
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China 3D Digital Entertainment Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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China 3D Digital Entertainment Limited
中國3D數碼娛樂有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 8078)

**(1) PROPOSED SUBSCRIPTION OF CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE
AND
(2) NOTICE OF SGM**

Terms used in this cover shall have the same meanings as defined in this circular.

A notice convening the SGM to be held at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong at 4:00 p.m. on Tuesday, 2 February 2016 is set out on pages 26 to 28 of this circular. A form of proxy for the special general meeting is enclosed herein. Whether or not you are able to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

* for identification purposes only

18 January 2016

CHARACTERISTICS OF GEM

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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DEFINITIONS

In this circular, unless the context otherwise required, the following terms and expressions shall have the following meanings when used herein:

“Acquisition”	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
“Adjustment Amount”	the amount (payable as an adjustment to the Consideration) equal to 40% of the net asset value of the Target Company as shown in the consolidated financial statements of the Target Group made up to the date of Completion
“Announcement”	the announcement dated 14 December 2015 in relation to, inter alia, the Acquisition and the Convertible Bonds
“approved merchant bank”	a merchant bank of repute in Hong Kong selected by the Company and agreed by the bondholder for the purpose of providing a specific opinion or calculation or determination hereunder or, in the absence of such agreement, such merchant bank as may be appointed by the President for the time being of the Hong Kong Institute of Certified Public Accountants upon the request of either the Company or the bondholder
“Board”	the board of Directors
“Business”	business of full service modelling and talent agency which the Target Company is principally engaged in
“Business Day(s)”	a day (other than Saturday and Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“Capital Distribution”	any cash dividend or a distribution in specie and any dividend charged or provided for in the accounts for any financial period after 30 June, 2015 shall (whenever paid and however described) be deemed to be a capital distribution provided that any such dividend shall not be so deemed if the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the lesser of (i) the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period and (ii) an amount (rounded up to the nearest one tenth of a cent) $A \times 3\%$:

where:

A = the Conversion Price prevailing on the first day of the financial period in question

DEFINITIONS

	In computing such rates, such adjustments may be made as are in the opinion of an approved merchant bank appropriate to the circumstances and shall be made if the lengths of such periods differ materially;
“Company”	China 3D Digital Entertainment Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM Board
“Completion”	completion of the Acquisition and transactions contemplated under the Sale and Purchase Agreement in accordance with its terms
“Consideration”	the aggregate sum of up to HK\$13,600,000 to be paid by the Purchaser to the Vendor for the Sale Shares in such time, mode and manner as set out in the Sale and Purchase Agreement
“Convertible Bonds”	the convertible bonds in the principal amount of HK\$7,000,000 to be issued by the Company under the Specific Mandate to the Vendor as subscriber pursuant to the Subscription Agreement
“Conversion Shares”	the Shares to be issued by the Company under the Convertible Bonds upon exercise of the conversion right by the holder of the Convertible Bonds
“Director(s)”	the director(s) of the Company
“Encumbrances”	any mortgage, charge, pledge, lien, trust, encumbrance, security interest, assignment by way of security or other third party right or interest
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	14 January 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Long Stop Date”	means 29 February 2016 (or such other date as the Purchaser and Vendor hereto may agree in writing)

DEFINITIONS

“Market Price”	the average of the closing prices of a Share on the Stock Exchange for each of the last ten (10) days on which dealings in the Shares on the Stock Exchange took place ending on the last such dealing day immediately preceding the day on or as of which the market price is to be determined
“Purchaser”	Double Spirit Development Limited, a company incorporated in Hong Kong with limited liability
“PRC”	People’s Republic of China, and for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Sale and Purchase Agreement”	the sale and purchase agreement dated 14 December 2015 (and as amended and supplemented by the supplemental agreement dated 6 January 2016) entered into between the Purchaser, the Vendor and the Company in relation to the Acquisition
“Sale Shares”	40 ordinary shares of the Target Company, representing the 40% of the entire issued share capital in the Target Company as at the date of the Sale and Purchase Agreement
“Service Agreement”	the service agreement to be entered into between the Target Company and the Vendor in relation to the management of the Target Company and the Target Group
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company as at the date of this circular
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between the Target Company Shareholders and the Target Company in relation to the management of the Target Company
“Specific Mandate”	the specific mandate to be granted to the Directors by the Shareholders at the SGM for the allotment and issue of HK\$7,000,000 Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement to be entered into between the Company and the Vendor in relation to the subscription of the Convertible Bonds by the Vendor
“Target Company”	Starz Holdings Limited, a company incorporated in the BVI with limited liabilities

