THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China 3D Digital Entertainment Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HMV M&E LIMITED; (2) PROPOSED CHANGE OF COMPANY NAME; (3) PROPOSED ALLOTMENT AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; AND (4) NOTICE OF SGM

Terms used in this cover shall have the same meanings as defined in this circular.

A notice convening the SGM to be held at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong at 4:00 p.m. on Wednesday, 20 July 2016 is set out on pages 145 to 148 of this circular. A form of proxy for the special general meeting is enclosed herein. Whether or not you are able to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

24 June 2016

* *For identification purpose only*

CHARACTERISTICS OF GEM

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.

CONTENTS

In this circular, unless the context otherwise required, the following terms and expressions shall have the following meanings when used herein:

"Acquisitions"	Acquisition I and Acquisition II
"Acquisition I"	the acquisition of the Sale Shares I by the Purchaser from the Vendor I pursuant to the Sale and Purchase Agreement I
"Acquisition II"	the acquisition of the Sale Shares II by the Purchaser from the Vendor II pursuant to the Sale and Purchase Agreement II
"Announcements"	the announcements dated 14 March 2016 and 1 April 2016 in relation to, inter alia, the Acquisition I and the Acquisition II respectively
"Board"	the board of Directors
"Business Day(s)"	a day (other than Saturday and Sunday) on which banks are open for business in Hong Kong
"Central Retail Store"	the retail store that was located on the 3rd and 4th Floor of Entertainment Building, 30 Queen's Road Central, Hong Kong
"Change of Company Name"	the proposed change the name of the Company from "China 3D Digital Entertainment Limited" to "HMV Digital China Group Limited" and to adopt the Chinese name of "HMV數碼中國集團有限公司" as the secondary name of the Company to replace the existing Chinese name of "中國3D數碼娛樂有限公司" which was adopted for identification purposes only
"Company"	China 3D Digital Entertainment Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on GEM Board of the Stock Exchange
"Completion"	completion of the Acquisitions and the transactions contemplated under the Sale and Purchase Agreements in accordance with its terms
"Completion Date"	subject to the various conditions precedents and terms of the Sale and Purchase Agreements having been fulfilled or waived, completion shall take place no later than the fifth Business Day immediately after fulfiment (or waiver) of the conditions precedent under the Sale and Purchase Agreements or such other date as the Vendor and the Purchaser may agree in writing, and the completion of Acquisition I and Acquisition II shall take place on the same date and at the same time

"Consideration I"	the sum of HK$408,150,000 to be paid by the Purchaser to Vendor I for the Sale Shares I in such time, mode and manner as set out in the Sale and Purchase Agreement I
"Consideration II"	the sum of HK$91,850,000 to be paid by the Purchaser to Vendor II for the Sale Shares II in such time, mode and manner as set out in the Sale and Purchase Agreement II
"Consideration Shares"	Consideration Shares I and Consideration Shares II, the new shares to be allotted and issued by the Company to Vendor I (or its nominee) and Vendor II (or its nominee) as settlement of the consideration for Acquisition I and Acquisition II respectively
"Consideration Shares I"	1,118,219,178 new shares to be allotted and issued by the Company to Vendor I or its nominee as the settlement of the consideration pursuant to the Sale and Purchase Agreement I
"Consideration Shares II"	251,643,835 new shares to be allotted and issued by the Company to the Vendor II as settlement of the Consideration pursuant to the Sale and Purchase Agreement II
"Director(s)"	the director(s) of the Company
"Encumbrances"	any mortgage, charge, pledge, lien, trust, encumbrance, security interest, assignment by way of security or other third party right or interest
"Enlarged Group"	The Group after completion of the Acquisitions
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HMV HK"	HMV Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"HMV Marketing"	HMV Marketing Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target Company
"Latest Practicable Date"	23 June 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

