

First Quarterly Report  
**2011/2012**



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)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Board” or 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 in 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\$8.9 million for the three months ended 30 September 2011 (the “Three-month Period”), compared with approximately HK\$9.4 million for the corresponding period a year ago. For the Three-month Period, a loss of approximately HK\$4.7 million was recorded whilst in the last year same period, loss of HK\$20.1 million was recorded. As the film rights of certain films of which a substantial impairment loss was recorded in last year same period was disposed in the last financial year and during the Three-month Period, no such impairment loss was recorded, accordingly the loss for the Three-month Period was substantially reduced.

During the Three-month Period, artiste management contributed revenue of approximately HK\$0.3 million (2010: HK\$2.4 million) and recorded a loss of approximately HK\$0.3 million (2010: profit of HK\$2.2 million). As most of the subsidiaries running the artiste management were disposed in the last financial year, a decrease in turnover was resulted.

The revenue from the business segment of film and television programme production and distribution of the Group during the Three-month Period was approximately HK\$8.6 million (2010: HK\$7.0 million). The revenue of this business segment mainly contributed from the selling of overseas distribution rights of the Group’s first 3D movie “3D Sex & Zen: Extreme Ecstasy” (“3D Sex and Zen”) which was released in April 2011. This business segment recorded a profit of approximately HK\$0.7 million (2010: loss of HK\$13.5 million).

In order to diversify our business and maximize the shareholders’ wealth, the Group made securities investment in different listed companies in order to get stable dividend income as well as capital gain. However, because of Europe’s Sovereign-debt crisis occurred in recent months, a downturn of global stock market was resulted. Undoubtedly, the investment portfolio of the Group was also affected. This led to a fair value loss of \$1.4 million on financial assets at fair value through profit or loss was recorded during the Three-month Period.

### PROSPECTS

As a vertical development in movie industry, it is the strategy of the Group to operate business in cinema management. As such, in September 2011, the Group has entered into a Memorandum of Understanding (the “MOU”) with Guangdong Zhujiang Film Media Company Limited (廣東珠江影業傳媒股份有限公司) (the “PRC Party”) in relation to a strategic cooperation to provide consulting services to a subsidiary of the Group regarding cinema management in the PRC. The strategic cooperation with the PRC Party will allow the Group to expand its footprints in the PRC and tap on the lucrative market.

To continue our success in producing and releasing 3D Sex and Zen which would still contribute satisfactory revenue to the Group in this financial year, two or more 3D movies will be expected to produce in this financial year. In October 2011, the Group entered into a non-legally binding cooperation memorandum (the “Cooperation Memorandum”) with Wanda Media Company Limited (the “Wanda”) pursuant to which the Group and Wanda agreed to co-invest, produce and distribute a movie, namely “3D Ioceman Comic” (the “Movie”) internationally. Pursuant to the Cooperation Memorandum, Mr. Yen Chi Tan, will be one of the directors and principal actors of the Movie. With the participation of Mr. Yen Chi Tan, one of most popular movie stars nowadays, it is optimistic that the Movie would bring a positive financial impact to the Group.

## EVENTS AFTER REPORTING PERIOD

### **Proposed Capital Reorganization**

On 31 October 2011, the Board announced to propose the implementation of a capital reorganization ("Capital Reorganization") which will involve share consolidation, capital reduction and subdivision of shares of the Company. The share consolidation will involve the consolidation of every twenty-five (25) existing shares of HK\$0.005 each in the issued and unissued share capital of the Company into one (1) consolidated share of HK\$0.125 each ("Consolidated Share") in the issued and unissued share capital of the Company. The capital reduction will involve the reduction of the issued share capital through a cancellation of the paid-up capital of the Company to the extent of HK\$0.12 on each of the issued Consolidated Shares so that the nominal value of each issued Consolidated Share will be reduced from HK\$0.125 to HK\$0.005 and a round down of the total number of Consolidated Shares in the issued share capital of the Company to a whole number. The subdivision will involve the subdivision of each authorized but unissued Consolidated Share (including those arising from the Capital Reduction) into 25 new shares of HK\$0.005 each. The Capital Reorganization is subject to the approval of shareholders by way of poll at the forthcoming special general meeting of the Company to be held on or about 16 December 2011.

## RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the Three-month Period together with the comparative unaudited figures for the corresponding period in 2010 as follows:

**Condensed Consolidated Statement of Comprehensive Income**

For the three months ended 30 September 2011

	Notes	Three months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	2	8,864	9,430
Other revenue and other (losses)/gains – net		(1,313)	276
Cost of film and television programme production and distribution		(7,528)	(14,111)
Selling and distribution costs		(593)	(2,782)
Administrative expenses		(3,565)	(6,563)
Finance costs		(548)	(4,796)
Share of results of a jointly controlled entity		–	(1,538)
Loss before taxation		(4,683)	(20,084)
Taxation	3	–	–
Loss for the period attributable to owners of the Company		(4,683)	(20,084)
<b>Other comprehensive income for the period, net of income tax</b>			
Exchange differences arising on translation of foreign subsidiaries		–	(17)
Net loss arising on revaluation of available-for-sale investment during the period		(222)	–
Total comprehensive loss attributable to owners of the Company		(4,905)	(20,101)
<b>Loss per share</b>	4		
Basic and diluted (2010: Restated)		<b>HK cents 0.05</b>	HK cents 0.45

## NOTES:

**1. Basis of Preparation and Significant Accounting Policies**

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

The accounting policies adopted in preparing the unaudited consolidated financial statements for the three months ended 30 September 2011 are consistent with those followed in the annual report of the Company for the year ended 30 June 2011, except in relation to the new and revised standards, amendments and interpretations that affect the Company and its subsidiaries and are adopted for the first time for the preparation of current period's consolidated financial statement.