DEFINITIONS

“Target Company Shareholders”	the Purchaser, the Vendor and Ms. Tam Yuk Ching, Jenny
“Target Group”	Target Company, Starz People (HK) Limited, Starz Entertainment Co., Limited, Starz Pictures Limited, Starz Music Limited and Soundgood Production Limited
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the Specific Mandate
“Vendor”	Mr. Stephen Chau
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.
“2016 Actual Profit”	the actual consolidated net profit before tax (as shown in the management accounts prepared in accordance with Hong Kong Financial Reporting Standards and to be certified by any director of the Target Company) of the Target Company (and its subsidiaries, if any) for the period from 1 April 2015 to 31 March 2016 (both days inclusive)
“2016 Guaranteed Profit”	profit guarantee that the 2016 Actual Profit shall not be less than HK\$3,000,000

LETTER FROM THE BOARD



China 3D Digital Entertainment Limited

中國3D數碼娛樂有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8078)

Executive Directors:

Mr. Shiu Stephen Junior (*Chairman*)

Mr. Sun Lap Key, Christopher

Mr. Lee Wing Ho, Albert

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Non-executive Directors:

Mr. Kam Tik Lun

Mr. Chan Chi Ho

Mr. Tam Kwok Ming, Banny

*Head office and principal place of
business in Hong Kong:*

7th Floor

Zung Fu Industrial Building 1067

King's Road

Quarry Bay, Hong Kong

18 January 2016

To the Shareholders,

Dear Sir or Madam,

(1) PROPOSED SUBSCRIPTION OF CONVERTIBLE BONDS UNDER SPECIFIC MANDATE AND (2) NOTICE OF SGM

INTRODUCTION

Reference is made to the Announcement where the Company proposed to seek Shareholders' approval in respect of the Sale and Purchase Agreement and the subscription of Convertible Bonds under Specific Mandate.

The purpose of this circular is to provide you with, inter alia, further details of the Sale and Purchase Agreement and subscription of Convertible Bonds under Specific Mandate and the notice of the SGM.

* for identification purposes only

LETTER FROM THE BOARD

SALE AND PURCHASE AGREEMENT

Reference is made to the announcement of the Company dated 14 December 2015 in relation to, (i) the subscription of Convertible Bonds under Specific Mandate; and (ii) the discloseable transaction in relation to the acquisition of 40% issued share capital of the Target Company.

The Board is pleased to announce that on 14 December 2015 (after trading hours), the Purchaser entered into the Sale and Purchase Agreement with the Vendor.

Date 14 December 2015 (after trading hours)

Parties

- (i) Double Spirit Development Limited, a company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of the Company, as the Purchaser
- (ii) Stephen Chau, a business person with vast experience in managing model agency businesses in the entertainment industry in Hong Kong as the Vendor

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Vendor and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Vendor has agreed to sell, assign and transfer to the Purchaser, and the Purchaser has agreed to purchase from the Vendor, free from any encumbrance whatsoever, 40 out of 100 ordinary shares of US\$1.00 each issued by the Target Company, representing 40% of the entire issued share capital of the Target Company as at the date of the Sale and Purchase Agreement.

Consideration

The Consideration in the sum of HK\$13,600,000, which shall be settled and discharged by the Purchaser in accordance with the mode and manner as set out thereunder:

- (i) on or before 15 January 2016, an amount of HK\$3,000,000, shall be paid by the Purchaser to the Vendor as a refundable deposit;
- (ii) by cash payable to the Vendor on Completion of HK\$3,600,000 plus the Adjustment Amount; and
- (iii) by issuing the Convertible Bonds within 7 days from the date on which the 2016 Actual Profit is presented by the Vendor (or such other date as may be agreed by the Purchaser and the Vendor in writing) and in accordance with the Subscription Agreement.

LETTER FROM THE BOARD

Profit Guarantee

The Vendor guarantees to the Purchaser that the 2016 Actual Profit shall not be less than HK\$3,000,000, and undertakes that if the 2016 Guaranteed Profit is not achieved, the Consideration shall be adjusted downward as calculated below:

$$\text{Shortfall} = (\text{2016 Guaranteed Profit} - \text{2016 Actual Profit}) \times 11 \times 50\%$$

The 2016 Actual Profit will be confirmed in the management accounts of the Target Company (and its subsidiaries, if any) prepared by the Vendor in accordance with the Hong Kong Financial Reporting Standards for the period from 1 April 2015 to 31 March 2016 and certified by any director of the Target Company.

