



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
2018-2019



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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 loss attributable to owners of the Company of approximately HK\$1.47 billion was recorded whilst in the corresponding period of last year, a loss of HK\$16.3 million was recorded. For the nine months ended 31 March 2019 (“Nine-month Period”) a loss from the discontinued operation of approximately HK\$1.34 billion was recorded whilst in the corresponding period of the last year, a loss of HK\$22.5 million was recorded.

For the continuing operation during the Nine-month Period, artiste management’s segment contributed a revenue of approximately HK\$33 million (2018: HK\$118.1 million). The revenue from the business segment of distribution and production of films, television programmes and music production was approximately HK\$16.9 million (2018: HK\$66.7 million). The revenue from the money lending business was approximately HK\$25 million (2018: HK\$17.6 million). For the discontinued operation during Nine-month Period, the revenue from the operation of cinemas was approximately HK\$20.4 million (2018: HK\$32.4 million). The revenue from HMV business was approximately HK\$50.7 million (2018: HK\$158.1 million).

BUSINESS REVIEW

Disposal of Cineunited Circuits Company Limited and Fore Head Limited

The Cineunited Circuits Disposal

On 4 January 2019, the Company entered into the Sale and Purchase Agreement (“Cineunited Circuits Agreement”) with Crown King Corporation Limited (the “Cineunited Circuits Purchaser”) in relation to the disposal of the entire issued share capital of Cineunited Circuits Company Limited and the Group’s loans at a consideration of RMB17,300,000 less the aggregate liability of Cineunited Circuits Company Limited and its subsidiaries as at cut-off date, which shall be paid by Cineunited Circuits Purchaser to the Company upon completion. Upon completion, Cineunited Circuits Company Limited and its subsidiaries have been ceased to be subsidiaries of the Company.

Details of the disposal was disclosed in the announcement dated 4 January 2019 and the disposal was completed.

Update on Voluntary Winding-up of HMV Marketing Limited

The company have resolved to voluntarily wind up HMV Marketing Limited (“HMV Retails”) and HMV Retails was ceased to be a subsidiary of the Company with effect from 9 January 2019.

Details of the Voluntary winding up of HMV Retails were disclosed in the announcement dated 18 December 2018, 20 December 2018 and 11 January 2019.

The Fore Head Disposal

On 25 March 2019, the Company entered into the Sale and Purchase Agreement (“Fore Head Agreement”) with Hero Talent Group Limited (the “Hero Talent Group Purchaser”) in relation to the disposal the entire issued share capital of Fore Head Limited (“Fore Head”) at a consideration of HK\$33,000,000 which shall be paid in cash by the Hero Talent Group Purchaser to the Company. Upon completion, Fore Head and its subsidiary will cease to be subsidiaries of the Company.

Details of the disposal was disclosed in the announcement dated 25 March 2019. The disposal was completed on 4 April 2019.

CAPITAL STRUCTURE

For the nine months ended 31 March 2019, the capital structure of the Company was changed as follows:

Cancellation of Repurchased Share

The Company repurchased an aggregate of 28,180,000 shares through the Stock Exchange during the period from 16 November 2018 to 3 December 2018 and those shares were cancelled on 17 January 2019. The total issued share capital of the Company as at 31 March 2019 is 13,570,388,971 Shares.

Proposed Capital Reorganisation and Change in Board Lot Size

On 25 January 2019, the Board proposed to consolidate forty (40) issued Existing shares of a par value of HK\$0.01 each in the issued share capital of the Company into one (1) consolidated share of a par value of HK\$0.40 each in the issued share capital of the Company. Immediately upon the Share Consolidation becoming effective, the issued share capital of the Company be reduced by (i) cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (ii) cancelling the paid up capital of the Company to the extent of HK\$0.39 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$0.40 to HK\$0.01. And the Board also proposed to change the board lot size for trading on the Stock Exchange from 20,000 Existing Shares to 10,000 Adjusted Shares ("Original Capital Reorganisation").

The Board has received opinions and recommendations from a Shareholder implementing a share consolidation with a higher ratio and reducing the board lot size. Therefore, the special general meeting for the Original Capital Reorganisation was approved to adjourn by the Shareholders of the Company on 27 March 2019.

On 24 April 2019, the Board has taken the comments into consideration and re-considered, amongst other things, the structure of the capital reorganisation of the Company and the change in board lot size. Subsequently, the Board has decided to revise the structure of the capital reorganisation of the Company. The New Capital Reorganisation are as follows:

Share Consolidation

Every fifty (50) issued Existing Shares of a par value of HK\$0.01 each in the issued share capital of the Company be consolidated into one (1) Consolidated Share of a par value of HK\$0.50 each in the issued share capital of the Company.

