

2012-2013 First Quarterly Report



中國 3D 數碼娛樂有限公司
CHINA 3D DIGITAL ENTERTAINMENT LIMITED

(Incorporated in Bermuda with limited liability)
(GEM Stock Code: 8078)

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

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

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This report, for which the directors of China 3D Digital Entertainment Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported total revenue of approximately HK\$2.9 million for the three months ended 30 September 2012 (the “Three-month Period”), compared with approximately HK\$8.9 million for the corresponding period a year ago. For the Three-month Period, a loss of approximately HK\$1.6 million was recorded whilst in the last year same period, loss of HK\$4.7 million was recorded. The loss is mainly attributable to the high movie production and administration cost.

During the Three-month Period, artiste management contributed revenue of approximately HK\$0.2 million (2011: HK\$0.3 million) and recorded a profit of approximately HK\$0.1 million (2011: loss of HK\$0.3 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$2.5 million (2011: HK\$8.6 million). It was mainly contributed from box office and overseas distribution rights of the movie “Due West: Our Sex Journey” (一路向西) which was released in September 2012. Up to the reporting date, the movie is still on show and the total box office is yet to be determined. This business segment recorded a profit of approximately HK\$0.4 million (2011: profit of HK\$0.7 million).

PROSPECTS

As one of the expertise of the Group is the production of hot topic films, the Group had acquired the movie right of a bestselling novel, namely, “Due West: Our Sex Journey” (一路向西), written by Xiang Xi Cun Shang Chun Shu (向西村上春樹), a network super hot author. The film has been released in September 2012, up to the reporting date, the movie is still on show and the box office has exceeded HKD\$18 million.

The success of the movie production of “3D Sex & Zen- Extreme Ecstasy” and “Due West- My Sex Journey” is a reflection of high anticipation of supreme quality 3D movies in the market. As such, In September 2012, Good Lead Corporation Limited, the Group’s indirect wholly owned subsidiary has entered into a joint venture agreement amounting to approximately RMB85 million with “中盟世紀(北京)傳媒有限公司” for cooperation in producing and distributing a movie, namely “3D Iceman Cometh (冰封俠3D情深四百年)” in the PRC and international. The movie is expected to be released at the end of 2013. Moreover, the Group plans to produce Bauhinia Heroine 3D (紫荊俠3D) in 2013. The scripts and casting of the film has been ascertained.

In March of 2012, the Group has acquired a permanent global distribution right of the starring lineup in the realm of Chinese language movies “Together 在一起” (provisionally named), which is a comedy featuring love starring Mr. Ko Chen Tung, Kaiko (柯震東) and Ms. Chen Yan Hsi, Michelle (陳妍希), the two leading actors for “You Are the Apple of My Eye” (那些年·我們一起追的女孩), and this represents their cooperation again after the success of the aforesaid blockbuster. “Together 在一起” is also starred by a brand-new acting combination comprising box office hits Mr. Yen Chi Tan, Donnie (甄子丹), a superstar, and Ms. AngelaBaby (楊穎), an young artist queen. The Company anticipates that the movie might attract a more diverse audience into cinemas in regions of Asia. The film will be released in 2013.



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

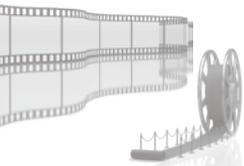
According to the Mainland China's "12th Five-Year Plan", the State Council has resolved to support the PRC studio production and the tourism and culture development. This is in line with the Group's direction for development.

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

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

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

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



EVENTS AFTER REPORTING PERIOD

Proposed Capital Reorganization

On 12 October 2012, the Board proposes to implement a Capital Reorganisation involving the share consolidation, the capital reduction and the share sub-division. The Board also proposes to change the board lot size for trading in the shares from 30,000 existing Shares to 15,000 adjusted shares.

The share consolidation involved the consolidation of every twenty (20) issued and unissued shares of HK\$0.005 each in the share capital of the Company into one (1) consolidated share of HK\$0.10 each ("Consolidated Share").

The capital reduction involved the reduction of the issued share capital of the Company by cancelling the paid up capital of the Company to the extent of HK\$0.095 on each of the issued Consolidated Shares such that the nominal value of each issued Consolidated Share will be reduced from HK\$0.10 to HK\$0.005 and to round down the total number of issued Consolidated Shares to a whole number by eliminating any fraction of a Consolidated Share in the issued share capital of the Company following the share consolidation. The credit arising in the books of the Company from the Capital Reduction of the paid-up capital of approximately HK\$26,326,762.24 will be credited to the contributed surplus account of the Company.