If there is any shortfall of the 2016 Guaranteed Profit, such shortfall shall be deducted from the Convertible Bonds, provided that the maximum amount of shortfall payable by the Vendor shall be HK\$7,000,000. For the avoidance of doubt, if the shortfall exceeds HK\$7,000,000, after the deduction of the Vendor's entitlement under the Convertible Bond, the Purchaser will have no further claim against the Vendor.

If there is a consolidated net loss before tax for the Target Company for the financial year ending 31 March 2016, the 2016 Actual Profit shall be deemed as zero and the maximum amount of compensation will be HK\$7,000,000.

Conditions Precedent

Completion is conditional upon fulfillment or waiver (as the case may be) of the following conditions:

- (i) the completion of the due diligence review and investigation by the Purchaser;
- (ii) the passing of the resolution by the shareholders of the Company in the SGM approving the Specific Mandate, the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Conversion Shares;
- (iv) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Sale and Purchase Agreement having been obtained by the respective parties to the Sale and Purchase Agreement (including but not limited to the necessary consent from the Stock Exchange, if any);
- (v) the entering into the Service Agreement;

LETTER FROM THE BOARD

- (vi) the entering by the Purchaser, Vendor, Ms. Tam Yuk Ching, Jenny and the Company of the Shareholders' Agreement, pursuant to which (a) the Vendor shall retain overall control of the board of directors and power of management of the Target Company and the Target Group; and (b) the Purchaser shall provide business development opportunities in movie and television related businesses to the artists of the Target Company and the Target Group; and
- (vii) none of the warranties made by the Vendor under the Sale and Purchase Agreement have been breached in any material respect, or is misleading or untrue in any material respect.

The Purchaser may waive all or any of the conditions (i) to (vii) above at any time by notice in writing to the Vendor immediately on such date of the conditions being waived. As at the date of this circular, the Purchaser has no intention of waiving any of the conditions.

In the event that the Conditions shall not be fulfilled (or waived as stated above) by the Long Stop Date, then the Vendor and the Purchaser shall not be bound to proceed with the transactions contemplated under the Sale and Purchase Agreement. All amounts paid by the Purchaser to the Vendor under the Sale and Purchase Agreement prior to the Completion Date, including the refundable deposit of HK\$3 million, are refundable deposits and shall be refunded in full forthwith, if the Sale and Purchase Agreement is terminated prior to the Completion Date.

Completion

Completion shall take place within three Business Days immediately after satisfaction (or waiver) of the conditions precedent under the Sale and Purchase Agreement or such other date as the Purchase and Vendor may agree in writing.

Upon Completion, the Company will be indirectly interested in 40% of the entire issued share capital of the Target Company and the Target Company will be accounted for as an associate of the Company and accounted for in the consolidated financial statements using the equity method.

SERVICE AGREEMENT

As a conditions precedent to the Sale and Purchase Agreement, the Service Agreement is to be entered into between the Target Company and the Vendor, pursuant to which the Vendor is employed to be the managing director of the Target Group.

SUBSCRIPTION AGREEMENT

Pursuant to the Sale and Purchase Agreement and as part of the Consideration for the Sale Shares, the Company and Vendor is to enter into a Subscription Agreement where the Vendor has conditionally agreed to subscribe for and the Company has conditionally agreed to issue, on the date of Completion, the Convertible Bonds. The Convertible Bonds shall be issued under the Specific Mandate.

Parties

- (i) the Company, as the issuer
- (ii) the Vendor, as the subscriber

LETTER FROM THE BOARD

Subscription and Conditions

The Company shall issue the Convertible Bonds to the Vendor subject to the fulfillment or waiver (as the case may be) of the following conditions:

- (i) passing the resolution for the approval, confirmation and ratification of the Company entering into the Subscription Agreement and transactions contemplated thereunder in accordance with the requirements of the GEM Listing Rules;
- (ii) the 2016 Actual Profit being presented by the Vendor; and
- (iii) warranties made by the Company in the Subscription Agreement are true, complete and accurate and not misleading in any material respect when made and as at completion under the Subscription Agreement.

