



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)

Interim Report

2010-2011



PRODUCTION		
DIRECTOR		
CAMERA		
DATE	SCENE	TAKE

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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 ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported total revenue of approximately HK\$11.6 million for the six months ended 31st December, 2010 (the “Half Yearly Period”), compared with approximately HK\$90.2 million for the corresponding period a year ago. A loss of approximately HK\$23.2 million was recorded (2009: HK\$33.9 million). The loss is mainly attributable to the impairment loss on film rights and finance cost for convertible bond issued by the Company.

During the Half Yearly Period, artiste management contributed revenue of approximately HK\$2.8 million (2009: HK\$20.3 million) and recorded a profit of approximately HK\$1.7 million (2009: HK\$10.9 million). In addition, the Group received revenue of approximately HK\$8.8 million (2009: HK\$40.5 million) from the business segment of film and television programme production and distribution. This business segment recorded a loss of approximately HK\$14.4 million (2009: HK\$33.0 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 six months ended 31st December, 2009, event production contributed revenue of approximately HK\$8.5 million and recorded a loss of approximately HK\$1.5 million, and music production and distribution contributed revenue of approximately HK\$20.9 million and recorded a profit of approximately HK\$0.4 million.

PROSPECTS

Following the disposal of the event production and music production and distribution operations in March 2010, the Company opened 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.

With further disposal of certain subsidiaries holding the existing movie and television library of the Group during the Half-Yearly Period, the Group’s financial and labour resources was freed up and its financial position has been improved. It enables the Group not only to refocus its resources in producing high quality movies in future but also having opportunity to tap into the new 3D digital entertainment business.

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 the PRC. 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 enhance cost efficiency and profitability. The board of directors of the Company (the “Board” or the “Directors”) is confident in the new moves of the Group and are actively seeking more investment funding, strategic partners and investors.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group has acquired and disposed of certain subsidiaries during the Half Yearly Period, details of which are set out as follows:

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. New Smart is currently engaged in production of a 3D movie which is expected to release in April 2011.

Disposal of Speedy Champion Investments Limited

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 "SCI 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.

Disposal of Bright Win Group Limited

On 2nd December, 2010, the Group also completed the disposal of the entire interests in Bright Win Group Limited together with the holding companies of the copyrights and distribution rights in films (the "Bright Win Group"). The consideration of such disposal was HK\$0.1 million and the Group recorded a gain on disposal of approximately HK\$0.1 million.

CAPITAL STRUCTURE

During the Half Yearly Period, 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, the entire net proceeds of the First Placement have been fully utilised, out of which HK\$19.9 million was applied for the acquisition and development of a new 3D movie production business and HK\$6.3 million was used for the general working capital of the Group.

Share Subdivision

On 21st September, 2010, the Company subdivided every issued and unissued share of the Company into two subdivided shares ("Share Subdivision"), under which the par value of each issued and unissued share was 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 1,085,944,030 subdivided shares have been issued and are fully paid or credited as fully paid.

CAPITAL STRUCTURE (Continued)

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 approximately HK\$1.0 million and approximately HK\$23.4 million respectively. Up to the date of this report, the Group has applied part of the net proceeds amounting to approximately HK\$7.7 million for the 3D movie production and approximately HK\$2.1 million for the Group's general working capital with the remaining balance of HK\$14.6 million being deposited into a bank.

Conversion of Convertible Bond

During the Half Yearly Period, HK\$14.0 million of bond value was converted into 41,148,036 new shares of the Company which led to the Company's issued share capital and share premium increased by approximately HK\$0.2 million and HK\$15.2 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2010, total borrowings of the Group (excluding payables) amounted to approximately HK\$56.6 million (30th June, 2010: HK\$274.1 million) and the Group's gearing ratio (expressed as a percentage of total borrowings over total assets) was 59% (30th June, 2010: 83%). The financial position of the Group was improved because a substantial amount of borrowings had been assigned to third parties through the disposal of the SCI Group and the Bright Win Group during Half Yearly Period. In addition to its share capital and reserves, the Group made use of cash flow generated from operations and the total borrowings, mainly including convertible bond and promissory note payable, to finance its operation. Details of terms of the convertible bond and the promissory note payable are disclosed in note 11 on page 17 of this report.

