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)

ANNUAL RESULTS ANNOUNCEMENT
For the year ended 30 June 2011

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

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.

This announcement, 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 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 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.

* *for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the "Group") reported total revenue of approximately HK$54.0 million for the year ended 30 June 2011 (the "Year"), compared with approximately HK$135.2 million for the previous fiscal year. A loss of approximately HK$36.1 million was recorded. The loss is mainly due to the impairment loss on film rights and operating losses relating to the subsidiaries disposed during the Year and finance cost for convertible bond issued by the Company.

During the Year, the business segment of artist management contributed revenue of approximately HK$3.0 million (2010: HK$31.8 million) and recorded a profit of approximately HK$1.3 million (2010: HK$17.9 million). As part of the company re-organisation to focus the business into 3D movie production, during the Year, a number of subsidiaries running the artist management were disposed and making the decrease in both revenue and profit figures in this business segment.

For the year ended 30 June 2011, the business segment of film and television programme production, distribution and licensing brought revenue of HK$51.0 million (2010: HK$61.1 million). As the 3D movie released this Year was new both to the audience and the Group, more than expected advertising and promotion expense was incurred. Together with impairment in film rights held by the companies disposed during the Year, this business segment recorded a loss of HK$18.9 million (2010: HK$42.9 million).

In the previous financial year, the Group disposed certain subsidiaries carrying out event production and music production and distribution operations. After such disposal, the Group ceased the businesses of event production and music production and distribution. For the year ended 30 June 2010, event production contributed revenue of approximately HK$12.6 million and recorded a loss of approximately HK$2.5 million, and music production and distribution contributed revenue of approximately HK$29.7 million and recorded a loss of approximately HK$0.6 million.

PROSPECTS

To continue the success of our 3D movie "3D Sex & Zen: Extreme Ecstasy", two or three 3D movies will be planned to produce in the coming financial year. With more cautious on the control of advertising and promotion expense, satisfactory profit will be expected.

The board of directors of the Company (the "Board" or the "Directors") believes that acquisition of cinemas and/or operation rights of cinemas will strengthen the Group's operation by providing the Group with more alternatives to distribute movies. Although at the time of this announcement, no specific cinema was targeted. Priority may be placed on cinemas or theatres in the PRC to capture people in this largest potential consumption country nowadays.

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, total borrowing of the Group (excluding payables) amounted to approximately HK$24.6 million (2010: HK$274.1 million). As various fund raisings activities have been conducted during the Year, the Group's gearing ratio (expressed as a percentage of total borrowing over total assets) was largely reduced from 83% last year to 16% current year.

In addition to its share capital and reserves, the Group also made use of cash flow generated from operations and the borrowings, mainly including convertible bond and promissory note payable, to finance its operation. The promissory note payable is denominated in Hong Kong dollars, unsecured, interest-free and has a fixed repayment term.

Other than disclosed above, the Group has no other external borrowings. The Group's bank and cash held in hand were mainly denominated in Hong Kong dollars. The Group managed its foreign exchange risk by closely monitoring the movement of the foreign currency rates. The management conducted periodical review of foreign currency exposure and would take appropriate measures to mitigate the risk should the need arise. The Group experienced no significant exposure to foreign exchange rate fluctuation during the Year.

CHARGES ON GROUP ASSET

As at 30 June 2011, the Group has no asset pledged to bank to secure the bank borrowing granted to the Group (2010: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the Group had 10 (2010: 27) full-time employees. The total employee remuneration, include that of the Directors, for the year ended 30 June 2011 amounted to approximately HK$7.5 million (2010: HK$37.2 million). The Group remunerates its employees based on their performance, experience and the prevailing commercial practice. To provide incentive or rewards to the employees, the Company has adopted a share option scheme in year 2004. No option was granted or outstanding during the Year.

CAPITAL STRUCTURE

During the Year, the capital structure of the Company has changed as follows:

Placing of New Shares under General Mandate

On 6 August 2010, the Company completed the placing of 70,398,000 new shares ("Placing Share(s)") of the Company at a price of HK$0.38 per Placing Share ("First Placement"). As a result of the First Placement, the Company's issued share capital and share premium increased by approximately HK$0.7 million and HK$25.5 million respectively.