The share subdivision involved the subdivision of each authorized but unissued Consolidated Shares of HK\$0.10 each into twenty (20) adjusted shares of HK\$0.005 each.

The special general meeting for approval of the Capital Reorganisation and change in board lot size will be held on 19 November 2012.

Continuing Connected Transaction and Provision for Financial Assistance

On 9 October 2012, a Tenancy Agreement was jointly entered into between Wit Way, as landlord, Top Euro Limited, an indirect wholly-owned subsidiary of Unlimited Creativity Holdings Limited ("Unlimited Creativity"), 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. Unlimited Creativity is a substantial shareholder of the Company and interested in approximately 16.44% of the issued share capital of the Company. Accordingly, Unlimited Creativity is regarded as connected person of the Company under the GEM Listing Rules. 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.



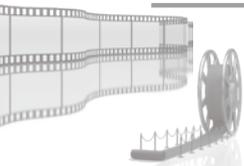
RESULTS

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 2011 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months ended 30 September 2012

	Notes	Three months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	2	2,944	8,864
Other revenue and other (losses)/gains – net		109	(1,313)
Cost of film and television programme production and distribution		(2,192)	(7,528)
Selling and distribution costs		(179)	(593)
Administrative expenses		(2,081)	(3,565)
Reclassified from equity to profit or loss upon disposal of available-for-sale investments – loss		(8)	–
Finance costs		(178)	(548)
Loss before taxation		(1,585)	(4,683)
Taxation	3	–	–
Loss for the period		(1,585)	(4,683)
Loss for the period attributable to:			
Owners of the Company		(1,577)	(4,683)
Non-controlling interests		(8)	–
		(1,585)	(4,683)
Other comprehensive income/(loss) for the period, net of income tax			
Exchange differences arising on translation of foreign subsidiary		1	–
Release of investment revaluation reserve upon disposal of available-for-sales investments		8	–
Net profit/(loss) arising on revaluation of available-for-sale investment during the period		502	(222)
Other comprehensive profit/(loss) for the year, net of income tax		511	(222)
Total comprehensive loss for the period		(1,074)	(4,905)
Total comprehensive loss for the period attributable to:			
Owners of the Company		(1,066)	(4,905)
Non-controlling interests		(8)	–
		(1,074)	(4,905)
Loss per share (2011: restated)	4		
Basic		HK cents 0.03	HK cents 0.05
Diluted		HK cents 0.03	HK cents 0.05



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 31st September 2012 are consistent with those followed in the annual report of the Company for the year ended 30 June 2012, 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	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
An analysis of the Group's revenue for the period is as follows:		
Artiste management services	195	312
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	2,473	8,552
– distribution of films and television programmes	5	–
Money Lending		
– Loan interest income	38	–
Corporate bonds coupon	203	–
Property investment	30	–
	2,944	8,864



NOTES: (Continued)

3. Taxation

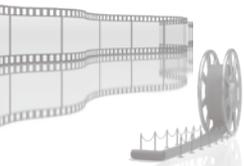
No provision for Hong Kong Profits Tax is made in the Three-month Period as the Group has no estimated assessable profits for the Three-month Period (2011: Nil).

No provision for income tax in respect of operations in overseas has been made as the Group has no assessable profits in the respective jurisdictions for both periods.

4. Loss per Share

The calculation of the basic loss per share is based on the loss for the period attributable to shareholders of the Company of HK\$1,577,000 (2011: HK\$4,683,000) and the weighted average number of 5,542,476,267 (2011: 8,687,552,240) ordinary shares of the Company in issue during the period.

The calculation of the diluted loss per share for the period is based on the loss attributable to shareholders of HK\$1,577,000 (2011: HK\$4,683,000) and the weighted average number of 5,550,198,275 ordinary shares for the purpose of diluted loss per share during the period (2011: 8,996,643,149 (restated)).