"LP"	Limited Partners
"Linkenway"	Linkenway Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
"Long Stop Date"	31 July 2016 (or such later date as the parties to the Sale and Purchase Agreement may agree in writing)
"Operation Management Agreement"	the operation management agreement dated 10 December 2013 and a deed of novation dated 20 December 2013, where HMV Marketing has been engaged by HMV HK to operate and manage the Central Retail Store
"Purchaser"	Certain Best Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"PRC"	People's Republic of China, and for the purpose of this announcement only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Sale and Purchase Agreements"	Sale and Purchase Agreement I and Sale and Purchase Agreement II
"Sale and Purchase Agreement I"	the sale and purchase agreement dated 14 March 2016 Agreement I entered into between the Purchaser, Vendor I and the Company in relation to the Acquisition I
"Sale and Purchase Agreement II"	the sale and purchase agreement dated 1 April 2016 entered into Agreement II between the Purchaser, Vendor II and the Company in relation to the Acquisition II
"Sale Shares"	Sale Shares I and Sale Shares II
"Sale Shares I"	10,000 ordinary shares of the Target Company, representing approximately 81.63% of the issued share capital in the Target Company prior to Completion
"Sale Shares II"	2,250 ordinary shares of the Target Company, representing approximately 18.37% of the issued share capital in the Target Company prior to Completion
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company as at the date of this announcement
"Shareholder(s)"	holder(s) of the Share(s)

"Simply Sino"	Simply Sino Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
"Smiley Bee"	Smiley Bee Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Target Company
"Specific Mandate"	the specific mandate to be granted to the Directors by the Shareholders at the SGM for the allotment and issue of the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Business"	the HMV Business as defined in the circular of Vendor Listco dated 23 May 2016, including the retailing business of "HMV", operating through the retail stores operated by HMV HK, in selling music, movies and television series related contents and products located in Hong Kong and carried on by HMV HK
"Target Company"	HMV M&E Limited, a limited liability company incorporated under the laws of the British Virgin Islands
"Target Group"	the Target Company and the Target Subsidiaries
"Target Subsidiaries"	the subsidiaries of the Target Company, namely, HMV Marketing, Simply Sino, Smiley Bee and Linkenway
"SGM"	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the Specific Mandate
"Vendors"	Vendor I and Vendor II
"Vendor I"	Action Key Investments Limited, a limited liability company incorporated under the laws of Samoa, being the vendor under the Sale and Purchase Agreement
"Vendor II"	WiL Fund I, L.P., a limited partnership organized in the Cayman Islands
"Vendor Listco"	AID Partners Capital Holdings Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on GEM, stock code: 8088
"Warranties I"	the representations, warranties and undertakings on the part of Vendor I given pursuant to the Sale and Purchase Agreement I

"Warranties II"	the representations, warranties and undertakings (i) on the part of Vendor II or (ii) on the part of the Purchaser given pursuant to the Sale and Purchase Agreement II
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"%"	per cent.

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)

Executive Directors:
Mr. Shiu Stephen Junior *(Chairman)*
Mr. Sun Lap Key, Christopher
Mr. Lee Wing Ho, Albert
Mr. Chau Sai Ho, Charles

Independent Non-executive Directors:
Mr. Chan Chi Ho
Mr. Kam Tik Lun
Mr. Tam Kwok Ming, Banny

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
7th Floor
Zung Fu Industrial Building
1067 King's Road
Quarry Bay, Hong Kong

24 June 2016

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF HMV M&E LIMITED;
(2) PROPOSED CHANGE OF COMPANY NAME;
(3) PROPOSED ALLOTMENT AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;
AND
(4) NOTICE OF SGM

INTRODUCTION

Reference is made to the Announcements where the Company proposed to seek Shareholders' approval in respect of the Sale and Purchase Agreements, the Change of Company Name and the proposed allotment and issue of Consideration Shares under Specific Mandate.

* *For identification purpose only*

The purpose of this circular is to provide you with, *inter alia*, further details of (i) the Sale and Purchase Agreements and transactions contemplated thereunder; (ii) the Change of Company Name; (iii) the proposed allotment and issue of Consideration Shares under Specific Mandate; (iv) financial and other information of the Group; (v) financial and other information of the Target Group; (vi) pro forma financial information of the Enlarged Group; and (vii) the notice of the SGM.

ACQUISITION I

Set out below are the principal terms of the Sale and Purchase Agreement I:

Date 14 March 2016 (after trading hours)

Parties

(i) Action Key Investments Limited, as Vendor I

(ii) Certain Best Limited, as the Purchaser

(iii) China 3D Digital Entertainment Limited

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, Vendor I and its ultimate beneficial owners are third parties independent of each of the Company, the Purchaser and its connected persons (as defined in the GEM Listing Rules).

