



hmv 數碼中國集團
Digital China Group

HMV Digital China Group Limited

(Incorporated in Bermuda with limited liability)

(GEM Stock Code : 8078)

THIRD QUARTERLY REPORT 2016-2017

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This report, for which the directors (the “Directors”) of HMV Digital China Group 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 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\$528.9 million for the nine months ended 31 March 2017 (the “Nine-month Period”), compared with approximately HK\$145.7 million for the corresponding period of last year. For the Nine-month Period, a profit attributable to owners of the Company of approximately HK\$52.8 million was recorded whilst in the corresponding period of last year, a loss of HK\$43.6 million was recorded.

During the Nine-month Period, artiste management’s segment contributed a revenue of approximately HK\$81.4 million (2016: HK\$64.9 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$259.3 million (2016: HK\$50 million). In addition to the revenue from the operation of cinemas was approximately HK\$25 million (2016: HK\$23.5 million), revenue from the money lending business was approximately HK\$10.4 million (2016: HK\$7.3 million). The revenue from HMV business was approximately HK\$152.8 million (2016: HK\$Nil).

PROSPECTS

Acquisition of Celestial Talent International Limited

On 29 July 2016, Creative Projects Company Limited, a wholly-owned subsidiary of the Company, Fugu Enterprises Inc. and Mr. Kwong Kwan Yin, Roy entered into the Stock Purchase Agreement in relation to the acquisition of 51% of the entire issued share capital of Celestial Talent International Limited (“Celestial”) at a consideration of HK\$18,000,000.

The acquisition of Celestial has been terminated by all parties by entered into a termination deed on 26 April 2017. Details of the termination were disclosed in the announcement dated 26 April 2017.

Acquisition of Anyplex Hong Kong Limited

On 2 November 2016, the Company entered into a Sale and Purchase Agreement with Anyplex Holding Limited in relation to the acquisition of 100% of issued capital of Anyplex Hong Kong Limited (“Anyplex”) at a consideration of HK\$46,500,000.

The ordinary resolution for approval of the acquisition of Anyplex was duly passed by the shareholders on 10 February 2017.

Strategic Cooperation Framework Agreement announced on 7 December 2016

On 1 December 2016, the Company entered into a strategic cooperation framework agreement (the “Framework Agreement”) with Nextainment Pictures (Tianjin) Co., Limited (the “Investor”), for the joint investment in the distribution of movies (collectively, “Movies” and each a “Movie”) which was expected to be distributed in the People’s Republic of China (“PRC”).

Pursuant to the Framework Agreement, the Company will be responsible for obtaining the film rights from overseas movie production studios; the necessary approvals from respective authorities; the intellectual property rights and the distribution right of each of the Movie in PRC; while the Investor will be responsible for the promotion; advertising and distribution of each of the Movie in PRC. In addition, the Investor shall contribute not over 25% of the investment money of each Movie. The Group plans to introduce many movies into China market through this cooperation, including *The Expandabells* aka *The Belles* (starring Nicole Kidman, Helen Mirren, Zhang Ziyi and Li Bingbing); *Patriots Day* (starring Mark Wahlberg); *Angel Has Fallen* (starring Gerard Butler and Morgan Freeman), the third episode of the series of the big hit *London Has Fallen* and *Olympus Has Fallen*; and *Final Score* (starring Pierce Brosnan and Cheung Chi Lam) etc. The Group believes it can benefit from Wepiao’s ticketing platform in PRC, expand the coverage and diversity of the Group’s business, and strengthen its business chain. The Company and the Investor will enter the joint investment agreement for each movie.

Co-operation Agreement announced on 8 December 2016

On 8 December 2016, the Company entered into a cooperation agreement (the “Co-operation Agreement”) with an independent third party (the “Investor”), pursuant to which the Company and the Investor are to co-operation in the operation and management of a themed shopping mall in Beijing, People’s Republic of China (“PRC”). According to the Co-operation Agreement, the Company will be responsible for contributing an exclusive right to use the brand “HIMV” in the operation of a themed shopping mall.

The Investor is a reputable real estate developer in the PRC which is based in Beijing. The Directors believe that the co-operation with the Investor will enhance the presence of the “HIMV” brand in the PRC.