The condensed consolidated accounts have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

**2. Revenue**

	<b>Three months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	<b>2010 (Unaudited) HK\$'000</b>
An analysis of the Group's revenue for the period is as follows:		
Artiste management fee income	<b>312</b>	2,373
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	<b>8,552</b>	6,943
– distribution of films and television programmes	–	114
	<b>8,552</b>	7,057
	<b>8,864</b>	9,430

## NOTES: (Continued)

**3. Taxation**

No provision for Hong Kong Profits Tax is made in the Three-month Period as the Group has no estimated assessable profits for the Three-month Period (2010: Nil).

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. Loss per Share**

The calculation of the basic and diluted loss per share is based on the loss for the period attributable to owners of the Company of HK\$4,683,000 (2010: HK\$20,084,000) and the weighted average number of 8,687,552,240 (2010: 4,474,977,473 (restated)) 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.

## NOTES: (Continued)

## 5. Capital, Reserves and Non-controlling Interests

	Attributable to owners of the Company										
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Investment	Convertible		Special reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
			revaluation reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	bond equity reserve (Unaudited) HK\$'000						
At 1 July 2010	3,520	171,489	-	83,783	27,562	75,000	2,541	(364,588)	(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 loss for the period	-	-	-	-	-	-	(17)	(20,084)	(20,101)	-	(20,101)
Issue of shares	704	25,449	-	-	-	-	-	-	26,153	-	26,153
At 30 September, 2010	4,224	196,938	-	83,783	27,562	75,000	2,524	(384,652)	5,379	(1,941)	3,438
At 1 July 2011	43,438	307,964	(17)	3,952	6,508	-	-	(238,704)	123,141	-	123,141
Net loss arising on revaluation of available-for-sales investments during the period	-	-	(222)	-	-	-	-	-	(222)	-	(222)
Loss for the period	-	-	-	-	-	-	-	(4,683)	(4,683)	-	(4,683)
Total comprehensive loss for the period	-	-	(222)	-	-	-	-	(4,683)	(4,905)	-	(4,905)
At 30 September, 2011	43,438	307,964	(239)	3,952	6,508	-	-	(243,387)	118,236	-	118,236



## DIVIDEND

The Board did not recommend the payment of dividend for the Three-month Period (2010: Nil).

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

As at 30 September 2011, the interests and short positions of the Directors and chief executives of the Company and their associates 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 were as follows:

### Long positions in shares of the Company

<b>Name of Director</b>	<b>Capacity/ Nature of Interests</b>	<b>Number of ordinary/ underlying shares held</b>	<b>Approximate percentage holding</b>
Shiu Stephen Junior	Beneficial owner	224,000,000	2.58%

Save as disclosed above, as at 30 September 2011, none of the Directors or chief executives of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## 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 26 August 2004 and became effective on 11 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 30 September 2011, 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 PERSONS' INTERESTS AND SHORT POSITIONS IN SECURITIES

So far as known to the Directors, as at 30 September 2011, 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

<b>Name</b>	<b>Capacity/ Nature of interests</b>	<b>Number of ordinary/ underlying shares held</b>	<b>Approximate percentage holding</b>
Be Cool Limited ( <i>Note</i> )	Beneficial owner	482,094,000	5.55%
Unlimited Creativity Holdings Limited ( <i>Note</i> )	Beneficial owner and interest in a controlled corporation	969,332,000	11.16%

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

Save as disclosed above, as at 30 September 2011, 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

One Dollar Productions Limited (“ODP”) is a company principally engaged in artiste management. Mr. Shiu Stephen 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 controlling 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 FIRST QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Three-month Period have not been audited nor reviewed by the Company’s auditor, HLB Hodgson Impey Cheng, 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 since 24 October 2011 with the re-designation of Mr. Lee Wing Ho, Albert from Independent Non-executive Director to Executive Director of the Company.

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

During the Three-month 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**  
**Shiu Stephen Junior**  
*Chairman*

Hong Kong, 11 November 2011

*As at the date hereof, the Board comprises:*

*Executive Directors:*

Mr. Shiu Stephen Junior (*Chairman*)  
 Mr. Sun Lap Key, Christopher  
 Mr. Lee Wing Ho, Albert

*Independent Non-executive Directors:*

Mr. Kam Tik Lun  
 Mr. Chan Chi Ho