



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)

2014-2015

First Quarterly Report



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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 a total revenue of approximately HK\$24.7 million for the three months ended 30 September 2014 (the “Three-month Period”), as compared with approximately HK\$9.7 million for the corresponding period a year ago. For the Three-month Period, a loss of approximately HK\$2.47 million was recorded whilst in the same period last year, a profit of HK\$1 million was recorded. The loss was mainly due to a drop in gross profit margin.

During the Three-month Period, artist management’s segment contributed a revenue of approximately HK\$17.56 million (2013: HK\$8.23 million) and recorded a profit of approximately HK\$2.54 million (2013: HK\$2.6 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$5.07 million (2013: HK\$1.15 million). This business segment recorded a profit of approximately HK\$1.21 million (2013: HK\$0.9 million). The revenue from cinema operation segment was 1.67 million (2013: nil) and it recorded a profit of approximately HK\$0.95 million (2013: nil).

PROSPECTS

To achieve the goal of the Group to become a leading 3D digital entertainment company offering the best entertainment experience to the audience in Hong Kong and the People’s Republic of China (the “PRC”), the Directors believe that the Company is well positioned to capture the rising demands for entertainment in the PRC attributable to the favourable policies from the local government aiming at boosting local cultural development. In June 2013, CineUnited Circuits Company Limited (“CineUnited”), an indirect wholly-owned subsidiary of the Company entered a tenancy agreement 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 premises for development and use as cinema. The premises is situated at Shop 13, Level B1, Guotai Plaza, ChongQing, the PRC (中國重慶國泰廣場B1層13號舖). According to the report of Chongqing Bureau of Culture (重慶市文化委員會), the box office in Chongqing has grown by 40% in 2013, ranking number 12 and 2 amongst other cities and western district in the PRC respectively.

In August 2013, CineUnited, an indirect wholly-owned subsidiary of the Company and Xiamen Hete Properties Company Limited (廈門赫特物業有限公司) entered the Xiamen tenancy agreement, pursuant to which CineUnited has conditionally agreed to rent and Xiamen Hete has conditionally agreed to lease the Xiamen premises for development and use as cinema for a term of 15 years. The premises is situated at Unit 102 of Xiamen Qixing Lifespace Shopping Mall, 3 Qixing West Road, Siming District, Xiamen, Fujian Province, the PRC (中國福建省廈門市思明區七星西路3號102單元廈門七星樂都匯購物中心). The premises has a gross floor area of approximately 2,737 sq.m., comprising seven movie theatres with about 700 seats. Xiamen cinema has started generating income to the Group since March 2014.

Moreover, in May 2014, the Group entered a new operating lease agreement with an independent third party to lease a premises for development and use as cinema in Guangzhou, the PRC (“Guangzhou Cinema”) for a term of 15 years. It is expected that, after renovation implemented by the Group, such cinema will become a 6-house cinema equipped with advanced Dolby atoms sound systems, comfortable electronic recliner seats, digital IMAX (an acronym for Image MAXimum) screen, 4K projection system and D-Box motion chairs. The Guangzhou Cinema is situated at Unit 303, 3rd Floor, Nan Fung The Place, No. 618 Xingang East Road, Haizhu District, Guangzhou, PRC (廣州市海珠區新港東路618號南豐匯環球展覽中心第三層303號舖) which has a gross floor area of approximately 4,600 sq. m.. Guangzhou Cinema is expected to start its operation at the end of the year 2014.

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.

In September 2013, a famous artist Mr. Cheung Chi Lam joined the Group and the movie version of “Triumph in the Skies” is in production at the moment. Mr. Cheung completed his concert in July 2014 with great success and enthusiastic response.

In April 2014, a famous artist Ms. Cheng Joyce Yan Yee joined the Group. Ms. Cheng is a talented artist and a popular singer. She has won numerous awards and recognition from various prestigious award giving bodies.

The Group has also entered service contracts with two famous artists namely Mr. Babyjohn Choi and Ms. Chrissie Chau respectively for participating in the Group’s movies. It is expected that recruiting new talented artists will broaden the Group’s income stream, create synergies for its overall entertainment business, and enhance the Group’s image and profitability,

Save as aforesaid, efforts would continually be put into business segment of artiste management to source talented artistes with an aim to achieve satisfactory profit and provide synergy with other operations of the Group.

The movie namely “高登濶少踏監日記” (The Prison Diary of a Golden Toff), a black comedy movie adapted from an internet novel namely, “壹獄壹世界” (A World In An Iron Grille) is under production. The movie is expected to be launched in the year 2015.

Another movie namely “十月初五的月光” (Return of Cuckoo), starred by famous artist Mr. Cheung Chi Lam is at a pre-production stage and the Group has already been forming its production team and has engaged movie directors, producer, actors and screenwriter. The commencement of production of this movie is anticipated to produce at the end of the year 2014.

Taking into account the stable interest income stream and the prospects of the money lending business, the Group intends to expand its money lending business, which is principally the provision of mortgage loans and personal loans for customers with good credit record in Hong Kong. The Board is optimistic to the future prospects of this business segment in view of the existing operation and developments.