As at the date of this quarterly report, there is no definitive agreement that has been signed and finalized.

Acquisition of Time Edge Limited

On 13 December 2016, Sunny On Corporation Limited, a wholly-owned subsidiary of the Company and Honour Best Holdings Limited (the "Vendor") entered into the Sale and Purchase Agreement for acquisition of the issued share capital of Time Edge Limited ("Time Edge"), at the total consideration of HK\$50,000,000, which shall be satisfied by the issue of the convertible bond by the Company to the Vendor, subject to the terms and conditions contained in the Sale and Purchase Agreement.

On 25 April 2017, the shareholders passed the ordinary resolutions to approve the acquisition of Time Edge.

Acquisition of Panorama Corporation Limited and Parkway Licensing Company Limited**The Panorama Acquisition**

On 9 January 2017, the Company entered into the Sale and Purchase Agreement ("Panorama Agreement") with Mr. Fung Yu Hing (the "Vendor") in relation to the acquisition of 70% of the issued share capital of Panorama Corporation Limited at consideration of HK\$31,500,000, which shall be satisfied by the issue and allotment of 43,448,275 shares (before adjustment as per bonus issue completed on 15 February 2017) by the Company to the Vendor.

The Parkway Acquisition

On 9 January 2017, the Company entered into the Sale and Purchase Agreement (“Parkway Agreement”) with Mr. Fung Yu Hing Allan, Mr. Wong Wing Kwong Kelvin and Ingate International Company Limited, (the “Parkway Vendors”) in relation to the acquisition of 70% of the issued share capital of Parkway Licensing Limited at a consideration of HK\$7,000,000 which shall be satisfied by cash and issue and allotment of 8,275,861 shares (before adjustment as per bonus issue completed on 15 February 2017) by the Company to the Parkway Vendors.

Details of the acquisitions were disclosed in the announcement dated 9 January 2017.

Potential Acquisition of an Entertainment Group based in Taiwan announced on 6 February 2017

On 6 February 2017, the Company has entered into a non-binding letter of intent (“LOI”) with a third party independent from the Company and its connected persons (as defined under the GEM Listing Rules) relating to the potential acquisition of the entire issued share capital of a Taiwan-based company (the “Target”, together with its subsidiaries, the “Target Group”) by the Company (the “Potential Transaction”).

Pursuant to the LOI, the Potential Transaction is conditional upon, amongst others: (i) satisfaction of due diligence on the Target Group by the Company; (ii) issue of legal opinions from counsels of relevant jurisdictions on the legality of corporate structure and business of Target Group; (iii) no material adverse change to the business of the Target Group from the date of the LOI; (iv) execution and completion of definitive agreement(s) in the form and substance mutually acceptable to relevant parties; and (v) other reasonable and customary conditions reasonably requested by the Company. It is expected that the consideration of the Potential Transaction is to be settled by way of cash and issue of consideration shares by the Company (which shall be subject to lock-up arrangement).

The Target Group is an integrated entertainment group primarily engaged in the investment in and production of motion pictures projects, including but not limited to a number of blockbuster movies, including box office hits and Golden Horse Award winning movies, which are one of the highest grossing Taiwanese film in the People’s Republic of China, namely, “Our Times”. The Target Group also has some upcoming projects in development. The Target Group is one of the main investors for “Our Times”, and has the right to produce “Our Times” series movies and video products.

Subsequent to the Potential Transaction, the Target Company will be a wholly-owned subsidiary of the Company. The Directors believes that the Potential Transaction is in line with the Company, together with its subsidiaries’ (the “Group”) strategic to expand and broaden its territorial reach and allows the Group to strengthen its presence for the movie production and distribution business segments in Asia-Pacific.

As at the date of this quarterly report, there is no definite agreement that has been signed and finalized.

Strategic Cooperation Agreement announced on 22 March 2017

On 22 March 2017, the Company entered into a strategic cooperation agreement (the “Strategic Cooperation Agreement”) with 北京奇藝世紀科技有限公司, a subsidiary of iQIYI Motion Pictures (the “iQIYI”), setting out the major terms of cooperation between the parties for the exclusive internet broadcast rights in the People’s Republic of China (“PRC”).