Capital Reduction

Immediately upon the Share Consolidation becoming effective, the issued share capital of the Company be reduced by (i) rounding down the number of Consolidated Shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a Consolidated Share in the issued share capital of the Company; and (ii) cancelling the paid up capital of the Company to the extent of HK\$0.49 on each of the then issued Consolidated Shares such that the par value of each issued Consolidated Share will be reduced from HK\$0.50 to HK\$0.01.

Change in Board Lot Size

After taking the comments of the Shareholder into consideration, the Board now proposes to change the board lot size for trading on the Stock Exchange from 20,000 Existing Shares to 8,000 Adjusted Shares.

The new special general meeting for the New Capital Reorganisation and Change in Board Lot Size will be fixed on 22 May 2019.

RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the three months and nine months period ended 31 March 2019 together with the comparative unaudited figures for the corresponding period in 2018 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 2019

	Notes	For the three months ended 31 March		For the nine months ended 31 March	
		2019 HK\$'000	2018 HK\$'000 (Re-presented)	2019 HK\$'000	2018 HK\$'000 (Re-presented)
Continuing operation					
Revenue	2 & 3	21,054	63,344	74,919	202,453
Other income		19,047	104	25,381	393
Cost of sales		(22,401)	(31,306)	(70,763)	(142,166)
Selling and distribution costs		(3,914)	(7,391)	(9,895)	(17,431)
Administrative expenses		(15,705)	(13,183)	(41,521)	(41,116)
Other operating expenses	4	(44,173)	-	(44,173)	-
Change in fair value of investments at fair value through profit or loss		(31,761)	3,300	(5,211)	17,249
Change in fair value of investment properties		-	(332)	-	(332)
Finance costs		(41,152)	(6,820)	(63,249)	(11,279)
Share of results of associates		219	80	534	759
(Loss)/profit before taxation from continuing operation		(118,786)	7,796	(133,978)	8,530
Taxation	5	-	-	21	101
(Loss)/profit for the period from continuing operation		(118,786)	7,796	(133,957)	8,631
Discontinued operations					
Loss for the period from discontinued operation	6	(1,255,393)	(7,862)	(1,337,488)	(22,490)
Loss for the period		(1,374,179)	(66)	(1,471,445)	(13,859)
Loss for the period attributable to:					
Owners of the Company		(1,373,769)	(455)	(1,470,580)	(16,267)
Non-controlling interests		(410)	389	(865)	2,408
		(1,374,179)	(66)	(1,471,445)	(13,859)
Other comprehensive (loss)/income					
Exchange differences on translating foreign operation		4,477	(2,110)	2,264	(4,424)
Change in fair value of investments at fair value through other comprehensive income		447	(14,083)	(33,721)	(29,089)
Total other comprehensive (loss)/income for the period, net of income tax		4,924	(16,193)	(31,457)	(33,513)
Total comprehensive loss for the period		(1,369,255)	(16,259)	(1,502,902)	(47,372)
Total comprehensive (loss)/income for the period attributable to:					
Owners of the Company		(1,368,845)	(16,648)	(1,502,037)	(49,780)
Non-controlling interests		(410)	389	(865)	2,408
		(1,369,255)	(16,259)	(1,502,902)	(47,372)
(Loss)/profit per share					
From continuing and discontinued operations					
- basic	7a	(HK\$10.15 cents)	(HK\$0.01 cents)	(HK\$10.86 cents)	(HK\$0.12 cents)
- diluted	7a	(HK\$9.64 cents)	(HK\$0.01 cents)	(HK\$10.32 cents)	(HK\$0.12 cents)
From continuing operations					
- basic	7b	(HK\$0.88 cents)	HK\$0.06 cents	(HK\$0.99 cents)	HK\$0.06 cents
- diluted	7b	(HK\$0.83 cents)	HK\$0.06 cents	(HK\$0.94 cents)	HK\$0.06 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 2019 are consistent with those followed in the annual report of the Company for the year ended 30 June 2018, 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 production of films, television programmes and music production is recognised when the production is completed and released and the amount can be measured reliably.
- (c) Income from the distribution of films and television programmes 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.

NOTES: (Continued)

2. REVENUE RECOGNITION (Continued)

- (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.

	Three months ended 31 March		Nine months ended 31 March	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000 (restated)
An analysis of the Group's revenue for the period is as follows:				
Artiste management services	9,520	22,313	33,052	118,137
Distribution and production of films, television programmes and music production	5,758	37,123	16,896	66,705
Money Lending				
– Loan interest income	5,776	3,909	24,971	17,611
Operation of cinemas	–	14,076	20,362	32,434
HMV Business	–	51,432	50,707	158,110
Total	21,054	128,853	145,988	392,997
Representing:				
Continuing operations	21,054	63,344	74,919	202,453
Discontinued operations	–	65,509	71,069	190,544
	21,054	128,853	145,988	392,997

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 Maker" to make decisions about resource allocation to the segments and assess their performance.

