

2012-2013 Third Quarterly Report



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”)

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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 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 the 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

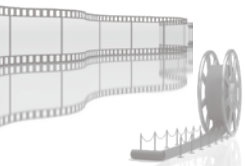
OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported total revenue of approximately HK\$54.59 million for the nine months ended 31 March 2013 (the “Nine-month Period”), compared with approximately HK\$11.60 million for the corresponding period a year ago. For the Nine-month Period, a loss of approximately HK\$9.75 million was recorded whilst in the last year same period, loss of HK\$9.1 million was recorded. The loss is mainly attributable to the high movie production and administration cost.

During the Nine-month Period, artiste management contributed revenue of approximately HK\$1.3 million (2012: HK\$1.1 million) and recorded a profit of approximately HK\$0.5 million (2012: HK\$0.8 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$51.8 million (2012: HK\$10.3 million) and recorded a profit of HK\$12.1 million (2012: HK\$2.8 million). It was mainly contributed from box office and overseas distribution rights of the movie “Due West: Our Sex Journey” (一路向西), “Natural Born Lover” (天生愛情狂), 3D Texas Chainsaw Massacre (德州電鋸殺人狂) and Together (在一起).

Up to the reporting date, the movie “Olympus has fallen” is still on show and the total box office has exceeded 9 million.

In September 2012, Good Lead Corporation Limited, the Group's indirect wholly owned subsidiary has entered into a joint venture agreement amounting to approximately RMB85 million with “中盟世紀(北京)傳媒有限公司” for cooperation in producing and distributing a movie, namely “3D Iceman Cometh (冰封俠3D情深四百年)” in the PRC. As there were some differences of opinions in the production with the company, the whole project will be taken up by them, currently, we are under negotiation for the details of the project handover.



PROSPECTS

The success of the movie production of “3D Sex & Zen-Extreme Ecstasy” and “Due West-Our Sex Journey” is a reflection of high anticipation of supreme quality 3D movies in the market. As such, yet to be in 2014, a new D-Box system will be implemented to produce “4D Sex and Zen (4D肉蒲團)” (the sequels of 3D Sex and Zen) to promote the enjoyment in movie. Moreover, the Group will produce a modern action martial arts movie “Bauhinia Heroine 3D (紫荊俠3D)” as well as an action-thriller film “3D年獸” in 2013 and 2014 respectively. The scripts and casting of the film has yet to be ascertained.

To achieve the goal of the Group to become a leading 3D digital entertainment company offering the best entertainment experience to the audience in the Hong Kong and the People's Republic of China (the PRC). In March 2012, the Group entered into a Letter of intent with Chongqing Pengrun Real Estate Development Company Limited (重慶鵬潤房地產開發有限公司) in relation to the 20 years long lease of a premise for development and use as cinema. The premise is situated at Guotai Plaza, ChongQing, the PRC. According to the State Administration of Radio Film and Television (國家廣播電影電視總局), box office in Chongqing has grown by 43% in 2011, ranking number 1 amongst other cities in the PRC. The Directors believe that, it will provide an opportunity for the Company to be successful in cinema's operation in the PRC.

According to the Mainland China's “12th Five-Year Plan”, the State Council has resolved to support the PRC studio production and the tourism and culture development. This is in line with the Group's direction for development.

On 21 August 2012, China 3D Digital Entertainment Limited, a wholly owned subsidiary of the Group entered into the memorandum of understanding (the “CASS MOU”) with 中國社會科學院社會科學成果開發中心 (Social Science Development Centre of Chinese Academy of Social Sciences) (“CASS Social Development Centre”); and the (“CCPH MOU”) with 中國人文科學發展公司 (Chinese Corporation For Promotion Humanities) respectively, regarding their potential investment and co-operation.

The potential investment covered the areas, included (i) set up an investment fund; (ii) development of related projects after completion of the construction of the headquarter of 燕郊“中國學者之家” (Yanjiao Home of Chinese Scholar); (iii) establishment of cultural club in Beijing, the PRC, by the Company with the assistance of CASS Social Science Development Centre; and (iv) the marketing operation in co-ordination with 社科院人文公司影視中心 (CASS Humanity Company Movie Centre) under the CASS MOU and film production under the CCPH MOU.

CCPH is wholly-owned by Chinese Academy of Social Sciences (referred to as CASS – 中國社會科學院). According to the official website of CCPH (www.ccp.com.cn), CCPH was established in 1980 in Beijing, the PRC and is principally engaged in international trade, international communication and corporation, information technology services, advertising and consulting services.

On the another note, effort would continually be put into business segment of artiste management to source talented artistes with an aim to achieve satisfactory profit and provides synergy with other operations of the Group.