Principal terms of the Convertible Bonds

Set out below are the principal terms of the Convertible Bonds:

Issuer of the Convertible Bonds: The Company

Principal amount: Up to HK\$7,000,000

Interest: Zero coupon rate

Conversion price: The price at which each Share shall be issued upon conversion shall be HK\$0.3735 (subject to adjustment), being the 10-days weighted average closing price of the Company prior to the date of the Sale and Purchase Agreement. The Conversion price represents:

- (a) a discount of approximately 11.07% to the closing price of HK\$0.42 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (b) a premium of approximately 0.40% to the average closing price of HK\$0.372 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days immediately preceding the date of the Sale and Purchase Agreement;

LETTER FROM THE BOARD

- (c) the last ten (10) consecutive trading days immediately preceding the date of the Sale and Purchase Agreement; and
- (d) a discount of approximately 4.65% to the closing price of HK\$0.42 per Share as quoted on the Stock Exchange on the Latest Practicable Date.
- (e) a premium of approximately 203.65% to the net asset value as at 30 June 2015 with adjustment there of as a result of completion of a placing of Shares in September 2015 and of a bonus issue of Shares in November 2015.

The conversion price of the Conversion Shares was determined after arm's length negotiations between the Company and the Vendor with reference to the recent market prices and performance of the Shares, the current market conditions and the historical financial performance and the business prospects of the Target Group.

Maturity date:	31 December 2017
Transferability:	The Convertible Bonds may only be assigned or transferred subject to the Company's prior written approval.
Conversion:	<p>The bondholder shall have the right to exercise the conversion rights of the Convertible Bonds of the aggregate principal amount up to HK\$3,500,000 in whole or in any integral multiple of HK\$500,000 thereof during the Tranche 1 Conversion Period.</p> <p>The bondholder shall have the right to exercise the conversion rights of the remaining outstanding principal amount of the Convertible Bonds which have not been converted in Tranche 1 Conversion Period in whole or in any integral multiple of HK\$500,000 thereof during the Tranche 2 Conversion Period.</p>
Conversion Shares:	Assuming that the Convertible Bonds is fully converted into Conversion Shares at the initial conversion price of HK\$0.3735, a total of 18,741,634 Conversion Shares will be issued which represent approximately 0.49% of the issued share capital of the Company as at the date hereof and approximately 0.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.

LETTER FROM THE BOARD

Adjustment to conversion price: The conversion price of the Convertible Bonds is subject to adjustments in certain events, including, among other things, share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and further issue of shares or convertible securities with conversion price less than the then market price provided that the conversion price shall not at any time fall below the par value of the Shares. The Company shall effect the adjustment, which shall be made in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (a) to (g) below, it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs provided that if such event would be capable of falling within sub-paragraph (h) as well, sub-paragraph (h) shall apply:

- (a) If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the conversion price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

LETTER FROM THE BOARD

- (b) If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the conversion price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{D}$$

in each case, where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the issued Shares immediately after such issue.

Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the Business Day next following the record date for such issue.

- (c) If and whenever the Company shall make any Capital Distribution (except where, and to the extent that the conversion price falls to be adjusted under paragraph (b) above) to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the conversion price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

LETTER FROM THE BOARD

where:

E = the Market Price on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of the Capital Distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day, as determined in good faith by an approved merchant bank of the portion of the Capital Distribution or of such rights which is attributable to one Share,

Provided that:

- (i) if in the opinion of the relevant approved merchant bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights); and
- (ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the Business Day next following the record date for the Capital Distribution or grant.

LETTER FROM THE BOARD

- (d) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than 90% of the Market Price at the date of the announcement of the terms of the offer or grant, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{P + \frac{Q \times R}{S}}{P + Q}$$

where:

P = the number of Shares in issue immediately before the date of such announcement;

Q = the aggregate number of Shares so offered for subscription;

R = the amount (if any) payable for the right, option or warrant to subscribe for each new Share, plus the subscription price payable for each new Share;

S = the Market Price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the Business Day next following the record date for the offer or grant.

LETTER FROM THE BOARD

- (e) (i) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 90% of the Market Price at the date of the announcement of the terms of issue of such securities, the conversion price shall be adjusted by multiplying the conversion price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the total Effective Consideration for the securities issued would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.

