



中國 3D 數碼娛樂有限公司
CHINA 3D DIGITAL ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(GEM Stock Code: 8078)

First Quarterly Report 2010-2011



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This report, for which the directors of China 3D Digital Entertainment Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

MANAGEMENT DISCUSSION AND REVIEW

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported total revenue of approximately HK\$9.4 million for the three months ended 30th September, 2010 (the “Period”), compared with approximately HK\$39.4 million for the corresponding period in year 2009. A loss of approximately HK\$20.1 million was recorded (2009: HK\$1.4 million). Increase in the loss is mainly due to (i) impairment loss on film rights of certain films of the Group as a result of the revision by the Group’s management on the expected income from the films and (ii) the increase in finance costs as result of the issue of convertible bond on 21st October, 2009.

During the Period, artiste management contributed revenue of approximately HK\$2.4 million (2009: HK\$8.7 million) and recorded a profit of approximately HK\$2.2 million (2009: HK\$4.7 million). In addition, the Group received revenue of approximately HK\$7.0 million (2009: HK\$19.7 million) from the business segment of film and television programme production and distribution. This business segment recorded a loss of approximately HK\$13.5 million (2009: HK\$1.8 million).

In the previous financial year, the Group disposed of certain subsidiaries which carried out event production and music production and distribution operations. After such disposal, the Group ceased the businesses of event production and music production and distribution. During the three months ended 30th September, 2009, event production contributed revenue of approximately HK\$1.5 million and recorded a loss of approximately HK\$0.8 million, whilst music production and distribution contributed revenue of approximately HK\$9.5 million and recorded a loss of approximately HK\$0.7 million.

PROSPECTS

Following the disposal of the event production and music production and distribution operations in March 2010, the Company opens up a new area of movie production. In October 2010, the Group acquired New Smart International Creation Limited (“New Smart”), a company engaged in the business of 3D motion pictures production and investment. The Group will focus its resources on 3D movie production and at the same time, explore into different varieties of 2D movies so as to widen its business scope.

To align with its new business strategy, the Company has been renamed from “Dragonlott Entertainment Group Limited” to “China 3D Digital Entertainment Limited”. Looking forwards, the Group will continue to explore opportunities in developing businesses in relation to movie distribution and production and 3D entertainment business and will look for new business opportunities and investments so as to diversify its business and strengthen its income base. The Group has recently explored the possibility of acquiring cinema(s) in Hong Kong and/or PRC from a movie and entertainment conglomerate. In spite of all these expansion plans of the Group, the utmost important action of the Group now is to strengthen its existing operations and enhancing cost efficiency and profitability. The Group has recently disposed part of its film library in order to improve its financial position and to streamline its movie production and distribution business. The board of directors of the Company (the “Board” or the “Directors”) are confident in the new moves of the Group and are actively seeking more investment funding, strategic partners and investors.

CAPITAL STRUCTURE

During the Period and up to the date of this report, the capital structure of the Company has changed as follows:

Placing of New Shares under General Mandate

On 6th August, 2010, the Company completed the placing of 70,398,000 new shares ("Placing Share(s)") of the Company at a price of HK\$0.38 per Placing Share ("First Placement"). As a result of the First Placement, the Company's issued share capital and share premium increased by approximately HK\$0.7 million and HK\$25.5 million respectively. Up to the date of this report, approximately HK\$17.6 million of the net proceeds was applied for the acquisition and development of a new 3D movie production business and approximately HK\$6.3 million was used for the general working capital.

Share Subdivision

On 21st September, 2010, the Company subdivided every issued and unissued share of the Company into two subdivided shares ("Share Subdivision"), as a result of which the par value of each issued and unissued share is adjusted from HK\$0.01 to HK\$0.005. As at the date of this report, the authorised share capital of the Company was HK\$100.0 million divided into 20,000,000,000 subdivided shares, among which 844,795,994 subdivided shares have been issued and are fully paid or credited as fully paid.