Share Subdivision

On 21 September 2010, the Company subdivided every issued and unissued share of the Company into two subdivided shares ("Share Subdivision"), under which the par value of each issued and unissued share was adjusted from HK$0.01 to HK$0.005.

Placing of New Shares under Specific Mandate

On 28 October 2010, the Company completed the placing of 200,000,000 new subdivided shares of the Company at a price of HK$0.125 per placing subdivided share ("Second Placement"). Upon completion of the Second Placement, the Company's issued share capital and share premium further increased by approximately HK$1.0 million and HK$23.4 million respectively.

Rights Issue

On 1 February 2011, the Board proposed to raise funds by way of rights issue ("Rights Issue"). On 29 March 2011, the necessary resolutions approving, amongst other things, the Rights Issue, were duly passed by the Independent Shareholders by way of poll at the special general meeting held on that date. The Rights Issue was over-subscribed and the shares certificates for fully-paid Rights Issue were dispatched to shareholders on 21 April 2011. Upon completion of the Rights Issue, the Company's issued share capital and share premium further increased by approximately HK$38.0 million and HK$72.4 million respectively.

Conversion of Convertible Bond

During the Year, HK$14.0 million of bond value was converted into 41,148,036 new shares of the Company which led to the Company's issued share capital and share premium increased by approximately HK$0.2 million and HK$15.2 million respectively.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

The Group has acquired and disposed of certain subsidiaries during the Year, details of which are set out as follows:

Acquisition of new 3D movie business

On 8 October 2010, the Company acquired the entire interests in New Smart International Creation Limited ("New Smart") at a consideration of approximately HK$12.6 million. New Smart is engaged in production of films. The first 3D film named "3D Sex & Zen: Extreme Ecstasy" was released in April 2011.

Disposal of Speedy Champion Investments Limited

On 19 October 2010, the Group completed the disposal of the entire interests in Speedy Champion Investments Limited together with the companies holding of the copyrights and distribution rights in various films and television programmes which were produced or distributed by the Group. The consideration of such disposal was HK$0.1 million and the Group recorded a gain on disposal of approximately HK$2.5 million.

Disposal of Bright Win Group Limited

On 2 December 2010, the Group completed the disposal of the entire interests in Bright Win Group Limited together with the companies holding of the copyrights and distribution rights in films. The consideration of such disposal was HK$0.1 million and the Group recorded a gain on disposal of approximately HK$0.1 million.

Disposal of Racelead Limited

On 31 January 2011, the Group completed the disposal of the entire interests in Racelead Limited. The consideration of such disposal was approximately HK$0.1 million and the Group recorded a gain on disposal of approximately HK$0.1 million.

COMMITMENTS

Total commitments of the Group as at 30 June 2011 was approximately HK$9.9 million (2010: HK$52.5 million)

CONTINGENT LIABILITIES

As at 30 June 2011, the Group was involved in legal proceedings in relation to the refusal to register a transfer of the promissory note and issue a new promissory note. The outcome of the legal proceeding is uncertain because it is still in early stage and is difficult for the Directors to assess the impact of the litigation on the financial position of the Group.

EVENT AFTER REPORTING PERIOD

On 13 July 2011, an ordinary resolution to appoint Messrs. HLB Hodgson Impey Cheng as the auditor of the Company to fill the casual vacancy following the resignation of Messrs. Deloitte Touche Tohmatsu was passed by the shareholders of the Company.