CONTINUING CONNECTED TRANSACTION AND PROVISION FOR FINANCIAL ASSISTANCE

On 9 October 2012, a Tenancy Agreement was jointly entered into between Wit Way, as landlord, Top Euro Limited, an indirect wholly-owned subsidiary of Unlimited Creativity Holdings Limited (“Unlimited Creativity”), Mark Glory International Enterprise Limited, an indirect wholly-owned subsidiary of the Company, both as tenants, in relation to the lease of a premises located in Hong Kong. The duration of the Tenancy Agreement was for three years commencing from 1 November 2012 to 31 October 2015 with a monthly rental of HK\$220,000, inclusive of management charges and government rent (equivalent to HK\$2,640,000 per annum), but exclusive of government rates and all other outgoings. The rent, government rates and all outgoings of the premises shall be paid by the Tenants in equal shares.

If either party fails to fulfill their leasing obligations under the agreement, the other party will obligate to pay the other's party outstanding Contingent Rental Liability amounting to HK\$1,320,000 per annum. The taking up of the Contingent Rental Liability constitutes a provision of financial assistance under the GEM Listing Rules.

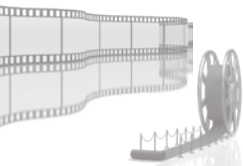
EVENTS AFTER REPORTING PERIOD

Placing of New Shares Under Specific Mandate

On 22 February 2013 Kingston Securities Ltd, the placing agent and the Company entered into the Placing Agreement up to 4 June 2013, pursuant to which the Company has conditionally agreed to place, through the Placing Agent on a best effort basis, a maximum of 1,000,000,000 Placing Shares at a price of HK\$0.1 per Placing Share, to not fewer than six Placees who and whose ultimate beneficial owners are third parties independent of and are not connected with the Company and its connected persons. A maximum of 1,000,000,000 Placing Shares under the Placing represent approximately 301.09% of the existing issued share capital of the Company of 332,123,813 Shares and approximately 75.07% of the issued share capital of 1,332,123,813 Shares as enlarged by the Placing. The aggregate nominal value of the Placing Shares under the Placing will be HK\$5,000,000.

The maximum gross proceeds from the Placing will be HK\$100,000,000. The maximum net proceeds from the Placing will amount to approximately HK\$97,817,800 which is intended to be used for production of 3D and 4D movies and investment on cinemas in the PRC. The maximum net proceeds raised per Share upon the completion of the Placing will be approximately HK\$0.098 per Share.

On 9 April 2013, the new Shares of 300,000,000 had been successfully placed to not fewer than six Placees at HK\$0.1 per Placing Share.



RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the three months and nine months period ended 31 March 2013 together with the comparative unaudited figures for the corresponding period in 2012 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months and nine months ended 31 March 2013

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue	2	16,251	812	54,586	11,640
Other revenue and other gain, net		724	877	911	401
Cost of film and television programme production and distribution		(9,019)	2,978	(40,676)	(6,132)
Selling and distribution costs		(2,341)	(339)	(3,989)	(1,075)
Administrative expenses		(5,173)	(3,310)	(14,545)	(12,250)
Gain on disposal of financial assets designated as FVTPL		(23)	-	(23)	-
Reclassified from equity to profit or loss upon disposal of available-for- sale investment-loss		(236)	-	(5,127)	-
Finance costs		(179)	(557)	(551)	(1,649)
(Loss)/profit before taxation		4	461	(9,414)	(9,065)
Taxation	3	-	-	-	-
(Loss)/profit for the period		4	461	(9,414)	(9,065)
(Loss)/profit for the period attributable to:					
Owners of the Company		(324)	461	(9,747)	(9,065)
Non-controlling interests		328	-	333	-
		4	461	(9,414)	(9,065)
Other comprehensive income/(loss) for the period, net of income tax					
Release of investment revaluation reserve upon disposal of available-for-sales investments		236	1,185	5,127	2,010
Net loss arising on revaluation of available-for- sale investments during the period		(11,044)	-	(13,738)	-
Other comprehensive (loss)/profit for the period, net of income tax		(10,808)	1,185	(8,611)	2,010
Total comprehensive (loss)/profit for the period		(10,804)	1,646	(18,025)	(7,055)
Total comprehensive (loss)/profit for the period attributable to:					
Owners of the Company		(11,132)	1,646	(18,358)	(7,055)
Non-controlling interests		328	-	333	-
		(10,804)	1,646	(18,025)	(7,055)
(Loss)/earning per share	4				
- Basic		(0.10) HK cents	0.11 HK cents	(2.93) HK cents	(2.46) HK cents
- Diluted		(0.10) HK cents	0.11 HK cents	(2.93) HK cents	(2.46) HK cents



NOTES:

1. BASIS OF PREPARATION

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").