NOTES: (Continued)

5. Capital, Reserves and Non-controlling Interests

	Attributable to owners of the Company									
	Share capital	Share premium	Investment revaluation reserve	Contributed surplus	Convertible bond 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 2011	43,438	307,964	(17)	3,952	6,508	-	(238,704)	123,141	-	123,141
Net loss arising on revaluation of available-for-sales investments during the period	-	-	(222)	-	-	-	-	(222)	-	(222)
Loss for the period	-	-	-	-	-	-	(4,683)	(4,683)	-	(4,683)
Total comprehensive loss for the period	-	-	(222)	-	-	-	(4,683)	(4,905)	-	(4,905)
At 30 September 2011	43,438	307,964	(239)	3,952	6,508	-	(243,387)	118,236	-	118,236
At 1 July 2012	20,212	91,295	(3,068)	45,652	766	-	30,177	185,034	2,486	187,520
Net gain arising on revaluation of available-for-sales investments during the period	-	-	502	-	-	-	-	502	-	502
Release of investment revaluation reserve upon disposal of available-for-sale investments	-	-	8	-	-	-	-	8	-	8
Exchange differences on translation of foreign operations	-	-	-	-	-	1	-	1	-	1
Loss for the period	-	-	-	-	-	-	(1,577)	(1,577)	(8)	(1,585)
Total comprehensive loss for the period	-	-	510	-	-	1	(1,577)	(1,066)	(8)	(1,074)
Issue of share upon placing	7,500	15,000	-	-	-	-	-	22,500	-	22,500
Transaction cost upon placing of share	-	(545)	-	-	-	-	-	(545)	-	(545)
Restricted share premium in the PRC	-	-	-	2	-	-	-	2	-	2
Transfer from convertible bond	-	-	-	-	(36)	-	-	(36)	-	(36)
At 30 September 2012	27,712	105,750	(2,558)	45,654	730	1	28,600	205,889	2,478	208,367



DIVIDEND

The Board did not recommend the payment of dividend for the Three-month Period (2011: Nil).

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

As at 30 September 2012, the interests and short positions of the Directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Shiu Stephen Junior	Beneficial owner	26,880,000	0.49%

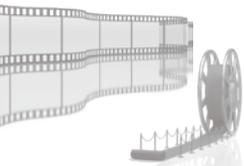
Save as disclosed above, as at 30 September 2012, none of the Directors or chief executives of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company's existing share option scheme (the "Share Option Scheme") was approved for adoption on 26 August 2004 and became effective on 11 November 2004 and valid for the next ten years.

The Company had not granted any option under the Share Option Scheme since its adoption.

As at 30 September 2012, 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 2012, the persons or corporations (other than the Directors or chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company were as follows:

Long positions in shares of the Company

Name	Capacity/ Nature of interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Be Cool Limited (Note 1)	Beneficial owner	637,735,200	11.51%
Unlimited Creativity Holdings Limited (Note 2)	Beneficial owner and interest in a controlled corporation	911,013,840	16.44%

Note (1): Be Cool Limited is indirectly wholly-owned subsidiary by Unlimited Creativity Holdings Limited.

(2): 911,013,840 Shares refer to the aggregate of (a) 273,278,640 Shares held by Unlimited Creativity Holdings Limited and (b) 637,735,200 Shares held by Be Cool Limited, an indirect wholly-owned subsidiary of Unlimited Creativity Holdings Limited.

Save as disclosed above, as at 30 September 2012, the Directors were not aware of any other person or corporation (other than the Directors or chief executives of the Company) who had any interests or short positions in the shares, underlying shares or debentures of the Company as recorded in the register required to be kept under Section 336 of the SFO or as otherwise notified to the Company.

COMPETING INTERESTS

One Dollar Productions Limited ("ODP") is a company principally engaged in artiste management. Mr. Shiu Stephen Junior ("Mr. Shiu"), the Chairman and Executive Director of the Company, is a director of ODP and together with his associate hold as to 100% equity interests in ODP. Mr. Shiu also holds directorship in One Dollar Movies Productions Limited ("ODMP"), a company engaged in the production of movies, and together with his associate(s) hold indirectly as to 59.4% equity interests in ODMP. He is also a director of One Dollar Distribution Limited ("ODD"), a company engaged in the distribution of movies, and together with his associate(s) hold indirectly as to 25% equity interests in ODD. The businesses of ODP, ODMP and ODD may constitute competition with the business of the Group.

Save as disclosed above, the Directors believe that none of the Directors nor the controlling shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause significant competition with the business of the Group.



REVIEW OF FIRST QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Three-month Period have not been audited nor reviewed by the Company's auditor, HLB Hodgson Impey Cheng, but have been reviewed by the Audit Committee of the Company, who is of the opinion that the preparation of such results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made. As at the date hereof, the Audit Committee comprises the three Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny.

COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no exacting than the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the three months ended 30 September 2012.

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

During the Three-month Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 13 November 2012

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