CAPITAL STRUCTURE

During the three months ended 30 September 2014, the capital structure of the Company was changed as follows:

On 31 July 2014, the Company completed the placing of 1,500,000,000 new shares of the Company under specific mandate at the placing price of HK\$0.07 per placing share. The net proceeds from the placing amounted to approximately HK\$102 million.

On 1 September 2014, the ordinary resolutions were passed by the shareholders to approve the Company to implement the share consolidation, increase in authorised share capital, capitalisation of share premium, the bonus issue and the change in board lot size.

The share consolidation involved the consolidation of every five (5) issued and unissued Shares of par value of HK\$0.005 each have been consolidated into one (1) consolidated share ("Consolidated Share") of par value of HK\$0.025.

After the share consolidation became effective on 2 September 2014, the authorised share capital of the Company increased from HK\$100,000,000 divided into 4,000,000,000 Consolidated Shares to HK\$200,000,000 divided into 8,000,000,000 Consolidated Shares by the creation of an additional 4,000,000,000 Consolidated Shares.

After the share consolidation and the increase in authorised share capital became effective on 2 September 2014, the Company was approved to implement the bonus issue of new Consolidated Shares on the basis of ten (10) bonus shares for every one (1) Consolidated Share held. The issued share capital of the Company therefore increased from 461,045,257 shares of HK\$0.025 each to 5,071,497,827 shares of HK\$0.025 each after completion of share consolidation and bonus issue.

Upon the completion of the bonus issue, the bonus shares will be credited as fully paid at par by way of capitalisation of share premium of an amount of HK\$115,261,314.25.

CONTINUING CONNECTED TRANSACTION AND PROVISION FOR FINANCIAL ASSISTANCE

On 9 October 2012, a Tenancy Agreement was jointly entered between Wit Way, as landlord, Top Euro Limited, an indirect wholly-owned subsidiary of Unlimited Creativity Holdings Limited ("Unlimited Creativity"), the substantial shareholder of the Company and 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 is 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.

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 2013 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months ended 30 September 2014

		Three months ended 30 September	
	Notes	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue	2	24,691	9,700
Other revenue and other gains/(losses) – net		85	281
Cost of film and television programme production and distribution		(3,859)	(290)
Cost of artiste management services		(15,021)	(5,590)
Cost of cinema operation		(725)	–
Selling and distribution costs		(1,777)	(1,475)
Administrative expenses		(7,480)	(1,066)
Gain on disposal of financial asset at fair value through Profit or Loss		1,938	–
Finance costs		(312)	(529)
Share of results of a jointly controlled entity		(7)	(23)
(Loss)/Profit before taxation		(2,467)	1,008
Taxation	3	–	–
(Loss)/Profit for the period		(2,467)	1,008
(Loss)/Profit for the period attributable to:			
Owners of the Company		(2,466)	1,015
Non-controlling interests		(1)	(7)
		(2,467)	1,008
Other comprehensive income/(loss) for the period, net of income tax			
Exchange differences arising on translation of foreign subsidiary		–	54
Net profit/(loss) arising on revaluation of available-for-sale investment during the period		992	(448)
Other comprehensive income/(loss) for the year, net of income tax		992	(394)
Total comprehensive income/(loss) for the period		(1,475)	614
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		(1,474)	621
Non-controlling interests		(1)	(7)
		(1,475)	614
Earnings/(loss) per share	4		
Basic and Diluted		HK (0.06) cents	HK 0.02 cents

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 requirement of Chapter 18 of the GEM Listing Rules. The amounts included in the unaudited consolidated results are computed based on all Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations 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 2014 are consistent with those followed in the annual report of the Company for the year ended 30 June 2014, 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 statements.

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

	Three months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
An analysis of the Group's revenue for the period is as follows:		
Artiste management services	17,564	8,225
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	5,065	1,150
Interest income and handling fee		
– income from money lending	390	304
Cinema operation income	1,672	–
Property investment	–	21
Total	24,691	9,700

NOTES: (Continued)

3. Taxation

No provision for Hong Kong Profits Tax is made in the three months ended 30 September 2014 as the Group has a statutory tax loss brought forward from previous years.

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. Earnings/(Loss) per Share

The calculation of the basic and diluted earnings/loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$2,466,000 (2013: profit of approximately HK\$1,015,000) and the weighted average number of 3,995,410,853 (2013: 5,592,742,880) ordinary shares of the Company in issue during the year.

As the exercise of the Group's outstanding convertible bonds for both years would be anti-dilutive, no diluted earnings per share was presented in both years.