LETTER FROM THE BOARD

- (ii) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (i) of this sub-paragraph (e) are modified so that the total Effective Consideration per Share (as defined below) initially receivable for such securities shall be less than 90% of the Market Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the conversion price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by a fraction of which the numerator is the number of Shares in issue immediately before the date of such modification plus the number of Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion rate or subscription price. Such adjustment shall become effective (if appropriate, retrospectively) as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take account of rights or capitalisation issues and other events which have given rise to adjustment of the conversion price under this condition, provided such corresponding adjustment has been made to the conversion price.

For the purpose of this sub-paragraph (e), the “**total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the “**total Effective Consideration per Share**” initially receivable for such

LETTER FROM THE BOARD

securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion at the initial conversion rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

- (f) If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 90% of the Market Price at the date of the announcement of the terms of such issue, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.
- (g) If and whenever the Company shall issue Shares for the acquisition of any asset at a total Effective Consideration per Share (as defined in this sub-paragraph (g) below) which is less than 90% of the Market Price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted in such manner as may be determined by an approved merchant bank. Such adjustment shall become effective on the date of issue. For the purpose of this sub-paragraph (g) “**total Effective Consideration**” shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the “**total Effective Consideration per Share**” shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.

LETTER FROM THE BOARD

- (h) If the Company or the bondholder determines that an adjustment should be made to the conversion price as a result of one or more events or circumstances (whether or not referred to in sub-paragraphs (a) to (g) above) (even if the relevant event or circumstance is specifically excluded in the Conditions from the operation of sub-paragraphs (a) to (g) above), or that an adjustment should be made in a manner other than in accordance with sub-paragraphs (a) to (g) above, or that an adjustment should not be made (even if the relevant event or circumstance is specifically provided for in sub-paragraphs (a) to (g) above), or that the effective date for the relevant adjustment should be a date other than that mentioned in sub-paragraphs (a) to (g) above, the Company or the bondholder may, at its own expense, request an approved merchant bank, acting as expert, to determine as soon as practicable (1) what adjustment (if any) to the conversion price is fair and reasonable to take into account thereto and is appropriate to give the result which the approved merchant bank considers in good faith to reflect the intentions of the provisions of this condition; and (2) the date on which such adjustment should take effect; and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (h) if the approved merchant bank is so requested to make such a determination.

Redemption:	The Company shall redeem the Convertible Bonds or the then outstanding principal amount thereof on the Maturity Date.
Ranking of Conversion Shares:	The Conversion Shares shall rank <i>pari passu</i> in all respects with all other existing Shares outstanding at the conversion date and all Conversion Shares shall have the right to participate in all dividends and other distributions the record date of which falls on or after the conversion date.
Tranche 1 Conversion Period:	The period commencing from the issue date up to and including the end of the calendar year 31 December 2016.
Tranche 2 Conversion Period:	The period commencing from the issue date up to and including the Maturity Date.

LETTER FROM THE BOARD

Specific Mandate

The Convertible Bonds will be issued under the Specific Mandate and are subject to approval by the Shareholders at the SGM.

Application for listing

No application will be made by the Company to the Stock Exchange for the listing of the Convertible Bonds. Application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Completion

Subject to the conditions of the Subscription Agreement being fulfilled, 7 days from the date on which the 2016 Actual Profit is presented by the Vendor (or such other date as may be agreed by the Company and the Vendor in writing).

FUND RAISING ACTIVITIES DURING THE PAST TWELVE MONTHS

Save as disclosed in the table below, the Company has not undertaken any equity fund raising exercise over the period of twelve months prior to the Latest Practicable Date:

LETTER FROM THE BOARD

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
20 July 2015	Placing of new shares under specific mandate pursuant to the Previous Placing Agreement	Approximately HK\$195 million	Approximately: (a) HK\$10 million for the expansion of the money lending business of the Company; (b) HK\$70 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (c) HK\$106 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (d) HK\$9 million for general working capital and for development of the Group's business.	Approximately: (a) HK\$74 million were used for the expansion of the money lending business of the Company; (b) HK\$24 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (c) HK\$49 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (d) HK\$9 million for general working capital and for development of the Group's business. HK\$39 million was remained in the bank and will be reserved for the intended use.

