately HK$37 million of share-based payment expenses related to grant of share options (granted in May 2015, and January, June and July 2016);

(ii) an increase by approximately HK$160 million in administrative and other operating/projects expenses, comprising mainly legal and professional fees (including those incurred in relation to the acquisitions, collaborations and business development mentioned above and for investor and public relations), director and staff remuneration (due to increased headcount and pay scale to accommodate the expansion of the Group) and additional portions of amortisation of intangible assets;

(iii) an increase by approximately HK$13 million in finance costs mainly due to interest on a secured note issued in connection with the IMV acquisition and additional portions of imputed interest for the Company's zero coupon convertible notes and promissory note issued for acquisition of Lucrative Skill Holdings Limited (including Post Production Office Limited and its subsidiaries); and

(iv) approximately HK$110 million of content development and research and development costs incurred during the year on virtual reality content and games, 360^{o} cameras and virtual human's interactive function being expensed instead of capitalized after due consideration and in an abundance of prudence following consultation with the Company's auditor.

As the Company has not yet finalized the Group's final results for FY2016, the information contained in this announcement is only a preliminary assessment by the Board based on the Company's preliminary unaudited consolidated financial statements for FY2016 and information currently available. Such information is not based on any figure or information that has been reviewed by the Company's auditor or the Company's audit committee. The final results announcement of the Company for FY2016 is expected to be published in late March 2017.

Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.

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

Hong Kong, 3 March 2017

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.