Both the Group and Vendor Listco are in the entertainment business and through their business activities, have been acquainted with each other for a while.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement I, Vendor I has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares I, which represent approximately 81.63% of the issued share capital of the Target Company free from all Encumbrances and together with all dividends, interest, benefits and other rights made on or after the date of the Sale and Purchase Agreement I.

Consideration I

The consideration of HK$408,150,000 payable by the Purchaser to Vendor I for the Sale Shares I shall be satisfied by allotment and issue of 1,118,219,178 Consideration Shares I to Vendor I or its nominee (which shall be a direct or indirect wholly-owned subsidiary of Vendor I) at an issue price of HK$0.365 per Consideration Share I at Completion.

Basis of Consideration

The consideration payable in respect of the Sale Shares I has been arrived at after arm's length negotiations between the Purchaser and Vendor I and was determined having reference to (i) the historical operating and financial performance of the Target Group; and (ii) the business prospects and the synergies that may be derived from the business of the Target Group.

The Group has been exploring opportunities to further expand its artists management and music production business. The Directors believe that the "HMV" brand of the Target Group can bring further collaboration with the entertainment business platform of the Group. When determining the consideration for Sale Shares I, the Directors also took into account that the music production business of the Group can leverage on the brand "HMV" of the Target Group and allow the business of the Group to be recognized on a wide platform in Asia Pacific and internationally.

Consideration Shares I and lock-up undertaking

The Consideration Shares I will be issued under the Specific Mandate to be approved by the Shareholders at the SGM. The Consideration Shares I represent approximately 29.18% of the issued share capital of the Company as at the date of this circular and approximately 21.49% of the issued share capital of the Company as enlarged by the Consideration Shares.

The Consideration Shares I will, upon issue and credited as fully paid, rank pari passu in all respect with all the existing shares of the Company then in issue. Application for the listing of, and permission to deal in, the Consideration Shares I will be made by the Company to the Stock Exchange.

Pursuant to the Sale and Purchase Agreement I, Vendor I undertakes that it shall not, and shall procure that its nominee(s) shall not offer, sell, contract to sell, transfer, pledge, create any Encumbrance over or otherwise dispose of, directly or indirectly, the Consideration Shares I issued to Vendor I or its nominee(s), enter into transaction(s) which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Consideration Shares I for a period of 18 months commencing immediately after the Completion Date.

Conditions Precedent

Completion is conditional upon fulfillment or waiver (as the case may be) of the following conditions:

(i) the passing by the requisite majority of shareholders of the Company at the SGM of all resolutions required under the GEM Listing Rules (if any) to approve the transactions contemplated under the Sale and Purchase Agreement I, including without limitation the grant of the Specific Mandate for the allotment and issue of the Consideration Shares I;

(ii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares I, which has not been revoked as at Completion;

(iii) the passing by the requisite majority of shareholders of Vendor Listco at an extraordinary general meeting of all resolutions required under the GEM Listing Rules (if any) to approve the transactions contemplated under the Sale and Purchase Agreement I;

(iv) all the required approvals, authorisations, consents having been obtained from and all the required registrations and filing having been completed with (if applicable) the governmental authorities or regulatory bodies or any relevant third party in connection with the transactions contemplated under the Sale and Purchase Agreement I;

(v) the due diligence and investigation of the Target Group to be carried out pursuant to the Sale and Purchase Agreement I having been completed to the satisfaction of the Purchaser; and

(vi) Warranties I remaining true and accurate in all respects and not misleading in any respect as of the Completion Date.

As of the Latest Practicable Date, the Company does not have any intention to waive any of the conditions set out in paragraphs (v) and (vi) above. The Company confirms that it does not consider that such conditions will be waived and requires such conditions to be satisfied on or before the Long Stop Date.

If the conditions set out above are not fulfilled or in respect of the conditions in (v) and (vi) above are not waived in writing by the Purchaser at or before 4:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement I shall terminate (save and except certain provisions, including the provision on waiver of conditions, representations, warranties and undertakings, confidentiality and announcements, notices and governing law, which shall survive termination of the Sale and Purchase Agreement I), in which case none of Vendor I, the Purchaser or the Company shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach of the Sale and Purchase Agreement I).

As at the Latest Practicable Date, none of the conditions set out above has been fulfilled.

Completion of Acquisition I is not conditional upon the completion of Acquisition II.