Placing of New Shares under Specific Mandate

On 28th October, 2010, the Company completed the placing of 200,000,000 new subdivided shares of the Company at a price of HK\$0.125 per placing subdivided share ("Second Placement"). Upon completion of the Second Placement, the Company's issued share capital and share premium further increased by HK\$1.0 million and approximately HK\$23.5 million respectively. The Company intends to use the net proceeds of approximately HK\$24.5 million from the Second Placement for the Group's general working capital and the 3D movie production.

EVENTS AFTER THE REPORTING PERIOD

Change of Company Name

On 20th September, 2010, the shareholders of the Company approved at the special general meeting the change of name of the Company from "Dragonlott Entertainment Group Limited" to "China 3D Digital Entertainment Limited" and the adoption of "中國3D 數碼娛樂有限公司" for identification purpose. Such change of name took effect on 22nd September, 2010.

Acquisition of New 3D Movie Business

On 8th October, 2010, the Company acquired the entire interests in New Smart at a consideration of approximately HK\$12.6 million.

Disposal of Movie and Television Library

On 19th October, 2010, the Group completed the disposal of the entire interests in Speedy Champion Investments Limited together with the holding companies of the copyrights and distribution rights in various films and television programmes which were produced or distributed by the Group. The consideration of such disposal was HK\$0.1 million and the Group recorded a gain on disposal of approximately HK\$2.5 million.

EVENTS AFTER THE REPORTING PERIOD (Continued)

Disposal of Movie Library

On 26th October, 2010, the Group entered into an agreement with an independent third party to dispose of its entire interests in Bright Win Group Limited together with the holding companies of the copyrights and distribution rights in films. The disposal is subject to the approval of the shareholders of the Company at the forthcoming special general meeting. The completion of the disposal is expected to take place by the end of December 2010.

Placing of New Shares under Specific Mandate

On 28th October, 2010, the Company completed the Second Placement.

RESULTS

The Board announces the unaudited consolidated results of the Group for the Period together with the comparative unaudited figures for the corresponding period in 2009 as follows:

Consolidated Statement of Comprehensive Income

For the three months ended 30th September, 2010

		Three months ended 30th September,	
	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations			
Revenue	2	9,430	28,423
Other income		276	1,686
Cost of film and television programme production and distribution		(14,111)	(14,723)
Selling and distribution costs		(2,782)	(3,510)
Administrative expenses		(6,563)	(9,797)
Finance costs		(4,796)	(2,195)
Share of results of a jointly controlled entity		(1,538)	334
(Loss) profit before taxation		(20,084)	218
Taxation	3	–	(44)
(Loss) profit for the period from continuing operations		(20,084)	174
Discontinued operations			
Loss for the period from discontinued operations	4	–	(1,544)
Loss for the period attributable to owners of the Company		(20,084)	(1,370)
Other comprehensive (expense) income for the period (net of tax)			
Exchange differences arising on translation of foreign subsidiaries		(17)	4
Total comprehensive expense attributable to owners of the Company		(20,101)	(1,366)
(Loss) earnings per share			
From continuing and discontinued operations	5		
Basic and diluted		HK cents (2.54)	HK cent (0.26)
From continuing operations			
Basic and diluted		HK cents (2.54)	HK cent 0.03

NOTES:

1. Basis of Preparation and Significant Accounting Policies

The unaudited consolidated results of the Group have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The amounts included in the unaudited consolidated results are computed based on all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretation issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The unaudited consolidated financial statements have been prepared under historical cost basis, except for certain financial instruments which are measured at fair values on initial recognition.

The comparative figures of the statement of comprehensive income and certain notes to the accounts have been reclassified and presented in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" issued by the HKICPA. Reason for such reclassification is explained in note 4.

2. Revenue

	Three months ended 30th September,	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
An analysis of the Group's revenue for the period from continuing operations is as follows:		
Artiste management fee income	2,373	8,688
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	6,943	19,512
– distribution of films and television programmes	114	223
	7,057	19,735
	9,430	28,423

NOTES: (Continued)

3. Taxation

No provision for Hong Kong Profits Tax is made in the Period as the Group has no estimated assessable profits for the Period.