Save as disclosed above, the Group had no other external borrowings. The Group's bank and cash held in hand were mainly denominated in Hong Kong dollars, U.S. dollars and Reminbi. The Group managed its foreign exchange risk by closely monitoring the movement of the foreign currency rates. The management conducted periodical review of foreign currency exposure and will take appropriate measures to mitigate the risk should the need arise. The Group experienced no significant exposure to foreign exchange rate fluctuation during the Half Yearly Period.

Together with the cash flow generated by the operation of the Group in its ordinary course of business and the fund raising from the aforesaid placing activities, the Board expected the Group to have sufficient working capital for its operation.

COMMITMENTS

Total commitments of the Group as at 31st December, 2010 was approximately HK\$7.4 million (30th June, 2010: HK\$52.5 million).

CONTINGENT LIABILITIES

The Group has no significant contingent liability at the end of the Half Yearly Period.

In the preceding financial year, the Group was involved in legal proceedings in relation to alleged breach of engagement contracts involving the Group's artistes. With the disposal of subsidiaries in the prior year, the Group was no longer involved in such legal proceedings.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 31st December, 2010 was 13 (30th June, 2010: 27) and total staff costs for the Half Yearly Period were approximately HK\$5.9 million (2009: HK\$22.7 million). Employees' remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions to retirement benefit scheme, medical insurances and other fringe benefits. To provide incentive or rewards to the employees, the Company has adopted a share option scheme in year 2004. No option was granted or outstanding during the Half Yearly Period.

SIGNIFICANT EVENT AFTER THE REPORTING PERIOD

Proposed Rights Issue

On 1st February, 2011, the Company announced a proposed issue by way of rights of not less than 7,601,608,210 rights shares and not more than 8,828,194,312 right shares at the subscription price of HK\$0.015 per rights share on the basis of seven rights shares for every share of the Company held on the record date (being 11th March, 2011, as defined in the Company's announcement dated 1st February, 2011) payable in full upon application ("Rights Issue"). The Rights Issue is subject to the approval of the independent shareholders of the Company at the forthcoming special general meeting. The Company targets to raise net proceeds of not less than approximately HK\$110 million and not more than approximately HK\$129 million from the Rights Issue and intends to apply such net proceeds for the Group's 3D movie production and acquisition of cinema(s) in Hong Kong and/or the PRC.

The Board announces the unaudited condensed consolidated financial statements of the Group for the three months ended 31st December, 2010 (the "Quarterly Period") and the Half Yearly Period together with the comparative figures for the corresponding periods in 2009 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 31st December, 2010

	Notes	Three months ended 31st December,		Six months ended 31st December,	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations					
Revenue	2	2,142	32,418	11,572	60,841
Other income		94	1,708	371	3,395
Cost of film and television programme production and distribution		(517)	(47,320)	(14,628)	(62,043)
Selling and distribution costs		(766)	(2,562)	(3,549)	(6,072)
Administrative expenses		(3,764)	(10,364)	(10,327)	(20,162)
Finance costs		(2,903)	(6,651)	(7,699)	(8,846)
Share of results of a jointly controlled entity		-	520	(1,538)	854
Gain on disposal of subsidiaries	13	2,562	-	2,562	-
Loss before taxation	4	(3,152)	(32,251)	(23,236)	(32,033)
Taxation	5	-	(734)	-	(778)
Loss for the period from continuing operations		(3,152)	(32,985)	(23,236)	(32,811)
Discontinued operations					
Profit (loss) for the period from discontinued operations	6	-	488	-	(1,056)
Loss for the period attributable to owners of the Company		(3,152)	(32,497)	(23,236)	(33,867)
Other comprehensive income					
Exchange differences on translation of foreign operations		21	44	4	48
Share of change in equity of a jointly controlled entity		-	2	-	2
Other comprehensive income for the period (net of tax)		21	46	4	50
Total comprehensive expense attributable to owners of the Company		(3,131)	(32,451)	(23,232)	(33,817)
Loss per share	7		(Restated)		(Restated)
From continuing and discontinued operations - basic and diluted		(0.31) cent	(6.25) cents	(2.58) cents	(6.51) cents
From continuing operations - basic and diluted		(0.31) cent	(6.34) cents	(2.58) cents	(6.31) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31st December, 2010