Completion

Subject to the various conditions precedents and terms of the Sale and Purchase Agreement I having been fulfilled or waived, Completion shall take place no later than the fifth Business Day immediately after fulfiment (or waiver) of the conditions precedent under the Sale and Purchase Agreement I or such other date as Vendor I and the Purchaser may agree in writing.

Proposed appointment of Directors and co-chairman of the Company

Pursuant to the terms of the Sale and Purchase Agreement I, upon Completion, Mr. Ho Gilbert Chi Hang ("**Mr. Ho**"), an executive director of Vendor Listco, will be appointed as an executive Director of the Company and Mr. Wu King Shiu, Kelvin ("**Mr. Wu**"), an executive director of Vendor Listco, will be appointed as a non-executive Director of the Company.

In order to collaboratively develop the merged business synergy, the Company intends to appoint Ms. Li Mau ("**Ms. Li**"), chairwoman of HMV Asia Limited and the spouse of Mr. Wu (an executive director of Vendor Listco), as the executive Director and co-chairman of the Company upon Completion, subject to the approval of the nomination committee of the Company and the Board.

Each of Mr. Ho, Mr. Wu and Ms. Li has extensive experience in the entertainment business, in particular, Mr. Wu has been investing in the entertainment industry since 2009, Ms. Li has been the chairwoman of HMV Asia since 2013, and Mr. Ho has been involved in investments in the entertainment sector since 2011. The Directors believe that the appointments of each of Mr. Ho, Mr. Wu and Ms. Li is crucial to the smooth integration of the brand "HMV" and the business of the Target Group with the entertainment business of the Group. With their extensive experience in business operation in the entertainment and lifestyle sectors, the Directors believe that each of Mr. Ho, Mr. Wu and Ms. Li can apply their management, procurement and marketing skills as well as its business relationships in these sectors to further develop and expand the businesses of the Group by utilising the brand "HMV" and to strengthen the business of the Target Group. Considering the valuable contribution by each of Mr. Ho, Mr. Wu and Ms. Li can provide to the Group upon their appointments, the Directors are of the view that their appointments are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The appointment of Mr. Ho and Mr. Wu are subject to the procedures of the Company's articles of association and nomination committee. Please see Appendix I for the biographical details of each of Mr. Ho, Mr. Wu and Ms. Li.

ACQUISITION II

Set out below are the principal terms of the Sale and Purchase Agreement II:

Date 1 April 2016 (after trading hours)

Parties

(i) WiL Fund I, L.P., as Vendor II

(ii) Certain Best Limited, as the Purchaser

(iii) China 3D Digital Entertainment Limited

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, Vendor II and its ultimate beneficial owners are third parties independent of each of the Company, the Purchaser and its connected persons (as defined in the GEM Listing Rules).

Vendor II was introduced to the Group by Vendor I. According to Vendor I and Vendor II, there is no relationship between them, save and except as disclosed in the announcement dated 1 March 2016 of the Vendor Listco.

Assets to be acquired

Pursuant to the Sale and Purchase Agreement II, Vendor II has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares II, which represent approximately 18.37% of the issued share capital of the Target Company free from all Encumbrances and together with all dividends, interest, benefits and other rights made on or after the date of the Sale and Purchase Agreement II.

Consideration II

The Consideration of HK$91,850,000 payable by the Purchaser to Vendor II for the Sale Shares II shall be satisfied by allotment and issue of 251,643,835 Consideration Shares to Vendor II or its nominee at an issue price of HK$0.365 per Consideration Share II at Completion.

Basis of Consideration

Also, as both Sale Shares I and Sale Shares II are interests in the same Target Group, the Directors applied the same basis for the Consideration II. The Consideration II payable in respect of the Sale Shares II has been arrived at after arm's length negotiations between the Purchaser and Vendor II and was determined having reference to the basis of the Consideration I, including (i) the historical operating and financial performance of the Target Group; and (ii) the business prospects and the synergies that may be derived from the business of the Target Group.

Consideration Shares II and lock-up undertaking

The Consideration Shares II will be issued under the Specific Mandate to be approved by the Shareholders at the SGM. The Consideration Shares II represents approximately 6.57% of the issued share capital of the Company as at the date of this circular and approximately 4.84% of the issued share capital of the Company as enlarged by the Consideration Shares.

The Consideration Shares II will, upon issue and credited as fully paid, rank pari passu in all respect with all the existing shares of the Company then in issue. Application for the listing of, and permission to deal in, the Consideration Shares II will be made by the Company to the Stock Exchange.

