



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)



2015-2016
First Quarterly Report

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported a total revenue of approximately HK\$26.76 million for the three months ended 30 September 2015 (the “Three-month Period”), compared with approximately HK\$24.7 million for the corresponding period in 2014. For the Three-month Period, a loss attributable to owners of the Company of approximately HK\$14.2 million was recorded whilst in the corresponding period of last year, a loss attributable to owners of the Company of approximately HK\$2.47 million was recorded.

During the Three-month Period, artist management’s segment contributed a revenue of approximately HK\$11.66 million (2014: HK\$17.56 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$7.45 million (2014: HK\$5.07 million). The revenue from cinema operation segment was approximately HK\$7 million (2014: HK\$1.67 million). The revenue from the money lending business was approximately HK\$0.65 million (2014: HK\$0.39 million).

PROSPECTS

BUSINESS REVIEW

Possible Disposal

On 19 October 2015, the Company entered into a non-legally binding memorandum of understanding with an independent third party, pursuant to which the Company intends to dispose 51% of the issued share capital of CineUnited Circuits Company Limited (“CineUnited”), an indirect wholly-owned subsidiary of the Company (CineUnited together with its subsidiaries, collectively the “Target Group”) for a total consideration of HK\$62,220,000 payable in cash.

The Target Group is principally engaged in the operation of the cinemas located in Xiamen, Guangzhou and Chongqing, PRC. The Investor is an independent third party and not connected with the Company. There is no definitive agreement that has been signed and finalized as at the date of this report.

Strategic Co-operation

On 23 October 2015, the Company announced that it will have long-term strategic co-operation with iQIYI Motion Pictures (“iQIYI”), the largest video platform and online movie library which boasts the largest storage of movies in PRC, pursuant to which the Company and iQIYI agreed to co-invest, produce and distribute each movie from now on. There is no definitive agreement that has been signed and finalized as at the date of this report.



Possible Subscription and Possible Acquisition

On 27 October 2015, the Company entered into a non-legally binding memorandum of understanding with (i) vfxNova Digital Productions Limited (the "Target Company"), pursuant to the Company intends to subscribe 10% ordinary shares as enlarged by subscription of the Target Company for a consideration of HK\$10,000,000 payable in cash (the "Possible Subscription") and (ii) Mr. Victor Wong ("Mr. Wong"), the shareholder of the Target Company, pursuant to the Company intends to acquire and Mr. Wong intends to dispose its shares, representing 20% of the then issued share capital as enlarged by subscription of the Target Company for a consideration of HK\$20,000,000 payable in cash (the "Possible Acquisition"). After completion of the Possible Subscription and Possible Acquisition, the Company will hold an aggregate 30% of the issued share capital of the Target Company.

The Target Company is one of Asia's most advanced digital visual creation companies which provides full production services from consultancy, filming, animation, visual-effects, 2/3D conversion, post-production and etc. for feature films and TV commercials. The Target Company participated in a number of movies including *Rise of the Legend*, *Cold War*, *Let the Bullets Fly*, *From Vegas to Macau*, and Hollywood blockbuster films such as *Ironman* and *Diehard 4*. The Target Company won numerous industry accolades in the visual effects and digital filming categories in many local and international prestigious film festivals, including the Best Visual Effects in the 34th Hong Kong Film Awards, and major awards in Taiwan Golden Horse Awards and New York Film Festival. There is no definitive agreement that has been signed and finalized as at the date of this report.

Possible Acquisition

On 29 October 2015, the Company entered into a legally binding memorandum of understanding with Mr. Stephen Chau ("Mr. Chau"), the shareholder of the Starz Holdings Limited (the "Target Company"), pursuant to the Company intends to acquire and Mr. Chau intends to dispose its shares, representing 40% of the issued share capital of the Target Company. The payment methods of the consideration will be (i) HK\$6,600,000 payable in cash; and (ii) HK\$7,000,000 payable in the form of convertible bond.

The Target Company has numerous famous subsidiaries such as Starz People (HK) Limited and Starz Entertainment Company Limited (The Target Company together with its subsidiaries, collectively called "Starz"). Starz is one of Asia's most progressive full service modeling and talent agencies. 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. Starz credited with diversified ages, types, and nationalities of prominent models and artistes, including Pakho Chau, Shiga Lin and Jeannie Chan and arranged them local and overseas jobs including advertisements, publications, television commercials, fashion exhibits, music videos, image consultations, promotional activities and casting services. There is no definitive agreement that has been signed and finalized as at the date of this report.



CAPITAL STRUCTURE

During the Three-months Period, the capital structure of the Company was changed as follows:

On 8 September 2015 and 18 September 2015, the Company completed the first tranche placing of 403,000,000 new shares of the Company and the second tranche placing of 397,000,000 new shares of the Company at the placing price of HK\$0.25 per placing share respectively. The aggregate net proceeds from the placing amounted to approximately HK\$195 million.