	Notes	As at	
		31st December, 2010 (Unaudited) HK\$'000	30th June, 2010 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	8	311	604
Available-for-sale investment		46,674	46,674
Interests in jointly controlled entities		–	5,280
Film rights	8	19,723	185,597
		66,708	238,155
Current assets			
Inventories and record masters		–	30
Trade receivables	9	–	35,706
Prepayments and other receivables		5,876	26,166
Loan to a jointly controlled entity		–	12,466
Bank balances and cash		23,602	16,625
		29,478	90,993
Current liabilities			
Trade payables	10	179	13,566
Other payables and accrued charges		5,140	44,113
Loan from a non-controlling shareholder of a subsidiary		–	2,000
Other loan	11	–	3,000
		5,319	62,679
Net current assets		24,159	28,314
Total assets less current liabilities		90,867	266,469
Non-current liabilities			
Convertible bond	11	42,813	50,099
Promissory note payable	11	11,402	11,102
Amount due to a former substantial shareholder of the Company		2,401	207,882
		56,616	269,083
		34,251	(2,614)
Capital and reserves			
Share capital		5,430	3,520
Reserves		28,821	(4,193)
Equity attributable to owners of the Company		34,251	(673)
Non-controlling interests		–	(1,941)
		34,251	(2,614)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31st December, 2010

	Attributable to owners of the Company									
	Share capital	Share premium	Contributed surplus	Convertible			Accumulated losses	Total	Non-controlling interests	Total equity
				bond equity reserve	Special reserve	Translation reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st July, 2009	2,600	105,614	83,783	-	75,000	2,971	(313,942)	(43,974)	(1,941)	(45,915)
Loss for the period	-	-	-	-	-	-	(33,867)	(33,867)	-	(33,867)
Exchange differences on translation of foreign operations	-	-	-	-	-	48	-	48	-	48
Share of changes in equity of a jointly controlled entity	-	-	-	-	-	2	-	2	-	2
Total comprehensive income (expense) for the period	-	-	-	-	-	50	(33,867)	(33,817)	-	(33,817)
Recognition of equity component of convertible bond	-	-	-	38,280	-	-	-	38,280	-	38,280
At 31st December, 2009	2,600	105,614	83,783	38,280	75,000	3,021	(347,809)	(39,511)	(1,941)	(41,452)
At 1st July, 2010	3,520	171,489	83,783	27,562	75,000	2,541	(364,568)	(673)	(1,941)	(2,614)
Loss for the period	-	-	-	-	-	-	(23,236)	(23,236)	-	(23,236)
Exchange differences on translation of foreign operations	-	-	-	-	-	4	-	4	-	4
Total comprehensive income (expense) for the period	-	-	-	-	-	4	(23,236)	(23,232)	-	(23,232)
Issue of new shares	1,704	50,047	-	-	-	-	-	51,751	-	51,751
Issue of shares upon conversion of convertible bond	206	15,242	-	(5,359)	-	-	-	10,089	-	10,089
Transaction costs attributable to issue of new shares	-	(1,173)	-	-	-	-	-	(1,173)	-	(1,173)
Transfer to profit or loss on disposal of subsidiaries (note 13)	-	-	-	-	-	(2,511)	-	(2,511)	1,941	(570)
At 31st December, 2010	5,430	235,605	83,783	22,203	75,000	34	(387,804)	34,251	-	34,251

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st December, 2010

	Six months ended 31st December,	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash from operating activities	42,691	54,315
Net cash used in investing activities	(71,505)	(130,079)
Net cash from financing activities	35,791	71,573
Net increase (decrease) in cash and cash equivalents	6,977	(4,191)
Cash and cash equivalents at beginning of the period	16,625	51,288
Effect of foreign exchange rate changes	-	3
Cash and cash equivalents at end of the period	23,602	47,100
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	23,602	32,651
Bank balances and cash included in assets classified as held for sale	-	14,449
	23,602	47,100

Notes:

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and with the applicable disclosure requirements of Chapter 18 to the GEM Listing Rules.

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

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th June, 2010, except as described below.