The taxation charge for the prior period represented Hong Kong Profits Tax calculated at 16.5% of the estimated assessable profits for that period.

No provision for income tax in respect of operations in overseas has been made as the Group has no assessable profits in the respective jurisdictions for both periods.

4. Discontinued Operations

On 19th March, 2010, the Group disposed of certain subsidiaries which carried out event production and music production and distribution operations. Since then, the Group ceased the businesses of event production and music production and distribution (i.e. discontinued operations).

The loss for the three months ended 30th September, 2009 from discontinued operations is analysed as follows:

	(Unaudited) HK\$'000
Revenue from:	
– Event production	1,506
– Music production and distribution	9,468
	<hr/> 10,974
Other income	846
Cost of self-organised events	(2,082)
Cost of music production and distribution	(5,577)
Selling and distribution costs	(317)
Administrative expenses	(5,388)
	<hr/>
Loss for the period from discontinued operations	(1,544)

NOTES: (Continued)

5. (Loss) Earnings per Share*From continuing and discontinued operations*

The calculation of the basic and diluted loss per share from continuing and discontinued operations is based on the loss for the period attributable to owners of the Company of HK\$20,084,000 (2009: HK\$1,370,000) and the weighted average number of 789,701,907 (2009: 520,000,000 after adjusting the effect of the Share Subdivision effective on 21st September, 2010) ordinary shares of the Company in issue during the period.

The computation of the diluted loss per share does not assume conversion of the Company's outstanding convertible bond since the exercise of the convertible bond would result in an anti-dilutive effect on the loss per share from continuing and discontinued operations.

From continuing operations

The calculation of the basic and diluted (loss) earnings per share from continuing operations is based on the following data:

(Loss) earnings are calculated as follows:

	Three months ended 30th September,	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Loss for the period attributable to owners of the Company	(20,084)	(1,370)
Less: Loss for the period from discontinued operations	–	(1,544)
(Loss) profit for the purpose of basic and diluted (loss) earnings per share from continuing operations	(20,084)	174

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

Basic and diluted loss per share from discontinued operations for the three months ended 30th September, 2009 was HK0.29 cent per share (2010: Nil), based on the loss for that period from discontinued operations of HK\$1,544,000 (2010: Nil) and the denominators detailed above for both basic and diluted loss per share.

NOTES: (Continued)

6. Capital, Reserves and Non-controlling Interests

	Attributable to owners of the Company									
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Convertible			Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
				bond equity reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000				
At 1st July, 2009	2,600	105,614	83,783	-	75,000	2,971	(313,942)	(43,974)	(1,941)	(45,915)
Exchange differences on translation of foreign subsidiaries	-	-	-	-	-	4	-	4	-	4
Loss for the period	-	-	-	-	-	-	(1,370)	(1,370)	-	(1,370)
Total comprehensive income (expense) for the period	-	-	-	-	-	4	(1,370)	(1,366)	-	(1,366)
At 30th September, 2009	2,600	105,614	83,783	-	75,000	2,975	(315,312)	(45,340)	(1,941)	(47,281)
At 1st July, 2010	3,520	171,489	83,783	27,562	75,000	2,541	(364,568)	(673)	(1,941)	(2,614)
Exchange differences on translation of foreign subsidiaries	-	-	-	-	-	(17)	-	(17)	-	(17)
Loss for the period	-	-	-	-	-	-	(20,084)	(20,084)	-	(20,084)
Total comprehensive expense for the period	-	-	-	-	-	(17)	(20,084)	(20,101)	-	(20,101)
Issue of shares	704	25,449	-	-	-	-	-	26,153	-	26,153
At 30th September, 2010	4,224	196,938	83,783	27,562	75,000	2,524	(384,652)	5,379	(1,941)	3,438

DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (2009: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30th September, 2010, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors as referred to in Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company's existing share option scheme (the "Share Option Scheme") was approved for adoption on 26th August, 2004 and became effective on 11th November, 2004 and valid for the next ten years.

The Company had not granted any option under the Share Option Scheme since its adoption.