EVENTS AFTER REPORTING PERIOD

On 20 October 2015, the Company was approved to implement the bonus issue of new shares on the basis of three (3) bonus shares for every one (1) Share held. The issued share capital of the Company therefore increased from 958,189,556 shares of HK\$0.01 each to 3,832,758,224 shares of HK\$0.01 each after completion of bonus issue. The bonus shares have been issued and despatched to the shareholders on 13 November 2015.

Upon the completion of the bonus issue, the bonus shares will be credited as fully paid at par by way of capitalisation of share premium of an amount of HK\$28,745,686.68.

CONTINUING CONNECTED TRANSACTION AND PROVISION FOR FINANCIAL ASSISTANCE

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

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

LITIGATION

A writ of summons (the "Writ") was issued against the Company by Green Giant Investments Limited ("Green Giant") on 12 February 2015. It was alleged in the Writ that the Company refused and/or unreasonably withheld to register a transfer of the promissory note (the "Note") or issue a new promissory note as requested upon transfer of the Note by Dragonlott Holdings Limited to Green Giant.

Green Giant claims the principal amount of the Note of HK\$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The court hearing will be fixed on 21 January 2016.

In the opinion of the Directors, the Note payable of HK\$14,160,000 is properly recognized as at 30 September 2015, as such, the Directors did not consider that the litigation to have any significant impact on the Group's financial position and operations.



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 2014 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income For the three months ended 30 September 2015

| | Notes | Three months ended 30 September | |
|---|-------|------------------------------------|---------------------------------|
| | | 2015 (Unaudited) HK\$'000 | 2014 (Unaudited) HK\$'000 |
| Revenue | 2 | 26,758 | 24,691 |
| Other income | | 402 | 85 |
| Cost of film production and distribution | | (11,014) | (3,859) |
| Cost of artiste management services and music production | | (9,676) | (15,021) |
| Cost of cinema operation | | (3,146) | (725) |
| Selling and distribution costs | | (2,678) | (1,777) |
| Administrative expenses | | (13,977) | (7,480) |
| Finance costs | | (2,039) | (312) |
| Change in fair value of investments at fair value through profit or loss mandatorily measured at fair value | | 623 | 1,938 |
| Share of results of associates | | 95 | - |
| Share of results of a joint venture | | 5 | (7) |
| Loss before taxation | | (14,647) | (2,467) |
| Taxation | 3 | - | - |
| Loss for the period | | (14,647) | (2,467) |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (14,200) | (2,466) |
| Non-controlling interests | | (447) | (1) |
| | | (14,647) | (2,467) |
| Other comprehensive (loss)/income for the period | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | | 92 | - |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Changes in fair value of investments at fair value through other comprehensive income | | (4,253) | 992 |
| Total other comprehensive (loss)/income for the period, net of tax | | (4,161) | 992 |
| Total comprehensive loss for the period | | (18,808) | (1,475) |
| Total comprehensive loss for the period attributable to: | | | |
| Owners of the Company | | (18,361) | (1,474) |
| Non-controlling interests | | (447) | (1) |
| | | (18,808) | (1,475) |
| Loss per share (2014: Restated) | 4 | | |
| Basic and Diluted | | HK(4.51) cents | HK (3.09) cents |



NOTES:

1. Basis of Preparation and Significant Accounting Policies

The Group's unaudited quarterly financial statements have been prepared in accordance with the applicable disclosure requirement of Chapter 18 of the GEM Listing Rules. The amounts included in the unaudited consolidated results are computed based on all Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies adopted in preparing the unaudited consolidated financial statements for the three months ended 30 September 2015 are consistent with those followed in the annual report of the Company for the year ended 30 June 2015, 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 | |
|---|------------------------------------|---------------------------------|
| | 2015 (Unaudited) HK\$'000 | 2014 (Unaudited) HK\$'000 |
| An analysis of the Group's revenue for the period is as follows: | | |
| Artiste management services and music production | 11,662 | 17,564 |
| Film and television programme production, distribution and licensing – production of films and television programmes and licensing of the corresponding rights | 7,446 | 5,065 |
| Interest income and handling fee – income from money lending | 646 | 390 |
| Cinema operation income | 7,004 | 1,672 |
| Total | 26,758 | 24,691 |



NOTES: (Continued)

3. Taxation

No provision for Hong Kong Profits Tax is made in the three months ended 30 September 2015 as the Group has a statutory tax loss brought forward from previous years.

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

4. Loss per Share

The calculation of the basic and diluted loss per share is based on the loss for the Three-month Period attributable to owners of the Company of approximately HK\$14,200,000 (2014: loss of approximately HK\$2,466,000) and the weighted average number of 315,037,382 (2014: 79,908,217) ordinary shares of the Company in issue during the Three-month Period.