The Group has six reportable segments, (i) artiste management services, (ii) distribution and production of films, television programmes and music production, (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. OTHER OPERATING EXPENSES

	Notes	2019 HK\$'000	2018 HK\$'000
Impairment of goodwill	(a)	21,642	–
Impairment of intangible assets	(b)	22,531	–
		44,173	–

- (a) During the Nine-month Period, the Group recognised an impairment loss of approximately HK\$21,642,000 (2018: HK\$Nil) so as to reflect the reduced recoverable amount of the cash-generating unit ("CGU") as assessed by management based on the current business and operating environment of online music streaming.
- (b) During the Nine-month Period, the Group recognised an impairment loss of approximately HK\$22,531,000 (2018: HK\$Nil) so as to reflect the reduced recoverable amount of intangible assets as assessed by management based on the current business and operating environment of online music streaming.

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the three months and nine months period ended 31 March 2019 as the Group has statutory tax loss brought forward from prior years (three months and nine months ended 31 March 2018: 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.

NOTES: (Continued)

6. DISCONTINUED OPERATIONS

The loss for the Nine-month Period from the discontinued operations is analysed as follows:

	Notes	2019 HK\$'000	2018 HK\$'000 (re-presented)
Loss of operation of cinemas	(a)	38,449	12,884
Loss of HMV Business	(b)	1,299,039	9,606
Loss for the year from discontinued operations		1,337,488	22,490

(a) Operation of cinemas business

On 4 January 2019, the Company entered into the Sale and Purchase Agreement (“Cineunited Circuits Agreement”) with Crown King Corporation Limited (the “Cineunited Circuits Purchaser”) in relation to the disposal of the entire issued share capital of Cineunited Circuits Company Limited and the Group’s Loans at a consideration of RMB17,300,000 less the aggregate liability of Cineunited Circuits Company Limited and its subsidiaries as at cut-off date, which shall be paid by Cineunited Circuits Purchaser to the Company upon completion. Upon Completion, Cineunited Circuits Company Limited and its subsidiaries (“Disposal Group”) have been ceased to be subsidiaries of the Company.

The loss for the period from discontinued operations in respect of Disposal Group is analysed as follows

	Period from 1 July 2018 to 4 January 2019 (date of disposal) (Unaudited) HK\$'000	Period ended 31 March 2018 (Unaudited) HK\$'000
Revenue	20,362	32,434
Cost of sales	(9,952)	(15,977)
Gross profit	10,410	16,457
Other income	1,313	3,080
Gain on disposal of operation of cinemas	774	–
Selling and distribution costs	(486)	(1,634)
Administrative expenses	(50,460)	(30,787)
Loss before tax	(38,449)	(12,884)
Income tax expense	–	–
Loss for the period from discontinued operation and attributable to owners of the Company	(38,449)	(12,884)

NOTES: (Continued)

6. DISCONTINUED OPERATIONS (Continued)

(b) *HMV Business*

The Company has resolved to voluntarily wind up HMV Marketing Limited (“HMV Retails”) and HMV Retails was ceased to be a subsidiary of the Company with effect from 9 January 2019.

The loss for the period from discontinued operations in respect of liquidating subsidiary is analysed as follows

	Period from 1 July 2018 to 9 January 2019 (date of effective) (Unaudited) HK\$'000	Period ended 31 March 2018 (Unaudited) HK\$'000
Revenue	50,707	158,110
Cost of sales	(36,707)	(96,037)
Gross profit	14,000	62,073
Other income	1,751	2,835
Other gains and losses	30,787	–
Selling and distribution costs	(45,381)	(48,947)
Administrative expenses	(13,630)	(26,197)
Written off of goodwill	(1,050,455)	–
Written off of intangible assets	(236,500)	–
Loss before tax	(1,299,428)	(10,236)
Income tax expense	389	630
Loss for the period from discontinued operation and attributable to owners of the Company	(1,299,039)	(9,606)

7. (LOSS)/PROFIT PER SHARE

(a) *From continuing and discontinued operations*

The calculation of the basic loss per share is based on the loss for the Nine-month Period attributable to owners of the Company of approximately HK\$1,470,580,000 (2018: loss of approximately HK\$16,267,000) and the weighted average number of 13,539,234,177 ordinary shares of the Company in issue during the Nine-month Period (2018: 13,481,570,670). The calculation of the diluted loss per share for the Nine-month Period is based on the loss attributable to owners of the Company of approximately HK\$1,470,580,000 (2018: loss of approximately HK\$16,267,000) and the weighted average number of 14,252,619,153 ordinary shares for the purpose of diluted loss per share during the Nine-month Period (2018: 13,843,313,277).