Pursuant to the Sale and Purchase Agreement II, Vendor II undertakes that it shall not, and shall procure that its nominee(s) shall not offer, sell, contract to sell, transfer, pledge, create any Encumbrance over or otherwise dispose of, directly or indirectly, the Consideration Shares II issued to Vendor II or its nominee(s), enter into transaction(s) which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Consideration Shares II for a period of 18 months commencing immediately after the Completion Date and 83,881,278 Consideration Shares II to be released from lock-up after the 6-month anniversary of the Completion Date.

Conditions Precedent

Completion is conditional upon fulfillment or waiver (as the case may be) of the following conditions:

(i) the passing by the requisite majority of shareholders of the Company at the SGM of all resolutions required under the GEM Listing Rules (if any) to approve the transactions contemplated under the Sale and Purchase Agreement II, including without limitation the grant of the Specific Mandate for the allotment and issue of the Consideration Shares II;

(ii) the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Consideration Shares II, which has not been revoked as at Completion;

(iii) the Purchaser being satisfied that as at Completion (i) nothing has occurred that has any material adverse effect on the Target Group since the date of the Sale and Purchase Agreement II; and (ii) Vendor II is not in breach of any of its obligations which is required to be performed or fulfilled prior to Completion;

(iv) the due diligence and investigation of the Target Group to be carried out pursuant to the Sale and Purchase Agreement II having been completed to the satisfaction of the Purchaser;

(v) the Warranties II remaining true and accurate in all respects and not misleading in any respect as of the Completion Date;

(vi) Vendor II being satisfied that as at Completion (i) nothing has occurred that has any material adverse effect on the Company since the date of the Sale and Purchase Agreement II; and (ii) neither the Company or the Purchaser is in breach of any of its obligations which is required to be performed or fulfilled prior to Completion; and

(vii) Warranties II of the Purchaser and the Company remaining true and accurate in all respects as at the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

As of the Latest Practicable Date, the Company does not have any intention to waive any of the condition as set out in paragraphs (iii), (iv), (v) and (vi) above. The Company confirms that it does not consider that such conditions will be waived and requires such conditions to be satisfied on or before the Long Stop Date.

If the conditions set out above are not fulfilled or in respect of the conditions in (iii), (iv) and (v) above are not waived in writing by the Purchaser or in respect of conditions in (vi) and (vii) above are not waived in writing by Vendor II at or before 4:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement II shall terminate (save and except certain provisions, including the provision on waiver of conditions, representations, warranties and undertakings, confidentiality and announcements, notices and governing law, which shall survive termination of the Sale and Purchase Agreement II), in which case none of Vendor II, the Purchaser or the Company shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach of the Sale and Purchase Agreement II).

As at the Latest Practicable Date, none of the conditions set out above has been fulfilled.

Completion

Subject to the various conditions precedents and terms of the Sale and Purchase Agreement II having been fulfilled or waived, Completion shall take place on the same date as the completion of Acquisition I.

PROPOSED ALLOTMENT AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

Specific Mandate

The Consideration Shares will be issued under the Specific Mandate and are subject to approval by the Shareholders at the SGM.

Application for listing

Application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Group is principally engaged in the entertainment business, with a focus in television program and movie production, distribution, distribution licensing, cinema operation and management in both Hong Kong and the PRC, artists management, money lending activities and acquisitions of corporate bonds, preference shares as well as investment in securities.

The "HMV" brand has over twenty (20) years of operating history in Hong Kong, a city renowned for its metropolitan lifestyle. Started initially as a retail brand for music, "HMV" in Hong Kong has gradually re-positioned itself as an entertainment and lifestyle brand with an improved product mix since 2013.

To stay ahead of changes in consumer demand and to maintain its position as the leading entertainment and lifestyle brand, the retail stores of the Target Group have been putting focus on sourcing and selling entertainment peripheral products such as headphones and speakers, electronic gadgets as well as vinyl records. To escalate the retail experience of its customers, in-store café was also launched to create a more vibrant and engaging environment for customers.

Given the well-established retail network and brand equity "HMV" has in Hong Kong, the Directors are of the view that Hong Kong shall remain as a key market to develop and revitalize the "HMV" brand, and a strategic bridgehead to tap into the Asia-Pacific market, especially the PRC, in the foreseeable future.