The Board announces the audited consolidated financial statements of the Group for the Year together with comparative audited figures for the preceding financial year as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
Continuing operations			
Turnover	3	**53,977**	92,947
Other income	4	**969**	4,525
Cost of film and television programme production and distribution		**(53,379)**	(78,657)
Selling and distribution costs		**(10,774)**	(9,557)
Administrative expenses		**(18,661)**	(41,715)
Gain on disposal of subsidiaries		**2,644**	–
Finance costs	5	**(9,342)**	(17,452)
Share of results of a jointly controlled entity		**(1,538)**	2,530
Loss before taxation	6	**(36,104)**	(47,379)
Taxation	7	**–**	(1,231)
Loss for the year from continuing operations		**(36,104)**	(48,610)
Discontinued operations			
Loss for the year from discontinued operations	8	**–**	(2,016)
Loss for the year attributable to owners of the Company		**(36,104)**	(50,626)
Other comprehensive income, net of income tax			
Exchange differences on translation of foreign operations		**4**	655
Net loss arising on revaluation of available-for-sale investments during the year		**(17)**	–
Reclassification adjustment relating to foreign operations disposed of during the year		**(2,545)**	–
Share of translation reserve of jointly controlled entities		**–**	44
Other comprehensive loss for the year, net of income tax		**(2,558)**	699
Total comprehensive loss for the year attributable to owners of the Company		**(38,662)**	(49,927)
Dividend		**–**	–
Loss per share attributable to owners of the Company	9		
From continuing and discontinued operations			
Basic and diluted (2010: Restated)		**HK0.59 cents**	HK1.48 cents
From continuing operations			
Basic and diluted (2010: Restated)		**HK0.59 cents**	HK1.42 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**596**	604
Available-for-sale investments		**48,222**	46,674
Interests in a jointly controlled entity		**–**	5,280
Prepayments, deposits and other receivables		**3,531**	–
Film rights		**8,728**	185,597
		61,077	238,155
Current assets			
Inventories and record masters		**–**	30
Trade receivables	10	**13,360**	35,706
Prepayments, deposits and other receivables		**3,441**	26,166
Loan to a jointly controlled entity		**–**	12,466
Bank balances and cash		**72,881**	16,625
		89,682	90,993
Total assets		**150,759**	329,148
Current liabilities			
Trade payables	11	**–**	13,566
Accruals, deposit received and other payables		**3,055**	44,113
Loan from a non-controlling shareholder of a subsidiary		**–**	2,000
Other loan		**–**	3,000
		3,055	62,679
Net current assets		**86,627**	28,314
Total assets less current liabilities		**147,704**	266,469
Non-current liabilities			
Convertible bond		**12,851**	50,099
Promissory note payable		**11,712**	11,102
Amount due to a substantial shareholder of the Company/former immediate holding company		**–**	207,882
		24,563	269,083
Net assets/(liabilities)		**123,141**	(2,614)
Capital and reserve attributable to owners of the Company			
Share capital		**43,438**	3,520
Reserves		**79,703**	(4,193)
		123,141	(673)
Non-controlling interests		**–**	(1,941)
Total equity		**123,141**	(2,614)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 30 June 2011

	Equity attributable to owners of the Company										
The Group	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Special reserve** *HK$'000*	**Investment revaluation reserve** *HK$'000*	**Contributed surplus** *HK$'000*	**Translation reserve** *HK$'000*	**Convertible bond equity reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
At 1 June 2009	2,600	105,614	75,000	–	83,783	2,971	–	(313,942)	(43,974)	(1,941)	(45,915)
Exchange difference on translation of foreign operations	–	–	–	–	–	655	–	–	655	–	655
Share of translation reserve of jointly controlled entities	–	–	–	–	–	44	–	–	44	–	44
Loss for the year	–	–	–	–	–	–	–	(50,626)	(50,626)	–	(50,626)
Total comprehensive income/(loss) for the year	–	–	–	–	–	699	–	(50,626)	(49,927)	–	(49,927)
Issue of shares	520	36,920	–	–	–	–	–	–	37,440	–	37,440
Recognition of equity component of convertible bond	–	–	–	–	–	–	38,280	–	38,280	–	38,280
Issue of shares upon conversion of convertible bond	400	28,955	–	–	–	–	(10,718)	–	18,637	–	18,637
Reserve realised upon disposal of subsidiaries	–	–	–	–	–	(1,129)	–	–	(1,129)	–	(1,129)
At 30 June 2010 and 1 July 2010	3,520	171,489	75,000	–	83,783	2,541	27,562	(364,568)	(673)	(1,941)	(2,614)
Exchange differences on translation of foreign operations	–	–	–	–	–	4	–	–	4	–	4
Net loss arising on revaluation of available-for-sales investments	–	–	–	(17)	–	–	–	–	(17)	–	(17)
Reclassification adjustment relating to foreign operations disposed of during the year	–	–	–	–	–	(2,545)	–	–	(2,545)	–	(2,545)
Loss for the year	–	–	–	–	–	–	–	(36,104)	(36,104)	–	(36,104)
Total comprehensive loss for the year	–	–	–	(17)	–	(2,541)	–	(36,104)	(38,662)	–	(38,662)
Issue of shares upon placing	1,704	50,047	–	–	–	–	–	–	51,751	–	51,751
Issue of shares upon rights shares	38,008	76,016	–	–	–	–	–	–	114,024	–	114,024
Transaction cost attributable to issue of shares	–	(4,735)	–	–	–	–	–	–	(4,735)	–	(4,735)
Issue of shares upon conversion of convertible bond	206	15,147	–	–	–	–	(5,359)	–	9,994	–	9,994
Early redemption of convertible bond	–	–	–	–	–	–	(15,695)	7,137	(8,558)	–	(8,558)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	1,941	1,941
Transfer to accumulated losses	–	–	(75,000)	–	(79,831)	–	–	154,831	–	–	–
At 30 June 2011	**43,438**	**307,964***	**–***	**(17)***	**3,952***	**–***	**6,508***	**(238,704)***	**123,141**	**–**	**123,141**