In the Half Yearly Period, the Group has applied, for the first time, certain new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the HKICPA that are effective for the accounting periods beginning on or after 1st July, 2010.

The Group also applied HKFRS 3 (Revised) "Business Combination" and HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interest in a subsidiary after control is obtained and for loss of control of a subsidiary for its acquisition and disposal of certain subsidiaries during the Half Yearly Period. The financial impact of such acquisition and disposal as a result of the application of these standards had been reflected in the unaudited condensed consolidated financial statements of the Group.

The application of other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective.

Notes: (Continued)

2. REVENUE

An analysis of the Group's revenue for the period from continuing operations is as follows:

	Three months ended 31st December,		Six months ended 31st December,	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Artiste management	395	11,637	2,768	20,325
Film and television programme production, distribution and licensing – production of films and television programmes and licensing of the corresponding rights	1,633	20,612	8,576	40,124
– distribution of films and television programmes	114	169	228	392
	1,747	20,781	8,804	40,516
	2,142	32,418	11,572	60,841

3. SEGMENT INFORMATION

Segment information has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. The executive directors of the Company (the "Executive Directors") have been identified as the chief operating decision maker.

The segment information reported to the Executive Directors is analysed on the basis of the nature of business. Accordingly, the Group's operating segments are analysed as follows: (a) artiste management and (b) film and television programme production, distribution and licensing. They are strategic business units and are managed separately as each business requires different expertise and marketing strategies. The Group's operations relating to event production and music production and distribution were discontinued in the preceding financial year. Information about the discontinued operating segments is presented in note 6.

Notes: (Continued)

3. SEGMENT INFORMATION (Continued)

Principal activities of the operating segments are as follows:

Artiste management	–	provision of management services to artistes
Film and television programme production, distribution and licensing	–	production and distribution of films and television programmes and licensing of distribution rights over films and television programmes

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 1. Segment profit (loss) represents the profit earned by or loss from the segment without allocation of central administration costs, interest income, finance costs and share of results of a jointly controlled entity. This is the measure reported to the Executive Directors for the purpose of resource allocation and performance assessment.

Information regarding the above segments reported to the Executive Directors is as below.

Continuing operations

	Six months ended 31st December, 2010			Six months ended 31st December, 2009		
	Artiste management (Unaudited) HK\$'000	Film and television programme, production, distribution and licensing (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Artiste management (Unaudited) HK\$'000	Film and television programme, production, distribution and licensing (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	2,768	8,804	11,572	20,325	40,516	60,841
Segment results	1,669	(14,441)	(12,772)	10,913	(32,987)	(22,074)
Interest income			60			612
Unallocated corporate expenses, net			(3,849)			(2,579)
Finance costs			(7,699)			(8,846)
Share of results of a jointly controlled entity (note)			(1,538)			854
Gain on disposal of subsidiaries			2,562			-
Loss before taxation			(23,236)			(32,033)

Note: The share of results of a jointly controlled entity belongs to the segment of film and television programme production, distribution and licensing.

Notes: (Continued)

4. LOSS BEFORE TAXATION

Continuing operations

	Three months ended 31st December,		Six months ended 31st December,	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Loss before taxation has been arrived at after charging:				
Amortisation for film rights (included in cost of film and television programme production and distribution)	–	11,681	5,588	25,892
Depreciation of property plant and equipment	164	266	328	516
Impairment loss on film rights recognised (included in cost of film and television programme production and distribution)	511	32,714	9,030	33,001

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the Quarterly Period and the Half Yearly Period as the Group has no estimated assessable profits for both periods.

The charges for the corresponding periods in 2009 represented Hong Kong Profits Tax calculated at 16.5% of the estimated assessable profits for that periods.

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 these periods.