LETTER FROM THE BOARD

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
26 May 2015	Placing of new shares under specific mandate pursuant to the Previous Placing Agreement (terminated on 20 July 2015 pursuant to the Termination Agreement)	Approximately HK\$195 million	Approximately: (a) HK\$10 million for the expansion of the money lending business of the Company; (b) HK\$70 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (c) HK\$106 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (d) HK\$9 million for general working capital and for development of the Group's business.	Not applicable
1 April 2015	Placing of new shares under general mandate	approximately HK\$14.08 million	Approximately: (a) HK\$5.08 million for repayment of loan; and (b) HK\$9 million for recruiting new talented artists.	HK\$6.98 million were used for repayment of loan and (b) HK\$7.1 million were used of recruiting new talented artists.

LETTER FROM THE BOARD

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
1 December 2014	Placing of new shares under general mandate	Approximately HK\$26.5 million	Approximately: (a) HK\$16.5 million for production of movie(s); and (b) HK\$10.0 million for recruiting new talented artists.	Approximately: (a) HK\$24 million were used for production of movie(s); and approximately (b) HK\$2.5 million were used for recruiting new talented artists.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and upon full conversion of the Convertible Bonds at a conversion price of HK\$0.3735 per Share is as follows:

	As at the Latest Practicable Date		Immediately after Completion and upon full conversion of the Convertible Bonds	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Shareholders				
Vendor	–	–	18,741,634	0.49%
Other public Shareholders	3,832,758,224	100%	3,832,758,224	99.51%
	<hr/>	<hr/>	<hr/>	<hr/>
Total	3,832,758,224	100%	3,851,499,858	100%
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

REASONS FOR AND BENEFITS OF THE ACQUISITION AND ISSUANCE OF CONVERTIBLE BONDS AND THE USE OF PROCEEDS

The Group is principally engaged in the entertainment business, with a focus in television program and movie production, distribution, distribution licensing, cinema operation and management in both Hong Kong and the PRC, artists management, money lending activities and acquisitions of corporate, preference shares as well as investment in securities.

LETTER FROM THE BOARD

The Group intends to continue developing its model management agency and entertainment business. The Acquisition enhances the Group's presence in the market of Hong Kong, Macau, PRC and Taiwan. Furthermore, the Acquisition will complement the Group's business projects in the entertainment industry, enabling further collaborations with potential and existing business partners through the Target Group. The Directors (including the independent non-executive Directors) consider that the Acquisition and the subscription of Convertible Bonds represents an investment opportunity that is in line with the Group's business strategy, and the terms of the Sale and Purchase Agreement, the Subscription Agreement and the transactions contemplated thereunder, including the subscription of Convertible Bonds, are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Acquisition is under the stage of due diligence on the Target Company and none of the conditions precedent to the Acquisition has been fulfilled or waived. As the subscription of Convertible Bonds forms part of the consideration of the Acquisition, the Company will not receive any proceeds from the subscription of Convertible Bonds. In the event that the Acquisition completion does not take place, the Company will not issue and the Vendor will not subscribe for the Convertible Bonds.

INFORMATION OF THE TARGET GROUP

Principal business

The principal business of the Target Group is providing model management and agency services in Hong Kong, Macau Special Administrative Region, PRC and Taiwan.

The Target Group is one of Asia's most progressive full service modeling and talent agency. It specializes in promoting fresh faces and outstanding new talent within the fashion and entertainment sectors in Asia and overseas, positioned at the forefront of international model and artiste management. It boasts a highly experienced and dedicated team and also excellent relationships with a vast array of prominent international and local models, artistes, celebrities and professional athletes. The Target Group is equipped with prominent models and artistes of diversified ages, types, and nationalities, including Pakho Chau, Shiga Lin and Jeannie Chan and arranged them with local and overseas jobs including advertisements, publications, television commercials, fashion exhibits, music videos, image consultations, promotional activities and casting services. The Directors believe that the Acquisition allows the Group to leverage the Target Group's experience in the model management.

LETTER FROM THE BOARD

Financial information

According to information provided by the Target Group, set out below is the financial performance of the Target Group based on the unaudited consolidated financial statements for the two years ended 31 March 2014 and 31 March 2015 and nine months ended 31 December 2015, prepared in accordance with Hong Kong Financial Reporting Standards:

	Financial year ended 31 March		9 months ended 31 December
	2014	2015	2015
	(approximately HK\$'000)	(approximately HK\$'000)	(approximately HK\$'000)
Unaudited consolidated profit before taxation	323	5,632	3,574
Unaudited consolidated profit after taxation	491	5,156	N/A (Note)

According to information provided by the Target Group, the net asset value of the Target Group as at 31 December 2015 was approximately HK\$4,420,245.