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



NOTES: (Continued)

5. Consolidated statement of change in equity

For the period ended 30 September 2015

| | Attributable to owners of the Company | | | | | | | | | |
|---|---------------------------------------|------------------------------|---|---------------------------------------|---|--|--------------------------------------|--------------------------|---|--------------------------------|
| | Share capital (Unaudited) | Share premium (Unaudited) | Investment revaluation reserve (Unaudited) | Contributed surplus (Unaudited) | Convertible bonds equity reserve (Unaudited) | Foreign currency translation reserve (Unaudited) | Accumulated losses (Unaudited) | Sub-total (Unaudited) | Non- controlling interests (Unaudited) | Total equity (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 July 2014 | 4,026 | 181,881 | (14,591) | 102,180 | 766 | 109 | (6,680) | 267,691 | 485 | 268,176 |
| Total comprehensive loss for the period | - | - | 992 | - | - | - | (2,465) | (1,474) | (1) | (1,475) |
| Issue of share upon placing | 7,500 | 97,500 | - | - | - | - | - | 105,000 | - | 105,000 |
| Issue of share upon bonus issue | 115,261 | (115,261) | - | - | - | - | - | - | - | - |
| Transaction cost attributable to issues of shares | - | (2,784) | - | - | - | - | - | (2,784) | - | (2,784) |
| Acquisition of partial interest in a subsidiary | - | - | - | - | - | - | 37 | 37 | (484) | (447) |
| At 30 September 2014 | 126,787 | 161,336 | (13,599) | 102,180 | 766 | 109 | (9,109) | 368,470 | - | 368,470 |
| At 1 July 2015 | 1,582 | 184,209 | (69,433) | 261,837 | - | 55 | (100,233) | 278,017 | (614) | 277,403 |
| Total comprehensive loss for the period | - | - | (4,253) | - | - | 92 | (14,200) | (18,361) | (447) | (18,808) |
| Issue of share upon placing | 8,000 | 192,000 | - | - | - | - | - | 200,000 | - | 200,000 |
| Transaction cost attributable to issues of shares | - | (5,158) | - | - | - | - | - | (5,158) | - | (5,158) |
| At 30 September 2015 | 9,582 | 371,051 | (73,686) | 261,837 | - | 147 | (114,433) | 454,498 | (1,061) | 453,437 |

6. Comparative figures

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



DIVIDEND

The Board did not recommend the payment of dividend for the Three-month Period (2014: Nil).

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

As at 30 September 2015, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

| Name of Director | Capacity/ Nature of Interests | Number of ordinary/ underlying shares held | Approximate percentage holding |
|-------------------------|--|---|---|
| Shiu Stephen Junior | Beneficial owner | 35,480 | 0% |

Save as disclosed above, as at 30 September 2015, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME, DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

The Company had not granted any option under the new share option scheme during the Three-month Period.



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

So far as known to the Directors, as at 30 September 2015, the Directors were not aware of any other person (other than the Directors and chief executive of the Company as disclosed above) who had any interests or short position in the shares or underlying shares or debentures of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

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

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

REVIEW OF FIRST QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Three-month Period had not been audited nor reviewed by the Company's auditor, ZHONGHUI ANDA CPA Limited, but had been reviewed by the Audit Committee of the Company, who was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

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

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

AUDIT COMMITTEE

As required by 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") in 2004 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review the Company's annual reports and financial statements, interim reports and quarterly reports and discuss with the management over issues relating to auditing, internal control and financial reporting. As at the date hereof, the Audit Committee comprises the three Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny.

The Group's unaudited results for the Three-month Period were reviewed by the Audit Committee, which was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.



CORPORATE GOVERNANCE

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

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2015 annual report of the Company.

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

REMUNERATION COMMITTEE

A remuneration committee (the "Remuneration Committee") consisting of three Independent Non-executive Directors and one Executive Director was set up by the Company in accordance with the Code. The major responsibilities of the Remuneration Committee include: (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors' and senior management and in the establishment of a formal and transparent procedure for developing such remuneration policy; (ii) to review and determine the remuneration packages of the executive directors and senior management and to ensure that no director is involved in deciding his own remuneration; and (iii) to review and make recommendations to the Board about the overall remuneration policy of the Company.

NOMINATION COMMITTEE

A nomination committee (the "Nomination Committee") consisting of three Independent Non-executive Directors and one Executive Director was set up by the Company in accordance with the Code. The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will base the priority of the criteria in the procedure (such as appropriate experience, personal skills and time commitment, etc) to identify and commend proposed candidates to the Board.



MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

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

Hong Kong, 13 November 2015

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