* These reserve accounts comprise the consolidated reserve of HK$79,703,000 (2010: deficit of HK$4,193,000) in the consolidated statement of financial position.

Notes:

1. **APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

   (i) New and amended standards and interpretation adopted by the Group

   In the current year, the Group has applied, the following Hong Kong Financial Reporting Standards (which includes all Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("HK(IFRIC)-Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 (Amendment)	Additional Exemption for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
HKAS 32 (Amendments)	Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Right issues
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a term loan that contains a Repayment on Demand Clause

   The application of new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

   (ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted

   The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvement to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[2]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[5]
HKFRS 11	Joint Arrangements[5]
HKFRS 12	Disclosure of Involvement with Other Entities[5]
HKFRS 13	Fair Value Measurement[5]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (Revised 2011)	Employee Benefits[5]
HKAS 24 (Revised)	Related Party Disclosures[1]
HKAS 27 (Revised 2011)	Separate Financial Statements[5]
HKAS 28 (Revised 2011)	Investment in Associates and Joint Ventures[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayment of a Minimum Funding Requirement[1]

Notes: (Continued)

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted (Continued)

1) Effective for annual periods beginning on or after 1 January 2011
2) Effective for annual periods beginning on or after 1 July 2011
3) Effective for annual periods beginning on or after 1 January 2012
4) Effective for annual periods beginning on or after 1 July 2012
5) Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Notes: (Continued)

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted (Continued)

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Groups' financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 titled Disclosures – Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

HKFRS 10 Consolidated Financial Statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard replaces HK(SIC) – 12 Consolidation – Special Purpose Entities and replaces parts of HKAS 27 Consolidated and Separate Financial Statements.

HKFRS 11 Joint Arrangements provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. HKFRS 11 supersedes HKAS 31 Interests in Joint Ventures and HK(SIC) – 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers.

Notes: (Continued)

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(ii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 July 2010 and have not been early adopted (Continued)

HKFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

HKFRS 13 Fair Value Measurement improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

The application of new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong and by the Hong Kong Companies Ordinance.

3. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar products. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance.

The Group has two reportable segments, (i) artiste management and (ii) films and television programme production, distribution and licensing. The segmentations are based on the information about the operation of the Group that the Chief Operating Decision Maker uses to make decisions.

Notes: (Continued)

3. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenues and results by reportable segment for the current and prior years:

Continuing operations	**Artiste management** *HK$'000*		**Film and television programme production, distribution and licensing** *HK$'000*		**Total** *HK$'000*	
	2011	2010	**2011**	2010	**2011**	2010
Segment revenue						
Revenue from external customers	**3,030**	31,804	**50,947**	61,143	**53,977**	92,947
Segment results	**1,341**	17,911	**(18,930)**	(42,883)	**(17,589)**	(24,972)
Interest income					**66**	802
Unallocated corporate expenses					**(10,345)**	(8,287)
Gain on disposal of subsidiaries					**2,644**	–
Finance cost					**(9,342)**	(17,452)
Share of results of a jointly controlled entity					**(1,538)**	2,530
Loss before taxation					**(36,104)**	(47,379)
Taxation					**–**	(1,231)
					(36,104)	(48,610)

The accounting policies on segment reporting are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administration costs, interest income, finance costs and share of results of a jointly controlled entity. This is the measure reported to the Chief Operating Decision Maker for the purpose of resource allocation and performance assessment.

Notes: (Continued)

3. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the Chief Operating Decision Maker for review.