As at 30th September, 2010, the Company had not granted any right to subscribe for equity or debt securities of the Company to any Director or chief executive of the Company or their spouse or children under 18 years of age.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 30th September, 2010, the persons or corporations (other than the Directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary shares/ underlying shares held	Approximate percentage holding
Surplus Way Profits Limited ("Surplus Way") (Note)	Beneficial owner	180,125,142	21.32%
Million Way Holdings Limited ("Million Way") (Note)	Interest in a controlled corporation	180,125,142	21.32%
STC International Limited ("STC International") (Note)	Trustee	180,125,142	21.32%
Dr. Yeung Sau Shing, Albert ("Dr. Albert Yeung") (Note)	Founder of AY Trust	180,125,142	21.32%
Ms. Luk Siu Man, Semon ("Ms. Semon Luk") (Note)	Family interest	180,125,142	21.32%
Be Cool Limited	Beneficial owner	46,452,000	5.49%
B.A.L. Holdings Limited	Interest in a controlled corporation and beneficial owner	54,584,000	6.46%

Note: The shares comprised 157,268,000 shares held by Surplus Way and 22,857,142 shares to be held by Surplus Way upon its full exercise of the outstanding principal amount of the convertible bond due in 2014. The entire issued share capital of Surplus Way was held by Million Way which is in turn owned by STC International being the trustee of The Albert Yeung Discretionary Trust (the "AY Trust"). Dr. Albert Yeung, as founder of the AY Trust, was deemed to be interested in the said shares held by Surplus Way. By virtue of being the spouse of Dr. Albert Yeung, Ms. Semon Luk, was also deemed to have interest in the same shares.

Save as disclosed above, as at 30th September, 2010, the Directors were not aware of any other person or corporation (other than the Directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

COMPETING INTERESTS

The AY Trust, a discretionary trust set up by Dr. Albert Yeung, a substantial shareholder of the Company (as defined in the GEM Listing Rules), indirectly held 50% of the shareholding of JCE Movies Limited, a company engaged in the production and distribution of movies. The AY Trust also indirectly held 100% interest in Prime Time (International) Entertainment Limited, a company engaged in the business of television programme production and artiste management. The AY Trust also indirectly held 100% interest in Emperor Entertainment (Hong Kong) Limited and 英皇星藝(北京)文化發展有限公司, both companies engaged in artiste management, and film and television programme production, distribution and licensing. The businesses of all these companies may constitute competition with the business of the Group.

One Dollar Productions Limited ("ODP") is a company principally engaged in artiste management. Mr. Stephen Shiu Junior ("Mr. Shiu"), an Executive Director of the Company, is a director of ODP and together with his associate hold as to 100% equity interests in ODP. Mr. Shiu also holds directorship in One Dollar Movies Productions Limited ("ODMP"), a company engaged in the production of movies, and together with his associate(s) hold indirectly as to 59.4% equity interests in ODMP. He is also a director of One Dollar Distribution Limited ("ODD"), a company engaged in the distribution of movies, and together with his associate(s) hold indirectly as to 25% equity interests in ODD. The businesses of ODP, ODMP and ODD may constitute competition with the business of the Group.

Save as disclosed above, the Directors believe that none of the Directors nor the substantial shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.

REVIEW OF QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Period have not been audited nor reviewed by the Company's auditor, Deloitte Touche Tohmatsu, but have been reviewed by the audit committee of the Company, who is of the opinion that the preparation of such results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made. As at the date hereof, the audit committee comprises the two Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun and Mr. Chan Chi Ho (Mr. Wong Tak Ming, Gary retired as Independent Non-executive Director at the annual general meeting held on 2nd November, 2010).

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
China 3D Digital Entertainment Limited
Stephen Shiu Junior
Executive Director

Hong Kong, 11th November, 2010

As at the date hereof, the Board comprises:

Executive Directors:

Mr. Stephen Shiu Junior
Ms. Leung Ge Yau
Mr. Tsang Pui Lan, Patrick

Independent Non-executive Directors:

Mr. Kam Tik Lun
Mr. Chan Chi Ho