By entering into the Strategic Cooperation Agreement, the Company authorizes iQIYI to have an exclusive internet broadcast right for the Movies in PRC, including (i) the overseas movies, namely “The Expandabells aka The Belles”, “Angel Has Fallen”, “Final Score”, “Stoic” and “Unchained”; (ii) the movies produced by the Company, namely “29+1”, “The Sinking City From the Space Capsule”, “The Yuppie Fantasia 33D” and “Agent Mr. Chan”; and (iii) the co-invest movies, namely “Death Notify”, “Iceman 2” and “Dynasty Warriors” (collectively, “Movies”).

According to the Strategic Cooperation Agreement, iQIYI will have the exclusive internet broadcast rights of the Movies in PRC for a period from twelve years to fifteen years respectively. The minimum guarantee of the exclusive internet broadcast rights will be paid by iQIYI to the Company for the Movies is RMB133.5 million and also the profit sharing of the box office of the Movies.

CAPITAL STRUCTURE

For the three months ended 31 March 2017, the capital structure of the Company was changed as follows:

Conversion of Convertible Bond

On 16 January 2017, the bondholder has exercised its conversion rights of the Convertible Bond to convert part of principal amount of HK\$3,500,000 at the conversion price of HK\$0.3735 per share. A total of 9,370,816 shares has been issued. The number of shares in issue has been increased to 5,471,099,035 shares.

Bonus Issue

On 2 February 2017, the ordinary resolutions were passed by the shareholders to approve the Company to implement bonus issue (the "Bonus Issue") on the basis of one (1) bonus share for every one (1) share held by the qualifying shareholders whose names appear on the register of members of the Company as at the record date.

The Bonus Issue was completed on 15 February 2017 and a total of 5,471,099,035 bonus shares were issued. After the completion of the Bonus Issue, the number of shares in issue has been increased to 10,942,198,070 shares.

Issue of Consideration Shares

On 24 February 2017, the Company has issued 117,985,610 consideration shares for the acquisition of Anyplex Hong Kong Limited. The number of shares in issue has been increased to 11,060,183,680 shares.

Placing of new shares under general mandate

On 21 March 2017, the Company completed the general mandate placing of an aggregate of 490,200,000 general mandate placing shares at the placing price of HK\$0.25 per general mandate placing share. After the completion of general mandate placing, the number of shares in issue has been increased to 11,550,383,680 shares.

RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the three months and nine months period ended 31 March 2017 together with the comparative unaudited figures for the corresponding period in 2016 are as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 31 March 2017

	Notes	For the three months ended 31 March		For the nine months ended 31 March	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	2 & 3	198,014	64,809	528,940	145,728
Other income		907	936	10,618	1,694
Cost of sales		(127,212)	(47,406)	(365,992)	(108,338)
Selling and distribution costs		(8,863)	(4,591)	(44,334)	(9,560)
Administrative expenses		(39,146)	(18,422)	(72,463)	(47,981)
Change in fair value of investments at fair value through profit or loss mandatorily measured at fair value		258	(19,729)	1,974	(18,858)
Finance costs		(4,129)	(3,251)	(6,922)	(6,943)
Share of results of associates		141	613	436	1,344
Share of results of a joint venture		(1)	(1)	-	3
Profit/(loss) before taxation		19,969	(27,042)	52,257	(42,911)
Taxation	4	357	-	567	-
Profit/(loss) for the period		20,326	(27,042)	52,824	(42,911)
Profit/(loss) for the period attributable to:					
Owners of the Company		21,552	(27,939)	52,778	(43,567)
Non-controlling interests		(1,226)	897	46	656
		20,326	(27,042)	52,824	(42,911)
Other comprehensive income/(loss)					
Exchange differences on translating foreign operation		(1,895)	(557)	(3,039)	(1,251)
Change in fair value of investments at fair value through other comprehensive income		3,132	10,822	1,827	(6,292)
Total other comprehensive income/(loss) for the period, net of income tax		1,237	10,265	(1,212)	(7,543)
Total comprehensive income/(loss) for the period		21,563	(16,777)	51,612	(50,454)
Total comprehensive income/(loss) for the period attributable to:					
Owners of the Company		22,789	(17,674)	51,566	(51,110)
Non-controlling interests		(1,226)	897	46	656
		21,563	(16,777)	51,612	(50,454)
Profit/(loss) per share (2016: restated)	5				
Basic & diluted		HK0.2 cents	HK(0.47) cents	HK0.5 cents	HK(0.73) cents

