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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)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HMV M&E LIMITED

THE ACQUISITION

The Board is pleased to announce that on 1 April 2016 (after trading hours), the Vendor, the Purchaser (a wholly-owned subsidiary of the Company) and the Company entered into the Sale and Purchase Agreement II, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing approximately 18.37% of the issued share capital of the Target Company at a Consideration of HK\$91,850,000, which shall be satisfied by an aggregate of 251,643,835 Consideration Shares in accordance terms and conditions of the Sale and Purchase Agreement II.

LISTING RULES IMPLICATION

As the Acquisition I and the Acquisition II took place within a 12-month period, Acquisition I and Acquisition II are required to be aggregated under Rule 19.22 of the GEM Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition II in aggregate with Acquisition I under Rule 19.07 of the GEM Listing Rules exceed 25% but are below 100%, the Acquisition II constitutes a major transaction of the Company under the GEM Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under the GEM Listing Rules.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, save and except as disclosed, no shareholders of the Company or any of their respective associates have any material interest in the Acquisition II. As such, no shareholders of the Company would be required to abstain from voting in favour of the resolution approving the Acquisition II.

GENERAL

A circular containing, among other matters, (i) further details of the Sale and Purchase Agreement II and the Acquisition II; (ii) the proposed issue and allotment of Consideration Shares II under Specific Mandate; (iii) any other information required to be disclosed under the GEM Listing Rules; and (iv) a notice convening the SGM, is expected to be dispatched to the Shareholders on or before 25 April 2016.

Shareholders and potential investors should note that the Acquisition II contemplated under the Sale and Purchase Agreement II is subject to satisfaction of certain conditions precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

Reference is made to the Company's announcement dated 14 March 2016 in relation to amongst others, the major transaction in connection with the acquisition of approximately 81.63% of the issued share capital of the Target Company at a consideration of HK\$408,150,000.

The Board is pleased to announce that on 1 April 2016 (after trading hours), the Vendor, the Purchaser (a wholly-owned subsidiary of the Company) and the Company entered into the Sale and Purchase Agreement II, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing approximately 18.37% of the issued share capital of the Target Company at a Consideration of HK\$91,850,000, which shall be satisfied by an aggregate of 251,643,835 Consideration Shares in accordance with the terms and conditions of the Sale and Purchase Agreement II.

Principal terms of the Sale and Purchase Agreement II are set out below.

THE SALE AND PURCHASE AGREEMENT II

Date 1 April 2016 (after trading hours)

Parties

- (i) WiL Fund I, L.P., as the Vendor
- (ii) Certain Best Limited, as the Purchaser
- (iii) China 3D Digital Entertainment Limited

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 each of the Company, the Purchaser and its connected persons (as defined in the GEM Listing Rules).

Assets to be acquired

Pursuant to the Sale and Purchase Agreement II, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, which represent approximately 18.37% of the issued share capital of the Target Company free from all Encumbrances and together with all dividends, interest, benefits and other rights made on or after the date of the Sale and Purchase Agreement II.

Consideration

The Consideration of HK\$91,850,000 payable by the Purchaser to the Vendor for the Sale Shares shall be satisfied by allotment and issue of 251,643,835 Consideration Shares to the Vendor or its nominee at an issue price of HK\$0.365 per Consideration Share at Completion.

The issue price of HK\$0.365 per Consideration Share represents:

- (a) a discount of approximately 34.82% to the closing price of HK\$0.56 per Share as quoted on the Stock Exchange on 1 April 2016, the date of the Sale and Purchase Agreement;
- (b) a discount of approximately 31% over the average closing price of approximately HK\$0.529 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to the date of the Sale and Purchase Agreement; and
- (c) a discount of approximately 28.85% over the average closing price of approximately HK\$0.513 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days immediately prior to the date of the Sale and Purchase Agreement.

Basis of Consideration

The Consideration payable in respect of the Sale Shares has been arrived at after arm's length negotiations between the Purchaser and the Vendor and was determined having reference to (i) the historical operating and financial performance of the Target Group; and (ii) the business prospects and the synergies that may be derived from the business of the Target Group.

Consideration Shares and lock-up undertaking

The Consideration Shares II will be issued under the Specific Mandate to be approved by the Shareholders at the SGM. The Consideration Shares II represents approximately 6.57% of the issued share capital of the Company as at the date of this announcement and approximately 6.16% of the issued share capital of the Company as enlarged by the Consideration Shares II.