This unaudited quarterly financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the Group's financial statements for the year ended 30 June 2012. The condensed consolidated quarterly financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations).

The condensed financial statements have been prepared under historical cost convention.

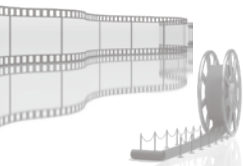
This condensed financial statements have been prepared in accordance with the same accounting policies adopted in the Group's financial statements for the year ended 30 June 2012, except for the adoption of the following amendments which become effective for accounting periods beginning on or after 1 July 2012:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendment)	Disclosures – Transfer of Financial Assets
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Asset

The adoption of the above amendments has had no material impact on the Group's results of operations and financial position.

The Group has not adopted earlier or applied the following amendments, new and revised HKFRSs that have been issued but not yet effective, in this third quarter financial report.

HKAS 19 (As revised in 2011)	Employee Benefits ¹
HKAS 27 (As revised in 2011)	Separate Financial Statements ¹
HKAS 28 (As revised in 2011)	Investments in Associates and Joint Ventures ¹
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ²
HKFRS 1 (Amendments)	Government Loans ¹
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosures of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹



NOTES: (Continued)

1. BASIS OF PREPARATION (Continued)

- ¹ Effective for annual periods beginning on or after 1 January 2013.
- ² Effective for annual periods beginning on or after 1 January 2014.
- ³ Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of assessing the potential impact of these new HKFRSs but is not yet in position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented.

2. REVENUE

Revenue represents the aggregate of amounts received and receivable from services provided, event production completed, albums sold, net of sales returns, musical works licensed, production and distribution of films and television programmes, licensing of distribution rights over films and television programmes and security sold during the year.

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business, net of discounts and sales related taxes.

Artiste management fee income is recognised when the services are provided.

Income from the production and distribution of films and television programmes is recognised when the production is completed and released and the amount can be measured reliably.

Income from the licensing of distribution rights over films and television programmes is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served to the customers.

Income from event production is recognised when the events are completed or the services are provided and the amount can be measured reliably.

Sales of albums are recognised when the albums are delivered and the title has passed.

Income from the licensing of the musical works is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers.

Corporate bonds coupon is accrued on a time basis, by reference to the notional amount at the annual coupon rate.

Interest income is recognised on a time proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the term of the lease.



NOTES: (Continued)

2. REVENUE (Continued)

	Three months ended 31 March		Nine months ended 31 March	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
	An analysis of the Group's revenue for the period is as follows:			
Artiste management services	847	229	1,346	1,133
Film and television programme production, distribution and licensing				
– production of films and television programmes and licensing of the corresponding rights	14,910	266	51,816	9,843
– distribution of films and television programmes	17	165	22	455
Money Lending				
– Loan interest income	300	62	724	62
Corporate bonds coupon	147	90	588	147
Property investment	30	–	90	–
Total	16,251	812	54,586	11,640

3. TAXATION

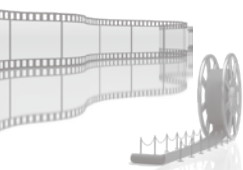
No provision for Hong Kong Profits Tax has been made for the three months and nine months period ended 31 March 2013 as the Group has no estimated assessable profits for these period (Three months and nine months ended 31 March 2012: Nil).

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 loss per share is based on the loss for the period attributable to shareholders of the Company of HK\$9,747,000 (2012: HK\$9,065,000) and the weighted average number of 332,123,813 (2012: 368,856,239) ordinary shares of the Company in issue during the period.

The calculation of the diluted loss per share for the period is based on the loss attributable to shareholders of HK\$9,747,000 (2012: HK\$9,065,000) and the weighted average number of 332,604,582 ordinary shares for the purpose of diluted loss per share during the period (2012: 368,856,239).



NOTES: (Continued)

5. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 March 2013

	Attributable to owners of the Company								
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Convertible bond equity reserve (Unaudited) HK\$'000	Retained earnings/ accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 July 2011 (Audited)	43,438	307,964	(17)	3,952	6,508	(238,704)	123,141	-	123,141
Loss for the period	-	-	-	-	-	(9,065)	(9,065)	-	(9,065)
Net gain arising on revaluation of available-for-sales investments during the period	-	-	2,010	-	-	-	2,010	-	2,010
Total comprehensive loss for the period	-	-	2,010	-	-	(9,065)	(7,055)	-	(7,055)
Issue of shares	4,999	74,999	-	-	-	-	79,998	-	79,998
Transaction costs attributable to issue of shares	-	(1,669)	-	-	-	-	(1,669)	-	(1,669)
Capital reduction	(41,700)	-	-	41,700	-	-	-	-	-
Early redemption of convertible bond	-	-	-	-	(5,742)	3,025	(2,717)	-	(2,717)
At 31 March 2012 (Unaudited)	6,737	381,294	1,993	45,652	766	(244,744)	191,698	-	191,698
At 1 July 2012	20,212	91,295	(3,068)	45,652	766	30,177	185,034	2,486	187,520
Net loss arising on revaluation of available-for-sales investments during the period	-	-	(13,738)	-	-	-	(13,738)	-	(13,738)
Release of investment revaluation reserve upon disposal of available-for-sale investments	-	-	5,127	-	-	-	5,127	-	5,127
Loss for the period	-	-	-	-	-	(9,747)	(9,747)	333	(9,414)
Total comprehensive loss for the period	-	-	(8,611)	-	-	(9,747)	(18,358)	333	(18,025)
Issue of share upon placing	7,775	22,040	-	-	-	-	29,815	-	29,815
Share consolidation	(26,327)	26,327	-	-	-	-	-	-	-
Transaction cost for share consolidation	-	(250)	-	-	-	-	(250)	-	(250)
Transaction cost upon placing of share	-	(745)	-	-	-	-	(745)	-	(745)
Restricted share premium in the PRC	-	-	-	2	-	-	2	-	2
Capital contribution from non- Controlling interests	-	-	-	-	-	-	-	500	500
Transfer from convertible bond	-	-	-	-	(73)	-	(73)	-	(73)
At 31 March 2013	1,660	138,667	(11,679)	45,654	693	20,430	195,425	3,319	198,744



DIVIDEND

The Board did not recommend the payment of a dividend for the Nine-month Period (2012: Nil).

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

As at 31 March 2013, 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

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Shiu Stephen Junior	Beneficial owner	1,344,000	0.40%

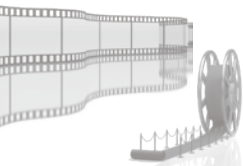
Save as disclosed above, as at 31 March 2013, none of the Directors or chief executives of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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 31 March 2013, 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 31 March 2013, 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/ underlying shares held	Approximate percentage holding
Be Cool Limited (Note 1)	Beneficial owner	51,521,760	15.51%
Unlimited Creativity Holdings Limited (Note 2)	Beneficial owner and interest in a controlled corporation	81,949,692	24.67%

Note:

- (1) Be Cool Limited is indirectly wholly-owned subsidiary by Unlimited Creativity Holdings Limited.
- (2) 81,949,692 Shares refer to the aggregate of (a) 30,427,932 Shares held by Unlimited Creativity Holdings Limited and (b) 51,521,760 Shares held by Be Cool Limited, an indirect wholly-owned subsidiary of Unlimited Creativity Holdings Limited.

Save as disclosed above, as at 31 March 2013, 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.



INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

So far as known to the Directors, as at 31 March 2013, the Directors were not aware of any other person who had an interests or short position in the Shares or underlying Shares or debentures of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTEREST

None of the Directors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company has an interest in a business, which competes or may compete with the business of the Group.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules.

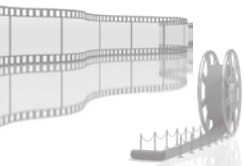
Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the Nine months ended 31 March 2013.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the nine months ended 31 March 2013, the Company has complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices contained in Appendix 15 to the Listing Rules, except for the following deviation of Code Provision A.2.1.

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The positions of Chairman of the Board and Chief Executive Officer ("CEO") of the Company are both currently carried on by the same person. The Board considers that this structure does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and there is a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). Given the composition of the Board, the Board believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both Chairman and CEO does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.



CORPORATE GOVERNANCE

The Board has adopted various policies to ensure compliance with the code provisions of the Code on Corporate Governance Practices (the "Code Provisions") under Appendix 15 of the GEM Listing Rules. During the nine months Period, the Board is pleased to confirm that the Company has complied fully with the Code Provisions except with the deviation from code provision A.2.1 which requires the role of chairman and chief executive officer be separate and not be performed by the same individual. Currently, Mr. Shiu Stephen Junior holds the offices of Chairman and Chief Executive Officer of the Company. The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The audit committee (the "Committee") comprises three independent non-executive Directors, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny. Mr. Kam Tik Lun is the chairman of the Committee. The primary duties of the Committee are to review the Company's annual report and accounts, half-year report, quarterly reports and monthly reports and to provide advice and comments thereon to the board of Directors. The Committee is also responsible for reviewing and monitoring the Company's internal control procedures. The Group's unaudited results for the Nine months ended 31 March 2013 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

REVIEW OF QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Nine-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 three Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny.

COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the nine months ended 31 March 2013.



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

During the Nine-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, 14 May 2013

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
Mr. Tam Kwok Ming, Banny