NOTES: (Continued)

5. Consolidated statement of change in equity*For the period ended 30 September 2014*

	Attributable to owners of the Company									
	Share capital	Share premium	Investment revaluation reserve	Contributed surplus	Convertible bonds equity reserve	Translation reserve	Retained earnings/ (accumulated losses)	Sub-total	Non-controlling interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2013	4,660	167,948	(14,423)	71,979	766	54	8,880	239,864	3,340	243,204
Net loss arising on revaluation of available-for-sales investments during the period	-	-	(448)	-	-	-	-	(448)	-	(448)
Exchange differences on translation of foreign operations	-	-	-	-	-	54	-	54	-	54
Profit for the period	-	-	-	-	-	-	1,015	1,015	(7)	1,008
Total comprehensive income for the period	-	-	(448)	-	-	54	1,015	621	(7)	614
Issue of share upon bonus issue	23,303	(23,303)	-	-	-	-	-	-	-	-
Transaction cost attributable to issues of shares	-	(141)	-	-	-	-	-	(141)	-	(141)
At 30 September 2013	27,963	144,504	(14,871)	71,979	766	108	9,895	240,344	3,333	243,677
At 1 July 2014	4,026	181,881	(14,591)	102,180	766	109	(6,680)	267,691	485	268,176
Net loss arising on revaluation of available-for-sales investments during the period	-	-	992	-	-	-	-	992	-	992
Loss for the period	-	-	-	-	-	-	(2,466)	(2,466)	(1)	(2,467)
Total comprehensive profit/(loss) for the period	-	-	992	-	-	-	(2,466)	(1,474)	(1)	(1,475)
Issue of share upon placing	7,500	97,500	-	-	-	-	-	105,000	-	105,000
Issue of share upon bonus issue	115,261	(115,261)	-	-	-	-	-	-	-	-
Transaction cost attributable to issues of shares	-	(2,784)	-	-	-	-	-	(2,784)	-	(2,784)
Acquisition of partial interest in a subsidiary (Note 6)	-	-	-	-	-	-	37	37	(484)	(447)
At 30 September 2014	126,787	161,336	(13,599)	102,180	766	109	(9,109)	368,470	-	368,470

6. Acquisition of interests from non-controlling interests

During the period ended 30 September 2014, Peak Lion Group Limited, a directly wholly-owned subsidiary of the Company acquired interests in Proletariate Institute Limited (“Proletariate”) at a consideration of approximately HK\$447,000 from independent third parties. The carrying amount of the 6.9% interests in Proletariate on the date of acquisition was approximately HK\$484,000. The Group recognised a decrease in non-controlling interests of approximately HK\$484,000 and an increase in equity attributable to owners of the parent of approximately HK\$37,000. The effect of change in the ownership interests of Proletariate on the equity attributable to owners of the Company during the year is summarised as follows:

	HK\$'000
Carrying amount of non-controlling interests acquired	484
Consideration paid	(447)
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Movement in parent equity	37
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7. Comparative figures

Certain comparative figures have been re-classified to conform with the presentation of current period.

DIVIDEND

The Board did not recommend the payment of dividend for the Three-month Period (2013: Nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2014, the interests and short positions of the Directors and chief executive 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 to 5.67 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	1,774,080	0.03%

Save as disclosed above, as at 30 September 2014, none of the Directors or chief executive 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, DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the special general meeting of the Company held on 9 July 2014, the shareholders of the Company approved the adoption of a new share option scheme which became effective from 9 July 2014 and is valid for the next ten years.

The Company had not granted any option under the new share option scheme since its adoption.

As at 30 September 2014, 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 2014, the Directors were not aware of any other person (other than the Directors and chief executive of the Company as disclosed above) who had any 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 SFC, 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 INTERESTS

Up to the reporting date, Mr. Shiu Stephen Junior ("Mr. Shiu"), the Chairman and Executive Director of the Company, is a director of One Dollar Movies Productions Limited ("ODMP"), a company engaged in the production of movies, and together with his associate(s) hold indirectly as to 60% equity interests in ODMP. The business of ODMP may constitute competition with the business of the Group.

Save as disclosed above, the Directors believed 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 had not been audited nor reviewed by the Company's auditor, ZHONGHUI ANDA CPA Limited, but had been reviewed by the Audit Committee of the Company, who was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

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.

AUDIT COMMITTEE

As required by 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") in 2004 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review the Company's annual reports and financial statements, interim reports and quarterly reports and discuss with the management over issues relating to auditing, internal control and financial reporting. 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, Benny.

The Group's unaudited results for the three months ended 30 September 2014 were reviewed by the Audit Committee, which was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices and procedures with an aim to maximizing the shareholders' interests as well as to enhancing the stakeholders' transparency and accountability. In this respect, the Company had complied with all of the code provisions set out in the Code on Corporate Governance contained in Appendix 15 of the GEM Listing Rules during the three months ended 30 September 2014.

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2014 annual report of the Company.

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.

REMUNERATION COMMITTEE

A remuneration committee (the "Remuneration Committee") consisting of three Independent Non-executive Directors and one Executive Director was set up by the Company in accordance with the Code. The Remuneration Committee is responsible for reviewing and developing the remuneration policies of the Directors and senior management, having regard to the Group's operating results, individual performance and comparable market practices.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") consisting of three Independent Non-executive Directors and one Executive Director was set up by the Company in accordance with the Code. The Nomination Committee is responsible for reviewing and making recommendations to the Board regarding any proposed changes, selection of directorships.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the three months ended 30 September 2014.

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

Hong Kong, 13 November 2014

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