The Consideration Shares II will, upon issue and credited as fully paid, rank pari passu in all respect with all the existing shares of the Company then in issue. Application for the listing of, and permission to deal in, the Consideration Shares II will be made by the Company to the Stock Exchange.

Pursuant to the Sale and Purchase Agreement II, the Vendor undertakes that it shall not, and shall procure that its nominee(s) shall not offer, sell, contract to sell, transfer, pledge, create any Encumbrance over or otherwise dispose of, directly or indirectly, the Consideration Shares II issued to the Vendor or its nominee(s), enter into transaction(s) which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Consideration Shares II for a period of 18 months from the Completion Date and 83,881,278 Consideration Shares II to be released from lock-up after the 6-month anniversary of the Completion Date.

Conditions Precedent

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

- (i) the passing by the requisite majority of shareholders of the Company at the SGM of all resolutions required under the GEM Listing Rules (if any) to approve the transactions contemplated under the Sale and Purchase Agreement II, including without limitation the grant of the Specific Mandate for the allotment and issue of the Consideration Shares II;
- (ii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares II, which has not been revoked as at Completion;

- (iii) the Purchaser being satisfied that as at Completion (i) nothing has occurred that has any material adverse effect on the Target Group since the date of the Sale and Purchase Agreement II; and (ii) the Vendor is not in breach of any of its obligations which is required to be performed or fulfilled prior to Completion;
- (iv) the due diligence and investigation of the Target Group to be carried out pursuant to the Sale and Purchase Agreement II having been completed to the satisfaction of the Purchaser;
- (v) the Warranties remaining true and accurate in all respects and not misleading in any respect as of the Completion Date;
- (vi) the Vendor being satisfied that as at Completion (i) nothing has occurred that has any material adverse effect on the Company since the date of the Sale and Purchase Agreement II; and (ii) neither the Company or the Purchaser is in breach of any of its obligations which is required to be performed or fulfilled prior to Completion; and
- (vii) the Warranties of the Purchaser and the Company remaining true and accurate in all respects as at the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

If the conditions set out above are not fulfilled or in respect of the conditions in (iii), (iv) and (v) above are not waived in writing by the Purchaser or in respect of conditions in (vi) and (vii) above are not waived in writing by the Vendor at or before 4:00p.m. on the Long Stop Date, the Sale and Purchase Agreement II shall terminate (save and except certain provisions, including the provision on waiver of conditions, representations, warranties and undertakings, confidentiality and announcements, notices and governing law, which shall survive termination of the Sale and Purchase Agreement II), in which case none of the Vendor, the Purchaser or the Company shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach of the Sale and Purchase Agreement II).

Completion

Subject to the various conditions precedents and terms of the Sale and Purchase Agreement II having been fulfilled or waived, Completion shall take place on the same date as the completion of Acquisition I.

Upon Completion, each of the Target Company and Target Subsidiaries will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group in accordance with the Group's accounting policies.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the issue and allotment of Consideration Shares I and Consideration Shares II upon Completion are as follows:

Shareholders	As at the date of this announcement		immediately after the issue and allotment of Consideration Shares upon Completion	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
Vendor	–	–	251,643,835	4.84%
Action Key Investments Limited or its nominee	–	–	1,118,219,178	21.49%
Shiu Stephen Junior	141,920	0.00%	141,920	0.00%
Other public Shareholders	3,832,616,304	100.00%	3,832,616,304	73.67%
	<u>3,832,758,224</u>	<u>100.00%</u>	<u>5,202,621,237</u>	<u>100.00%</u>

INFORMATION OF THE PURCHASER

The Purchaser is engaged in the business of investment holding.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability and is directly owned by Action Key Investments Limited as to approximately 81.63% and by the Vendor as to approximately 18.37%. As at the date of this announcement, the Target Company is the sole beneficial owner of the issued share capital of each of the Target Subsidiaries. The Target Company has no business activity other than being an investment holding company of its subsidiaries and injection of shareholder's loans to the Target Group for its business. The Target Group is principally engaged in the entertainment and media business and other ancillary business including, but not limited to, the operation of the retail stores under the brand "HMV".

HMV Marketing is a company incorporated in Hong Kong with limited liability. As at the date of this announcement, HMV Marketing is the owner of the retailing business of "HMV" through physical retail stores in Hong Kong and has an exclusive, irrevocable, royalty-free and perpetual licence to use the name "HMV", the various HMV trade marks and the trade mark applications and HMV domain names for the purpose of conducting businesses in the PRC, Hong Kong and Singapore.