Notes: (Continued)

6. 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 profit (loss) for the three and six months ended 31st December, 2009 from the discontinued operations were analysed as follows:

	Three months ended 31st December, 2009 (Unaudited) HK\$'000	Six months ended 31st December, 2009 (Unaudited) HK\$'000
Revenue from:		
– Event production	7,004	8,510
– Music production and distribution	11,384	20,852
	18,388	29,362
Other income	2,788	3,633
Cost of self-organised events	(1,697)	(3,779)
Cost of provision of event production services	(4,619)	(4,619)
Cost of music production and distribution	(7,654)	(13,231)
Selling and distribution costs	(323)	(640)
Administrative expenses	(6,395)	(11,782)
Profit (loss) for the period	488	(1,056)

The profit (loss) for the period from the discontinued operations included the following:

	Three months ended 31st December, 2009 (Unaudited) HK\$'000	Six months ended 31st December, 2009 (Unaudited) HK\$'000
Allowance for (reversal of allowance for) bad and doubtful debts	284	(52)
Depreciation of property, plant and equipment	36	83

Notes: (Continued)

7. LOSS 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 Quarterly Period and the Half Yearly Period attributable to owners of the Company of HK\$3,152,000 and HK\$23,236,000 (2009: HK\$32,497,000 and HK\$33,867,000) respectively and the weighted average number of 1,012,531,447 and 900,893,047 (2009: 520,000,000 and 520,000,000 after adjusting the effect of the Share Subdivision effective on 21st September, 2010) ordinary shares of the Company in issue during these periods.

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 per share from continuing operations is based on the following data:

Loss is calculated as follows:

	Three months ended 31st December,		Six months ended 31st December,	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Loss for the period attributable to owners of the Company	(3,152)	(32,497)	(23,236)	(33,867)
Less: Profit (loss) for the period from the discontinued operations	–	488	–	(1,056)
Loss for the purpose of basic and diluted loss per share from continuing operations	(3,152)	(32,985)	(23,236)	(32,811)

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

Notes: (Continued)

7. LOSS PER SHARE (Continued)

From discontinued operations

No basic and diluted earnings or loss per share from discontinued operations for the Quarterly Period and the Half Yearly Period is computed as the Group has no profit or loss from the discontinued operations for these periods.

Basic and diluted earnings per share from discontinued operations for the three months ended 31st December, 2009 were HK\$0.09 cent per share and HK\$0.06 per share respectively based on the profit for that period from the discontinued operations of HK\$488,000 and the weighted averaged number of 520,000,000 and 740,496,894 (after adjusting the effect of the Share Subdivision effective on 21st September, 2010) ordinary shares of the Company in issue during that period.

Both basic and diluted loss per share from discontinued operations for the six months ended 31st December, 2009 were HK0.20 cent per share based on the loss for the period from the discontinued operations of HK\$1,056,000 and the denominators detailed above for both basic and diluted loss per share from continuing and discontinued operations.

8. MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT AND FILM RIGHTS

An analysis of movements of the assets of the Group for the Half Yearly Period is as follows:

	Property, plant and equipment (Unaudited) HK\$'000	Film rights (Unaudited) HK\$'000
CARRYING AMOUNTS		
At 1st July, 2010	604	185,597
Currency realignments	3	–
Additions	35	34,891
Arising on acquisition of a subsidiary	–	12,554
Depreciation and amortisation	(328)	(5,588)
Impairment	–	(9,030)
Eliminated upon disposal of subsidiaries	(3)	(198,701)
At 31st December, 2010	311	19,723

Notes: (Continued)

9. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for bad and doubtful debts presented based on the due date at the end of the reporting period:

	As at	
	31st December, 2010 (Unaudited) HK\$'000	30th June, 2010 (Audited) HK\$'000
Current	–	27,747
Overdue		
0 - 30 days	–	993
31 - 60 days	–	23
61 - 90 days	–	–
over 90 days	–	6,943
	–	7,959
	–	35,706

10. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the due date at the end of the reporting period:

	As at	
	31st December, 2010 (Unaudited) HK\$'000	30th June, 2010 (Audited) HK\$'000
Current	117	2,492
Overdue		
0 - 30 days	32	2,471
31 - 60 days	5	596
61 - 90 days	3	496
over 90 days	22	7,511
	179	13,566

Notes: (Continued)

11. MOVEMENT OF OTHER LOAN, CONVERTIBLE BOND AND PROMISSORY NOTE PAYABLE

An analysis of movements of the liabilities of the Group for the Half Yearly Period is as follows:

	Other loan (Unaudited)	Convertible bond (Unaudited)	Promissory note payable (Unaudited)
	(note (a))	(note (b))	(note (c))
	HK\$'000	HK\$'000	HK\$'000
CARRYING AMOUNTS			
At 1st July, 2010	3,000	50,099	11,102
Interest charge	54	3,702	300
Interest paid	(54)	(899)	–
Repayment during the period	(3,000)	–	–
Conversion during the period	–	(10,089)	–
At 31st December, 2010	–	42,813	11,402

Notes:

- (a) The amount was unsecured, borne fixed interest at 7.25% per annum and fully repaid during the Half Yearly Period.
- (b) On 21st October, 2009, the Company issued convertible bond with a nominal value of HK\$100 million to the former substantial shareholder of the Company. The bond bears interest from the date of issue at a rate of the HIBOR plus 2% per annum and will mature on 20th October, 2014. It is transferable and may be converted into ordinary shares of the Company at the adjusted conversion price of HK\$0.331 per ordinary share, subject to anti-dilutive adjustments. The Company is entitled to redeem the convertible bond at 100% of its aggregated principal amount and accrued contractual interest at any time after six months from the date of issue of the convertible bond until the maturity date.

The convertible bond was split into liability (including the value of closely-related early redemption option held by the Company) and equity components of HK\$61,720,000 and HK\$38,280,000 respectively upon initial recognition by recognising the liability component at its fair value and attributing the residual amount to the equity component. The liability component is subsequently carried at amortised cost and the equity component is recognised in the convertible bond equity reserve. The effective interest of the liability component is 12.74% per annum.

- (c) In the preceding financial year, the Company issued a promissory note to settle part of the consideration in the acquisition of the available-for-sale investment. The amount is unsecured and non-interest bearing. The principal sum of HK\$14,160,000 is to be repaid on the date falling five years from 18th January, 2010. The fair value of HK\$10,834,000 on initial recognition is measured by computing the present value of estimated future cash flows at the effective interest rate of 5.5%.

Notes: (Continued)

12. ACQUISITION OF A SUBSIDIARY

On 8th October, 2010, the Company entered into an agreement with a third party to acquire the 100% interests of New Smart at a consideration of approximately HK\$12,558,000. New Smart is a company engaged in the business of 3D motion picture production and investment. Completion of the transaction was taken place on the same date.

The net assets of New Smart at the date of acquisition were as follows:

	(Unaudited) HK\$'000
Net assets acquired:	
Film rights	12,554
Prepayment and other receivables	117
Other payables and accrued charges	(113)
Total consideration paid, satisfied by cash	12,558

Notes: (Continued)

13. DISPOSAL OF SUBSIDIARIES

During the Half Yearly Period, the Group entered into agreements to dispose of the entire interests in the SCI Group and the Bright Win Group (collectively referred to as the “Disposed Group”), both of which carried out the businesses of film and television programme production, distribution and licensing. The disposals were completed on 19th October, 2010 and 2nd December, 2010 respectively. Since then, the control of the Disposed Group was passed to the third parties.

The aggregate of the consolidated net assets of the Disposed Group at their respective dates of disposal was as follows:

	(Unaudited) HK\$'000
Net assets disposed of:	
Property, plant and equipment	3
Interests in a jointly controlled entity	3,742
Film rights	198,701
Inventories and record masters	32
Trade receivables	14,826
Prepayment and other receivables	32,859
Loan to a jointly controlled entity	12,466
Bank balances and cash	24,263
Trade payables	(10,555)
Other payables and accrued charges	(77,839)
Loan from a non-controlling shareholder of a subsidiary	(2,000)
Amount due to a former substantial shareholder of the Company	(198,290)
Non-controlling interests	1,941
	149
Translation reserve realised	(2,511)
Gain on disposal of subsidiaries	2,562
	200
Total consideration received, satisfied by cash	200
Net cash inflow (outflow) arising on disposal:	
Cash consideration received	200
Bank balances and cash disposed of	(24,263)
	(24,063)

During the period from 1st July, 2010 up to the dates of disposal, the Disposed Group contributed HK\$46,159,000 (2009: HK\$38,175,000) to the Group's net operating cash flows, paid HK\$27,702,000 (2009:HK\$ 28,744,000) in respect of investing activities and paid HK\$6,319,000 (2009: HK\$6,499,000) in respect of financing activities.