Other information

The following is an analysis of the Group's other segment information for the current and prior years:

	Artiste management *HK$'000*		Film and television programme production, distribution and licensing *HK$'000*		Total *HK$'000*	
	2011	2010	**2011**	2010	**2011**	2010
Capital expenditure	**596**	88	**–**	168	**596**	256
Depreciation of property, plant and equipment	**292**	186	**55**	696	**347**	882
Loss on disposal of property, plant and equipment	**–**	–	**–**	19	**–**	19
Amortisation of film rights	**–**	–	**21,164**	34,064	**21,164**	34,064
Impairment loss on film rights recognised	**–**	–	**9,030**	41,208	**9,030**	41,208

Reconciliation of other segment information

	Segment total *HK$'000*		Adjustment (note) *HK$'000*		Total *HK$'000*	
	2011	2010	**2011**	2010	**2011**	2010
Depreciation of property, plant and equipment	**347**	882	**54**	64	**401**	946

Note: The amount represents the item included in unallocated corporate expenses.

Information about major customers

Revenue of HK$41,524,000 (2010: HK$15,571,000) from film and television programme production, distribution and licensing is contributed from customers who contributed over 10% of the total revenue of the Group.

Notes: (Continued)

3. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operations are located in Hong Kong, The People's Republic of China (the "PRC"), Taiwan, Japan, Other Asian countries, North America, European countries and other areas.

The Group's revenue from continuing operations from external customers by geographical location of customers during the year and information about the non-current assets other than available-for-sale investments and other receivables by geographical location of the assets at the end of the reporting period are detailed below:

	Revenue from customers		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**42,031**	28,700	**14,403**	145,316
The PRC	**2,519**	35,425	**–**	5,395
Taiwan	**2,825**	3,286	**–**	–
Japan	**24**	591	**–**	–
Other Asian countries *(note (a))*	**4,987**	16,201	**–**	39,770
North America *(note (b))*	**–**	49	**–**	1,000
European countries *(note (c))*	**972**	4,143	**–**	–
Other areas	**619**	4,552	**–**	–

Notes:

(a) Other Asian countries mainly included Brunei, Indonesia, Korea, Malaysia, Philippines, Singapore, Thailand and Russia.

(b) North America included the United States and Canada.

(c) European countries mainly included Italy, the United Kingdom, Germany, France, Switzerland, Poland, Netherland and Belgium.

Notes: (Continued)

4. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**30**	21
Exchange gains	**314**	–
Gain arising on change in fair value of financial assets designated as at fair value through profit or loss	**55**	–
Other interest income	**36**	781
Project income	**–**	1,767
Recouped artiste fee	**296**	433
Sales of film materials	**61**	437
Others	**177**	1,086
	969	4,525

5. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on other loan wholly repayable within one year	**56**	58
Interest on amount due to a substantial shareholder of the Company/former immediate holding company	**3,653**	8,807
Interest on convertible bond	**5,023**	8,319
Imputed interest on promissory note payable	**610**	268
	9,342	17,452

Notes: (Continued)

6. LOSS BEFORE TAXATION

	2011	2010
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Staff costs, including directors' remuneration		
– Basic salaries and allowances	**7,333**	22,482
– Retirement benefits scheme contributions	**163**	528
Total staff costs	**7,496**	23,010
Auditors' remuneration		
– Current year	**700**	2,063
– Under provision in prior year	**250**	113
Amortisation of film rights*	**21,164**	34,064
Cost of inventories recognised as expenses*	**10**	217
Depreciation of property, plant and equipment	**401**	946
Exchange loss	**–**	669
Impairment loss on film rights recognised*	**9,029**	41,208
Impairment loss on prepaid artiste fees	**111**	–
Loss on disposal of property, plant and equipment	**–**	19
Loss on early redemption of convertible bond	**1,660**	–
Minimum lease payments under operating leases:		
– Land and building	**657**	3,279
Written down on inventories and record masters*	**90**	–

* Included in "Cost of film and television programme production" of the consolidated statement of comprehensive income.