Each of Simply Sino and Smiley Bee is an investment holding company incorporated in the British Virgin Islands with limited liability and has no business activity save and except (i) Simply Sino has advanced a loan in the amount of HK\$25,000,000 to a subsidiary of the Company; and (ii) Smiley Bee has advanced a loan in the amount of HK\$3,000,000 to a third party independent from Action Key Investments Limited and its connected persons. Linkenway is an investment holding company incorporated in the British Virgin Islands with limited liability and the holder of certain rights of an intellectual property.

Financial information of the Target Group

The consolidated financial information of the Target Group for the latest two financial years are not available for the Target Group as a whole as the Target Company, Simply Sino, Smiley Bee and Linkenway were incorporated on 1 December 2015, 1 January 2016, 1 January 2016 and 2 January 2014 respectively.

Set out below is the audited consolidated financial information of HMV Marketing, being the principal operating company of the Target Group, for the period from 11 December 2013 (date of incorporation) to 31 December 2014, extracted from its audited financial statements, prepared in accordance with the Hong Kong Financial Reporting Standards.

	11 December 2013 (date of incorporation) to 31 December 2014 <i>HK\$'000</i> (audited)
Revenue	43,747
Net loss before tax and extraordinary items	24,135
Net loss after tax and extraordinary items	24,135

The unaudited net liabilities of HMV Marketing were approximately HK\$39,512,000 as at 30 June 2015.

Set out below is the unaudited financial information of Linkenway for the period from 2 January 2014 (date of incorporation) to 31 December 2014, extracted from the unaudited financial statements of Linkenway prepared for the same period in accordance with International Financial Reporting Standards:

**For the period from
2 January 2014
(date of incorporation) to
31 December 2014
HK\$'000
(unaudited)**

Revenue	–
Net loss before tax and extraordinary items	120
Net loss after tax and extraordinary items	120

INFORMATION OF THE VENDOR

Established by World Innovation Lab (<http://www.wilab.com>), the Vendor is active in Tokyo and Silicon Valley. The Vendor has formed an unprecedented venture support scheme, bringing together personnel with unparalleled track records in the venture capital industry in the United States and Japan, and includes a consortium of large corporations from diverse industries in Japan as Limited Partners (“LP”). It provides global expansion support for Japanese startups, and support and business partnership opportunities for the United States startups expanding into Japan. The Vendor also aims to promote the creation of startups by facilitating collaboration with large corporations in Japan, primarily the fund’s LPs, and through carve out of large corporations. It is focused on thorough, hands-on investment in selected startups. In addition to its investment activities, it also hosts occasional seminars by active corporate executives, venture capitalists, and academics for the benefit of personnel dispatched to Silicon Valley from LPs, providing opportunities to connect with industry experts. Support for portfolio companies is not limited to simply providing introductions; the Vendor also plans to propose business partnerships in the United States and Japan and provide support in the establishment of joint ventures.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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.

As the Group intends to continue developing and streamlining its entertainment, movie production and distribution business, the Directors believe that the Acquisition II is a valuable opportunity for the Company to increase its interest in the Target Company by acquiring an additional 18.37% of the issued share capital of the Target Company and thus enabling the Group to exercise more effective control over the business and operations of the Target Company, and to have a larger share of the potential return in the Target Company. The Directors recognize the strength of the “HMY” brand name under the Target Company and will leverage on its operational model and cost control methods together with its synergistic effects with the Group’s existing business to further improve the performance of the Group.

The Directors of the Company, are of the view that the Acquisition II is conducted on normal commercial terms and in the ordinary and usual course of its business, is fair and reasonable so far as the Company and the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the Acquisition I and the Acquisition II took place within a 12-month period, the Acquisition I and the Acquisition II are required to be aggregated under Rule 19.22 of the GEM Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition II in aggregate with the Acquisition I under Rule 19.07 of the GEM Listing Rules exceed 25% but are below 100%, the Acquisition II constitutes a major transaction of the Company under the GEM Listing Rules and is subject to the reporting, announcement and Shareholders’ approval requirements under the GEM Listing Rules.

SGM

The SGM will be convened at which resolutions will be proposed to seek the approval of the Shareholders by way of a poll of the Sale and Purchase Agreement II and the transactions contemplated thereunder, and the issue and allotment of Consideration Shares II under Specific Mandate.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the date of this announcement, no Shareholder is required to abstain from voting on the resolution(s) in respect of the Acquisition II at the SGM.