NOTES:

1. Basis of Preparation

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 nine months ended 31 March 2017 are consistent with those followed in the annual report of the Company for the year ended 30 June 2016, 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 Recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Artiste management services fee income is recognised when the services are provided.
- (b) Income from film production and licensing of corresponding rights is recognised when the production is completed and released and the amount can be measured reliably.
- (c) Income from the distribution of films is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served to the customers.
- (d) Income from box office takings is recognised when the services have been rendered to the buyers.
- (e) Interest income from a financial asset (including money lending) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- (f) Rental income is recognised on a straight-line basis over the term of the lease.
- (g) Revenue from sales of goods is recognised, net of discounts and returns, on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customers.
- (h) Revenue from sales of food and beverage is recognised, net of discounts, in profit or loss at the point of sale to customers.

NOTES: (Continued)

2. Revenue Recognition (Continued)

	Three months ended		Nine months ended	
	31 March		31 March	
	2017	2016	2017	2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
An analysis of the Group's revenue for the period is as follows:				
Artiste management services and music production	13,066	35,796	81,438	64,895
Production, licensing and distribution of films and television programmes	107,260	16,551	259,348	50,043
Money Lending – Loan interest income	3,962	3,260	10,392	7,280
Operation of cinemas	7,750	9,202	24,953	23,510
HMV Business	65,976	–	152,809	–
Total	198,014	64,809	528,940	145,728

NOTES: (Continued)

3. Segment Information

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar products and service provided. 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 six reportable segments, (i) artiste management services and music production, (ii) production, licensing and distribution of films and television programmes, (iii) money lending, (iv) securities and bond investment, (v) operation of cinemas, and (vi) HMV Business. The segmentation is based on the information about the operations of the Group that Chief Operating Decision Maker uses to make decisions.

4. Taxation

No provision for Hong Kong Profits Tax has been made for the three months and nine months period ended 31 March 2017 as the Group has statutory tax loss brought forward from prior years (three months and nine months ended 31 March 2016: 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.

5. Profit/(Loss) Per Share

The calculation of the basic profit/(loss) per share is based on the profit for the Nine-month Period attributable to owners of the Company of approximately HK\$52,778,000 (2016: loss of approximately HK\$43,567,000) and the weighted average number of 10,580,981,393 ordinary shares of the Company in issue during the Nine-month Period (2016: 5,944,207,357 (restated)).

The calculation of the diluted profit/(loss) per share for the Nine-month Period is based on the profit attributable to owners of the Company of approximately HK\$52,778,000 (2016: loss of approximately 43,567,000) and the weighted average number of 10,590,352,210 ordinary shares for the purpose of diluted profit per share during the Nine-month Period (2016: 5,944,207,357 (restated)).

NOTES: (Continued)

6. Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the nine months ended 31 March 2017