Notes: (Continued)

14. COMMITMENTS

(a) Operating lease commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at	
	31st December, 2010 (Unaudited) HK\$'000	30th June, 2010 (Audited) HK\$'000
In respect of:		
Rented premises		
Within one year	382	783

The lease payments are fixed over the lease term and no arrangements have been entered into for contingent rental payments.

(b) Other commitments

	As at	
	31st December, 2010 (Unaudited) HK\$'000	30th June, 2010 (Audited) HK\$'000
Amounts contracted for but not provided in the consolidated financial statements in respect of:		
Artiste fees	1,000	1,000
Film production and licensing costs	6,033	50,748
	7,033	51,748

15. CONTINGENT LIABILITIES

The Group has no significant contingent liability at the end of the reporting period.

In the preceding financial year, the Group was involved in legal proceedings in relation to alleged breach of engagement contracts involving the Group's artistes. With the disposal of the subsidiaries in the prior year, the Group was no longer involved in such legal proceedings.

Notes: (Continued)

16. RELATED PARTY TRANSACTIONS

(a) During the Half Yearly Period, the Group had transactions with related parties as follows:

	Six months ended 31st December,	
	2010 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Transaction with a former substantial shareholder of the Company		
Interest expense	3,750	–
Transaction with immediate holding company		
Interest expense	–	4,109
Transactions with related companies		
Distribution and promotion income	88	227
Income from sales of goods	111	38
Sponsorship fee income	243	106
Film production cost	800	–
Operating lease rental expenses	468	1,908
Placing commission	1,035	–
Professional service fee	219	150
Sharing of administrative expenses	1,014	2,039

The related companies are companies ultimately controlled by the then substantial shareholder of the Company and/or by a director of the Company.

(b) The key management personnel includes solely the directors of the Company and the salaries and compensation paid to them is disclosed as follows:

	Six months ended 31st December,	
	2010 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Fees	483	375
Salaries and other short term benefits	–	1,575
	483	1,950

DIVIDEND

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31st December, 2010, the interests or short positions of the Directors and chief executive of the Company 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 required to be kept under 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 were as follows:

Name of director	Capacity/ Nature of interests	Number of ordinary shares held	Approximate percentage holding
Stephen Shiu Junior	Beneficial owner	32,000,000	2.95%

SHARE OPTION SCHEME AND DIRECTORS' AND CHIEF EXECUTIVE'S 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 31st December, 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.

OTHER PERSON'S INTERESTS AND SHORT POSITIONS

So far as known to the Directors, as at 31st December, 2010, the persons or corporations (other than the Directors or chief executive 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 held	Approximate percentage holding
Be Cool Limited (<i>Note</i>)	Beneficial owner	65,782,000	6.06%
Unlimited Creativity Holdings Ltd (formerly known as B.A.L. Holdings Limited)	Beneficial owner and interest in a controlled corporation	103,286,000	9.51%

Note: Be Cool Limited is indirectly wholly-owned by Unlimited Creativity Holdings Limited.

Save as disclosed above, as at 31st December, 2010, the Directors were not aware of any other person or corporation (other than the Directors or chief executive 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

One Dollar Productions Limited ("ODP") is a company principally engaged in artiste management. Mr. Stephen Shiu Junior ("Mr. Shiu"), the Chairman and 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.

CORPORATE GOVERNANCE

The Company had complied throughout the Half Yearly Period with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted Rules 5.48 to Rules 5.67 of the GEM Listing Rules ("Model Code") as its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they had throughout the Half Yearly Period complied with the required standard of dealings as set out in the Model Code.

REVIEW OF INTERIM RESULTS

The unaudited results of the Group for the Half Yearly 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. The Audit Committee comprises the two Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun and Mr. Chan Chi Ho.

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

During the Half Yearly 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
Chairman

Hong Kong, 10th February, 2011

As at the date hereof, the Board comprised:

Executive Directors:

Mr. Stephen Shiu Junior (*Chairman*)

Mr. Tsang Pui Lan, Patrick

Independent Non-executive Directors:

Mr. Kam Tik Lun

Mr. Chan Chi Ho