Note: As tax year ends on financial year end, unaudited consolidated profit after taxation figure is not available for 9 months ended 31 December 2015.

SGM

The SGM will be held at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong on at 4:00 p.m. on Tuesday, 2 February 2016 for the purpose of considering and, if thought fit, approving the ordinary resolutions in respect of the Sale and Purchase Agreement, the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds under the Specific Mandate.

The notice convening the SGM is set out on pages 26 to 28 of this circular. A form of proxy for use at the SGM is also enclosed to this circular. Whether or not you are able to attend the SGM and/or vote at the SGM in person, you are requested to complete and return the enclosed form of proxy to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Director or Shareholder has a material interest in the Sale and Purchase Agreement, the Subscription Agreement and the transactions contemplated thereunder, including the proposed grant of the Specific Mandate to issue the Convertible Bonds and accordingly no Shareholder is required to abstain from voting on the resolution(s) to be proposed at the SGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the Acquisition and subscription of Convertible Bonds is fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favor of the resolution as set out in the notice of SGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

Yours faithfully,
By Order of the Board
China 3D Digital Entertainment Limited
Shiu Stephen Junior
Chairman



China 3D Digital Entertainment Limited

中國3D數碼娛樂有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 8078)

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of China 3D Digital Entertainment Limited (the “**Company**”) will be held at 7/F, Zung Fu Industrial Building, 1067 King’s Road, Quarry Bay, Hong Kong on at 4:00 p.m. on Tuesday, 2 February 2016 for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

1. “**THAT:**

the terms and conditions of the sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 14 December 2015 entered into between Double Spirit Development Limited (the “**Purchaser**”) and Mr. Stephen Chau (the “**Vendor**”) in relation to the acquisition of 40 ordinary shares of Starz Holdings Limited (“**Sale Shares**”), representing 40% of the issued share capital of Starz Holdings Limited by the Purchaser from the Vendor, a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification, pursuant to which the Company shall issue the Convertible Bonds (as defined below) as part of the consideration for the Sale Shares, be and are hereby approved, confirmed and ratified.

- (a) the terms and conditions of the subscription agreement (the “**Subscription Agreement**”) to be entered into between the Company and the Vendor in relation to the subscription of the convertible bonds in the principal amount of HK\$7,000,000 to be issued by the Company under the Specific Mandate to the Vendor as subscriber (the “**Convertible Bonds**”), a copy of which has been produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification, pursuant to which the Vendor has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the Convertible Bonds which is convertible into the shares of the Company (the “**Conversion Shares**”) at the conversion price of HK\$0.3735 (subject to adjustment) per share be and are hereby approved, confirmed and ratified;

* for identification purposes only

NOTICE OF SGM

- (b) conditional upon, among others, The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Conversion Shares, the allotment and issuance of which shall be pursuant and subject to the terms of the instrument of Convertible Bonds;
- (c) subject to the Company having obtained the necessary consent, approval, authorization, permission, or confirmation from any third party to which the Company and its subsidiaries have entered into any agreement or arrangement, if required;
- (d) the directors of the Company (the “**Director(s)**”) be and is/are hereby granted a specific mandate to exercise the powers of the Company to issue the Convertible Bonds, and to allot and issue the Conversion Shares; and
- (e) any one Director be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his or her absolute discretion consider necessary or desirable for the purpose of and in connection with the entering into the Subscription Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bonds, and to agree to any variations of the terms of the Subscription Agreement that are ancillary to the above and of administrative nature as he or she may in his or her absolute discretion consider necessary or desirable.”

On behalf of the Board
China 3D Digital Entertainment Limited
Shiu Stephen Junior
Chairman

Hong Kong, 18 January 2016

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of business
in Hong Kong:*
7th Floor
Zung Fu Industrial Building
1067 King's Road
Quarry Bay, Hong Kong

NOTICE OF SGM

Notes:

1. A form of proxy for use at the Meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.
3. Any shareholder of the Company entitled to attend and vote at the Meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding of the above Meeting or any adjournment thereof (as the case may be).
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting convened or at any adjourned meeting (as the case may be) and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the Meeting, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
7. As at the date of this notice, the directors of the Company are Mr. Shiu Stephen Junior (Chairman), Mr. Sun Lap Key, Christopher and Mr. Lee Wing Ho, Albert as executive directors of the Company; Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Tam Kwok Ming, Banny as independent non-executive directors of the Company.