	Attributable to owners of the Company								Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Contributed surplus HK\$'000	Convertible bond equity reserve HK\$'000	Translation reserve HK\$'000	Retained earnings/(accumulated losses) HK\$'000	Total HK\$'000		
At 1 July 2015	1,582	184,209	(89,433)	261,837	-	55	(100,233)	278,017	(614)	277,403
Total comprehensive loss for the period	-	-	(6,292)	-	-	(1,251)	(43,567)	(51,110)	656	(50,454)
Issue of shares upon bonus issues	28,746	(28,746)	-	-	-	-	-	-	-	-
Issue of shares upon placing	8,000	192,000	-	-	-	-	-	200,000	-	200,000
Transaction cost attributable to issues of shares	-	(5,158)	-	-	-	-	-	(5,158)	-	(5,158)
Disposal of partial interest in a subsidiary	-	-	-	-	-	-	2,431	2,431	(731)	1,700
At 31 March 2016	38,328	342,305	(75,725)	261,837	-	(1,196)	(141,369)	424,180	(689)	423,491
At 1 July 2016	38,328	342,305	(59,863)	-	-	(1,833)	(30,098)	288,839	1,762	290,601
Total comprehensive income for the period	-	-	1,827	-	-	(3,039)	52,778	51,566	46	51,612
Issue of shares upon bonus issues	54,711	(54,711)	-	-	-	-	-	-	-	-
Issue of shares upon acquisition	17,469	1,644,536	-	-	-	-	-	1,662,005	-	1,662,005
Issue of shares upon placing	4,902	117,648	-	-	-	-	-	122,550	-	122,550
Issue of shares upon conversion of convertible bond	94	3,406	-	-	-	-	-	3,500	-	3,500
Transaction cost attributable to issue of shares	-	(2,347)	-	-	-	-	-	(2,347)	-	(2,347)
Acquisition of partial interest in a subsidiary	-	-	-	-	-	-	(3,222)	(3,222)	(634)	(3,856)
At 31 March 2017	115,504	2,050,837	(58,036)	-	-	(4,872)	19,458	2,122,881	1,174	2,124,065

7. Comparative figures

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

LITIGATION

The Group has three pending litigations as below and in the opinion of the board of Directors (the "Board"), it is premature to predict the outcome.

A writ of summons was issued against the Company by Green Giant Investments Limited on 12 February 2015

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 has made an order in terms of the plaintiff's application is granted and final judgement is granted to the plaintiff as per its summons on 21 January 2016. The Company submitted the documents to commence the appeal and won the appeal on 13 July 2016. Green Giant and the Company be arranged to re-fix the hearing in future.

In the opinion of the Directors, the Note payable of HK\$14,160,000 is properly recognized as at 30 June 2015 and 30 June 2016, as such, the Directors did not consider that the litigation to have any significant impact on the Group's financial position and operations.

A writ of summons was issued against Champion Peak Corporation Limited, a wholly-owned subsidiary of the Company by Television Broadcasts Limited on 21 July 2016

A writ of summons (the "Writ") was issued against Champion Peak Corporation Limited ("Champion Peak"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 21 July 2016. It was alleged in the Writ that TVB claims against Champion Peak the sum of HK\$935,000, being the outstanding additional shooting fees from 16 March 2015 to 1 June 2015. Champion Peak filed and served a Defence in October 2016.

A writ of summons was issued against New Noble Corporation Limited, a wholly-owned subsidiary of the Company by Television Broadcasts Limited on 19 August 2016

A writ of summons (the "Writ") was issued against New Noble Corporation Limited ("New Noble"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 19 August 2016. It was alleged in the Writ that TVB claims against New Noble the sum of HK\$278,000, being the agreed fee for the subject shooting days, including the shooting of the main film, the "making-of" video and the roller feature from 14 July 2013 to 30 August 2013. New Noble filed and serve a Defence in November 2016.

DIVIDEND

The Board did not recommend the payment of a dividend for the nine months ended 31 March 2017 (nine months ended 31 March 2016: Nil).

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

As at 31 March 2017, 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
Mr. Shiu Stephen Junior	Beneficial owner	283,840	0%
Mr. Wu King Shiu, Kelvin (<i>note 1</i>)	Beneficiary owner	518,213,964	4.49%
Ms. Li Mau (<i>note 1</i>)	Family interest	518,213,964	4.49%

Note:

1. AID Partners Urban Development Company Limited ("AID Partners") owns 518,213,964 shares. 60% of the issued share capital of AID Partners are held by Mr. Wu King Shiu Kelvin ("Mr. Wu"). Accordingly, Mr. Wu is deemed to be interested in the shares held by AID Partners. Ms. Li Mau ("Ms. Li") is the spouse of Mr. Wu. Ms. Li is also deemed to be interested in the shares held by AID Partners.

Save as disclosed above, as at 31 March 2017, 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 AND DIRECTORS' AND CHIEF EXECUTIVES' 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 Nine-month Period.

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

Save as disclosed below, so far as known to the Directors, as at 31 March 2017, 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.