Notes: (Continued)

7. TAXATION

	2011	2010
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current tax	**–**	1,237
– Overprovision in prior years	**–**	(9)
	–	1,228
Taxation arising in other jurisdiction		
– Current year	**–**	3
	–	1,231

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group and the Company has no assessable profit derived from Hong Kong for the year.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

8. DISCONTINUED OPERATIONS

On 16 December 2009, the Group entered into a sale and purchase agreement to dispose of a subsidiary, EEG Holdings Limited ("EHL"). EHL and its subsidiaries (collectively referred to as the "EHL Group") carried out event production and music production and distribution operations. The disposal was effected in order to focus the resources for the expansion of the Group's other businesses. The disposal was completed on 19 March 2010, on which date control of event production and music production and distribution operations passed to Gain Wealth Investments Limited, an indirect wholly-owned subsidiary of a substantial shareholder of the Company.

The loss for the years from discontinued operations is analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
Loss for the year from discontinued operations	**–**	(3,145)
Gain on disposal of subsidiaries	**–**	1,129
	–	(2,016)

Notes: (Continued)

8. DISCONTINUED OPERATIONS (CONTINUED)

The results of the discontinued operations, which have been included in the consolidated statement of comprehensive income, are as follows:

	2011	2010
	HK$'000	*HK$'000*
Revenue from:		
– Event production	–	12,587
– Music production and distribution	–	29,679
	–	42,266
Other income	–	3,115
Cost of self-organised events	–	(3,779)
Cost of provision of event production services	–	(8,511)
Cost of music production and distribution	–	(17,521)
Selling and distribution costs	–	(901)
Administrative expenses	–	(17,814)
Loss for the year from discontinued operations	–	(3,145)

The loss for the year from the discontinued operations included the following:

	2011	2010
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Directors' emoluments	–	1,532
Retirement benefit scheme contributions for other staff	–	393
Other staff costs	–	12,287
Total staff costs	–	14,212
Cost of inventories recognised as expenses	–	6,402
Depreciation of property, plant and equipment	–	135
Minimum lease payments under operating leases:		
– Land and building	–	1,245
Written back of allowance for bad and doubtful debts	–	(157)

No tax charge or credit arose on gain on discontinuance of the operations.

Notes: (Continued)

8. DISCONTINUED OPERATIONS (CONTINUED)

For the year ended 30 June 2010, the event production and music production and distribution operations contributed HK$6,568,000 to the Group's net operating cash flows and paid HK$70,000 in respect of investing activities.

9. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations is based on the loss for the year attributable to owners of the Company of approximately HK$36,104,000 (2010: HK$50,626,000) and the weighted average number of 6,132,475,017 (2010: 3,411,249,040 (restated)) ordinary shares of the Company in issue during the year.

The weighted average number of shares for the purposes of calculating basis and diluted earnings per share for both years has been adjusted to reflect the share subdivision and the rights issue occurred during the year.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bond since their exercise would result in an anti-dilutive effect on loss per share from continuing and discontinued operations.

From continuing operations

Loss is calculated as follows:

	2011	2010
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	**36,104**	50,626
Less: Loss for the year from discontinued operation	**–**	2,016
Loss for the purpose of basic and diluted loss per share from continuing operations	**36,104**	48,610

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operation

Basic and diluted loss per share from discontinued operations is HK$Nil per share (2010: basic and diluted loss per share of HK0.06 cent per share (restated)) based on the loss for the year from the discontinued operations of HK$Nil (2010: HK$2,016,000) and the denominators detailed above for both basic and diluted loss per share.

Notes: (Continued)

10. TRADE RECEIVABLES

The Group allows credit periods of up to 60 days to its trade customers. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$Nil (2010: HK$7,959,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the repayment pattern of the customers of the Group, debtors which are past due but not impaired are eventually recoverable. The Group's management closely monitors the credit quality of debtors and considers the debtors that are neither past due nor impaired to be of a good credit quality with reference to their repayment history. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the due date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
Current	**13,360**	27,747
Overdue		
0 – 30 days	**–**	993
31 – 60 days	**–**	23
61 – 90 days	**–**	–
Over 90 days	**–**	6,943
	–	7,959
	13,360	35,706

Notes: (Continued)

10. TRADE RECEIVABLES (CONTINUED)

Movement in the allowance for bad and doubtful debts:

	2011	2010
	HK$'000	*HK$'000*
At beginning of the year	**2,036**	2,925
Exchange alignment	**–**	11
Written back for bad and doubtful debts	**–**	(157)
Eliminated upon disposal of subsidiaries	**(2,036)**	(743)
	–	2,036

Allowance for bad and doubtful debts are debtors which are either aged over 1 year or individually impaired that have been placed under liquidation or in severe financial difficulties, which are generally not recoverable based on the historical experience. The Group does not hold any collateral over these balances.

11. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the due date at the end of the reporting period:

	2011	2010
	HK$'000	*HK$'000*
Current	**–**	2,492
Overdue		
0 – 30 days	**–**	2,471
31 – 60 days	**–**	596
61 – 90 days	**–**	496
over 90 days	**–**	7,511
	–	13,566

DIVIDEND

The directors did not recommend the payment of any final dividend for the Year.

REVIEW OF RESULTS

The audited annual results of the Group for the Year have been reviewed by the audit committee of the Company, which 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. The audit committee comprises the three Independent Non-executive Directors, namely Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Lee Wing Ho, Albert.

EXTRACT OF AUDITOR'S REPORT

The following is an extract of the auditor's report on the Group's consolidated financial statements for the Year:

"BASIS FOR QUALIFIED OPINION

(a) Available-for-sale investments

Included in the Group's available-for-sale investments of approximately HK$48,222,000 as at 30 June 2011 was an aggregate amount of approximately HK$46,674,000 investment in Dragonlott Holdings Limited ("DHL") in which the Group holds 13.28% equity interests. As explained in note 19, the directors of the Company have not been provided with any financial or other relevant information of DHL as at 30 June 2011 from the management of DHL and therefore it was unable to determine of any impairment in respect of the investment in DHL was necessary at the end of the reporting period. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the carrying amount of the investment in DHL was free from material misstatement as at 30 June 2011. Any adjustments found to be necessary would affect the state of the Group and of the Company's affair as at 30 June 2011 and the loss for the year then ended.

(b) Opening balances and corresponding figures

The consolidated financial statements of the Group for the year ended 30 June 2010, which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was qualified by the preceding auditor because of the significance of the possible effect of the limitation on the scope of the audit in relation to the investment in DHL. Details of the qualified audit opinions were set out in the independent auditor's report dated 15 September 2010 issued by the preceding auditor and included in the Company's annual report for the year ended 30 June 2010.

We were not able to obtain sufficient appropriate audit evidence to enable us to assess the limitation of scope for the year ended 30 June 2010. Any adjustments found to be necessary to the opening balances as at 1 July 2010 may affect the balance of accumulated loss as at 1 July 2010 and the results and related disclosures in the notes to the consolidated financial statements of the Group for the year ended 30 June 2011. The comparative figures showed in the consolidated financial statements may not be comparable with the figures for the current period.

Any adjustments found to be necessary in respect of the matters set out in points (a) and (b) above would have a significant and consequential effect on the financial position of the Company and of the Group as at 30 June 2011 and 2010 and the results and cash flows of the Group for the years then ended, and the related disclosures thereof in the consolidated financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects on the matters as described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

CORPORATE GOVERNANCE

The Company has adopted various policies to ensure compliance with the code provisions ("Code Provisions") as set out in Appendix 15 of the GEM Listing Rules that are considered to be relevant to the Company and has complied with the Code Provisions save as disclosed below.

Mr. Shiu Stephen Junior currently holds the offices of Chairman and Chief Executive Officer of the Company. The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

MODEL CODE FOR SECURITIES DEALING BY DIRECTORS

The Company had adopted Rules 5.48 to Rules 5.67 of the GEM Listing Rules ("Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry to all the Directors, all the Directors confirmed that they had throughout the Year complied with the required standard of dealings as set out in the Model Code.

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

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF ANNUAL REPORT ON THE GEM WEBSITE

The Annual Report of the Company containing all the information required by the GEM Listing Rules will be dispatched to the shareholders of the Company and be published on the GEM website of the Stock Exchange (www.hkgem.com) and the Company's website (www.china3d8078.com) in due course.

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

Hong Kong, 19 September, 2011

As at the date hereof, the Board comprised:

Executive Directors:	Mr. Shiu Stephen Junior *(Chairman)* Mr. Tsang Pui Lan, Patrick
Independent Non-executive Directors:	Mr. Chan Chi Ho Mr. Kam Tik Lun Mr. Lee Wing Ho, Albert

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.