GENERAL

In order to provide the Shareholders with information to consider and assess the Acquisition II, a circular containing, among other matters, (i) further details of the Sale and Purchase Agreement II and the Acquisition II; (ii) the proposed issue and allotment of Consideration Shares II under Specific Mandate; (iii) any other information required to be disclosed under the GEM Listing Rules; and (iv) a notice of the SGM to be convened for the purpose of considering and approving, among others, the Sale and Purchase Agreement II and transactions contemplated thereunder, including the allotment and issue of the Consideration Shares II is expected to be despatched to the Shareholders on or before 25 April 2016. It is the intention of the Company to include information of both the Acquisition I and Acquisition II in one circular.

Shareholders and potential investors should note that the Acquisition II contemplated under the Sale and Purchase Agreement II is subject to satisfaction of certain conditions precedent and it may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, capitalized terms used shall have the following meanings:

“%”	per cent.
“Acquisition I”	the acquisition of approximately 81.63% equity interest in the Target Company pursuant to the Sale and Purchase Agreement I, details of which are set out in the announcement of the Company dated 14 March 2016
“Acquisition II”	the acquisition of the Sale Shares by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement II
“Board”	the board of Directors
“Business Day(s)”	a day (other than Saturday and Sunday) on which banks are open for business in Hong Kong
“Company”	China 3D Digital Entertainment Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM Board of the Stock Exchange

“Completion Date”	subject to the various conditions precedents and terms of the Sale and Purchase Agreement II having been fulfilled or waived, completion shall take place on the same date at the same time as the completion of the Acquisition I
“Completion”	completion of the Acquisition II and transactions contemplated under the Sale and Purchase Agreement II in accordance with its terms
“Consideration”	the sum of HK\$91,850,000 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 II
“Consideration Shares”	the new shares to be allotted and issued by the Company to Action Key Investments Limited (or its nominee) and the Vendor (or its nominee) as settlement of the consideration for Acquisition I and Acquisition II respectively
“Consideration Shares I”	1,118,219,178 new shares to be allotted and issued by the Company to Action Key Investments Limited (or its nominee) as settlement of the consideration for Acquisition I
“Consideration Shares II”	251,643,835 new shares to be allotted and issued by the Company to the Vendor as settlement of the Consideration pursuant to the Sale and Purchase Agreement II
“Director(s)”	the director(s) of the Company
“Encumbrances”	rights of pre-emption, options, liens, claims, equities, mortgages, charges, encumbrances, defects, adverse interests or third party rights of any nature
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“GEM”	the Growth Enterprise Market of the Stock Exchange
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HMV Marketing”	HMV Marketing Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Linkenway”	Linkenway Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
“Long Stop Date”	31 July 2016 (or such later date as the parties to the Sale and Purchase Agreement may agree in writing
“Purchaser”	Certain Best Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement I”	the sale and purchase agreement dated 14 March 2016 entered into between the Purchaser, Action Key Investments Limited and the Company in relation to the Acquisition I
“Sale and Purchase Agreement II”	the agreement dated 1 April 2016 entered into between the Vendor, the Purchaser and the Company in relation to the Acquisition II
“Sale Shares”	2,250 ordinary shares of the Target Company, representing approximately 18.37% of the issued share capital in the Target Company prior to Completion
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approving the Sale and Purchase Agreement II and the transactions contemplated thereunder

“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company as at the date of this announcement
“Shareholder(s)”	holder(s) of the Share(s)
“Simply Sino”	Simply Sino Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
“Smiley Bee”	Smiley Bee Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
“Specific Mandate”	a specific mandate to be granted to the Directors by the Shareholders at the SGM to issue and allot the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	HMV M&E Limited, a limited liability company incorporated under the laws of the British Virgin Islands
“Target Group”	The Target Company and the Target Subsidiaries
“Target Subsidiaries”	the subsidiaries of the Target Company, namely, HMV Marketing, Simply Sino, Smiley Bee and Linkenway
“Vendor”	WiL Fund I, L.P., a limited partnership organized in the Cayman Islands
“Warranties”	the representations, warranties and undertakings (i) on the part of the Vendor or (ii) on the part of the Purchaser given pursuant to the Sale and Purchase Agreement II

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

Hong Kong, 1 April 2016

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
Mr. Chau Sai Ho, Charles

Independent Non-executive Directors:

Mr. Chan Chi Ho
Mr. Kam Tik Lun
Mr. Tam Kwok Ming, Banny

This announcement, 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 Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement 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 announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for seven days from the day of its posting and on the website of the Company at www.china3d8078.com.

* *for identification purposes only*