Name	No. of shares	Percentage
AID Treasure Investment Ltd (<i>note 1</i>)	2,236,438,356 shares	19.36%

Note:

1. AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Partners Technology Holdings Limited, a listed company on GEM (Stock code: 8088).

COMPETING INTERESTS

As at 31 March 2017, 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 businesses of ODMP may constitute competition with the business of the Group.

POTENTIAL COMPETITION FROM HMV HONG KONG LIMITED

HMV Hong Kong Limited ("HMV HK") is indirectly wholly-owned by AID Partners Capital II, L.P. ("AID Cap II"). AID Cap II is controlled by AID Partners GP2, Ltd., which is ultimately controlled by Mr. Wu King Shiu, Kelvin and in which Mr. Ho Gilbert Chi Hang and Mr. Chang Tat Joel are directors. HMV HK has been granted an exclusive license by Palm Green Capital Limited (Record Shop 3 Limited (formerly named HMV (IP) Limited) was the former licensor), a third party independent of the Group, to use the well-known brand name "HMV" within the territory of the PRC, Hong Kong, the Macau Special Administrative Region of the PRC, Taiwan and Singapore ("HMV IP Rights").

Pursuant to the sale and purchase agreement dated 28 August 2015 in relation to the sale and purchase of the HMV Business, at completion on 30 November 2015 (i) the HMV IP Rights in respect of the PRC, Hong Kong and Singapore were assigned by HMV HK to HMV Marketing Limited ("HMV Marketing"), an indirect wholly-owned subsidiary of the Company; and (ii) the assets in respect of the retailing business of "HMV" operating through the four (4) physical retail stores located in Hong Kong and operated by HMV HK prior to the completion of the said acquisition were transferred by HMV HK to HMV Marketing (the "HMV Acquisition"). After completion of the HMV Acquisition, HMV Marketing has the licence to use the HMV IP Rights within the PRC, Hong Kong and Singapore and HMV HK has the licence to use the HMV IP Rights within the Macau Special Administrative Region of the PRC and Taiwan.

HMV Marketing and HMV HK each have the rights to use the HMV IP Rights in different territories as set out above. Given that there is no overlap of territories in the use of the HMV IP Rights by HMV Marketing and HMV HK, the Directors do not consider that there is any material competition between the business of Group and that of HMV HK.

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.

DIRECTORS' INTERESTS IN CONTRACTS

As at 31 March 2017, no other contracts of significance in relation to the Group business to which the Company, any of the subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at the time during the Nine-month Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the nine months ended 31 March 2017, the Company has complied with the code provisions ("Code") set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules, except for the following deviation of Code A.2.1.

Code A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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.

CORPORATE GOVERNANCE

The Board has adopted various policies to ensure compliance with the code provisions of the Code. During the Nine-month Period, the Board is pleased to confirm that the Company has complied fully with the Code except with the deviation from Code A.2.1 which requires the role of chairman and chief executive officer be separate and not be performed by the same individual. Currently, Mr. Shiu Stephen Junior holds the offices of Chairman and CEO of the Company. The Board considers that the current structure of vesting the roles of Chairman and CEO 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.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The audit committee (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Benny. Mr. Kam Tik Lun is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review the Company's annual report and accounts, half-year report, quarterly reports and monthly reports and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and monitoring the Company's internal control procedures. The Group's unaudited results for the nine months ended 31 March 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

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.

REVIEW OF QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Nine-month Period have not been audited nor reviewed by the Company's auditor, ZHONGHUI ANDA CPA Limited, 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 three Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Benny.

COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by the 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 the Directors adopted by the Company throughout the nine months ended 31 March 2017.

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

During the Nine-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
HMV Digital China Group Limited
Shiu Stephen Junior
Chairman

Hong Kong, 11 May 2017

As at the date hereof, the Board comprises:

Executive Directors:

Mr. Shiu Stephen Junior (*Chairman*)
Ms. Li Mau (*Co-Chairman*)
Mr. Sun Lap Key, Christopher
Mr. Lee Wing Ho, Albert
Mr. Ho Gilbert Chi Hang

Non-executive Director:

Mr. Wu King Shiu, Kelvin

Independent Non-executive Directors:

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