NOTES: (Continued)

7. (LOSS)/PROFIT PER SHARE (Continued)

(b) From continuing operations

The calculation of the basic loss/profit per share is based on the loss for the Nine-month Period attributable to owners of the Company of approximately HK\$133,978,000 (2018: profit of approximately HK\$8,631,000) and the weighted average number of 13,539,234,177 ordinary shares of the Company in issue during the Nine-month Period (2018: 13,481,570,670). The calculation of the diluted loss/profit per share for the Nine-month Period is based on the loss attributable to owners of the Company of approximately HK\$133,978,000 (2018: profit of approximately HK\$8,631,000) and the weighted average number of 14,252,619,153 ordinary shares for the purpose of diluted (loss)/profit per share during the Nine-month Period (2018: 13,843,313,277).

8. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 March 2019

	Attributable to owners of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
At 1 July 2017	134,758	2,518,619	(60,668)	(2,012)	(9,455)	2,581,242	(73)	2,581,169
Total comprehensive income/(loss) for the period	-	-	(29,089)	(4,424)	(16,267)	(49,780)	2,408	(47,372)
Issue of shares upon conversion of convertible bond	193	5,435	-	-	-	5,628	-	5,628
At 31 March 2018	134,951	2,524,054	(89,757)	(6,436)	(25,722)	2,537,090	2,335	2,539,425
At 1 July 2018	134,951	2,523,239	(173,836)	(2,644)	(3,083)	2,478,627	(382)	2,478,245
Total comprehensive income/(loss) for the period	-	-	(33,721)	2,264	(1,470,580)	(1,502,037)	(865)	(1,502,902)
Issue of share upon acquisition of subsidiaries	1,035	13,443	-	-	-	14,478	(6,190)	8,288
Cancellation of Repurchased Share	(282)	(4,666)	-	-	-	(4,948)	-	(4,948)
Transaction cost attributable to issue of shares	-	(68)	-	-	-	(68)	-	(68)
At 31 March 2019	135,704	2,531,948	(207,557)	(380)	(1,473,663)	986,052	(7,437)	978,615

9. COMPARATIVE FIGURES

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

LITIGATION

A judgement and Decision handed down by the Court of First Instance of the High Court and the District Court of Hong Kong respectively.

Soliton (HK) Limited, a subsidiary of the Company (“Soliton”) received (i) a judgement handed down by the Court of First Instance of the High Court of Hong Kong on 19 March 2019; and (ii) a decision handed down by the District Court of Hong Kong on 8 March 2019 respectively. According to the Judgement and Decision, it ordered Soliton to pay WEA Internation Inc an amount of HK\$2,100,000 and pay Warner Music Hong Kong Limited an amount of HK\$850,000 and shall destroy and/or return all licensed material of Warner.

Soliton is seeking legal advice in relation to the Judgement and Decision for any further action, including but not limited to taking out an appeal, seeking for a compromise of the Judgement and the Decision and/or conducting restructuring of the Group.

DIVIDEND

The Board did not recommend the payment of a dividend for the Nine-month Period (nine months ended 31 March 2018: Nil).

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

As at 31 March 2019, 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 Rules 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 (Note 1)	Beneficial owner	1,114,883,840	8.22%

Note:

1. Mr Shiu Stephen Junior is the Chairman and Executive Director of the Company. 1,110,000,000 shares were pledged to Wan Tai Investments Limited, a subsidiary of CCB International Group Holdings Limited on 2 January 2018.

Save as disclosed above, as at 31 March 2019, 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 2019, 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.

(i) Interests in the Shares

Name	No. of shares	Percentage
AID Treasure Investment Ltd (Note)	2,394,938,356	17.65%

Note:

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

(ii) Interests in the Convertible Bonds

Name	Conversion Price HK\$	No. of Underlying Shares	Percentage
AID Treasure Investment Ltd (Note 1)	0.305	163,934,426	1.21%
Wan Tai Investments Limited (Note 2)	0.273	549,450,549	4.05%

Notes:

1. AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Life Science Holdings Limited, a listed company on GEM (Stock code: 8088). The conversion price was adjusted with effect from 12 June 2017.
2. Wan Tai Investments Limited is a limited liability business company incorporated under the laws of the British Virgin Islands and an indirectly wholly-owned special purpose vehicle of CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is wholly-owned by China Construction Bank Corporation, a joint stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939).

COMPETING INTERESTS

As at 31 March 2019, 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.

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 2019, 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 Nine-month Period, 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. Lee Wing Lun and Ms. Yang Yusi. 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 advices 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-month Period 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. Lee Wing Lun and Ms. Yang Yusi.

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 Rules 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-month Period.

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

None of the members of the Group purchased, sold or redeemed any of the Group's listed securities during the period from 1 January 2019 to 31 March 2019.

By order of the Board
HMV Digital China Group Limited
Shiu Stephen Junior
Chairman

Hong Kong, 10 May 2019

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. Lee Wing Lun
Ms. Yang Yusi