The acquisition of the Target Group will allow the Group to consolidate the market presence of "HMV" in Hong Kong and also the PRC, hence further enhancing the brand value of "HMV", and gain immediate access to a well-established retail network in Hong Kong, a market in which the "HMV" brand has over twenty (20) years of operating history.

Although the sales attributable to musical recordings, compact discs, digital versatile discs are decreasing which contributed to the decrease in revenue, the Directors believe that, with the resources of the Group, the acquisition of the Target Group will allow the Group to strengthen and continue its strategy in revitalising the brand into a lifestyle brand by enhancing the product mix and to create an integrated entertainment platform, and become an integrated online and offline business ecology in the entertainment and lifestyle sector.

The Group intends to continue developing and streamlining its entertainment, movie production and distribution business through the Acquisitions whereby the Group will be able to generate a synergistic effect with its existing lines of business, together with the addition of the Target Group's business, and to provide better returns for the Shareholders and broaden the sources of income of the Group. The Directors recognize the strength of the "HMV" brand name under the Target Company and will leverage on its operational model together with its synergistic effects with the Group's existing entertainment business, in particular, the music production business, to further improve the performance of the Group together with Target Group.

Taking the above into consideration, the Directors are of the view that the Acquisitions are conducted on normal commercial terms and in the ordinary and usual course of its business, is fair and reasonable so far as the Company and the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

In the event that the Completion does not take place, the Company will not allot and issue the Consideration Shares to Vendor I and Vendor II.

EFFECT OF THE ACQUISITIONS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after Completion and upon allotment and issuance of the Consideration Shares is as follows:

	As at the Latest Practicable Date		Immediately after Completion and upon allotment and issuance of the Consideration Shares	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*
Shareholders				
Vendor I or its nominee	–	–	1,118,219,178	21.49
Vendor II	–	–	251,643,835	4.84
Shiu Stephen Junior	141,920	0.00	141,920	0.00
Public Shareholders	3,832,616,304	100.00	3,832,616,304	73.67
	3,832,758,224	100.00	5,202,621,237	100.00

FINANCIAL IMPACT OF THE ACQUISITION

Upon Completion, each of the Target Company and Target Subsidiaries will become an indirectly wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated with those of the Group.

Effect on assets and liabilities

Set out in Appendix VI to this circular is the unaudited pro forma statement of assets and liabilities of the Enlarged Group which illustrates the financial effects of the Acquisitions assuming Completion had taken place on 31 December 2015. Based on the unaudited pro forma financial information of the Enlarged Group, the total assets of the Group would increase approximately 151.96% from approximately HK$627.15 million to approximately HK$1,580.18 million and its total liabilities would increase approximately 174.86% from approximately HK$188.58 million to approximately HK$518.33 million.

Effect on earnings

According to the accountants' report on the Target Company and Target Subsidiaries as set out in Appendix IV to this circular, the Target Company and Target Subsidiaries recorded a net losses of approximately HK$24.25 million for period from 11 December 2013 to 31 December 2014 and approximately HK$59.6 million for the year ended 31 December 2015. The Directors believe the business model, results of operations and financial condition of the Target Company and Target Subsidiaries will be improved after the Acquisitions.

INFORMATION ON THE PARTIES

Information of the Purchaser

The Purchaser is engaged in the business of investment holding.

Information of Vendor I

Vendor I is an investment holding company incorporated in Samoa with limited liability and an indirect wholly-owned subsidiary of the Vendor Listco. Vendor I is principally engaged in investment holding. Vendor Listco is principally engaged in asset management and strategic investment businesses and the Target Group is one of its strategic investments.

Information of Vendor II

Established by World Innovation Lab (http://www.wilab.com), Vendor II is active in Tokyo and Silicon Valley. Vendor II has formed an unprecedented venture support scheme, bringing together personnel with unparalleled track records in the venture capital industry in the United States and Japan, and includes a consortium of large corporations from diverse industries in Japan as LP. It provides global expansion support for Japanese startups, and support and business partnership opportunities for the United States startups expanding into Japan. Vendor II also aims to promote the creation of startups by facilitating collaboration with large corporations in Japan, primarily the fund's LPs, and through carve out of large corporations. It is focused on thorough, hands-on investment in selected startups. In addition to its investment activities, it also hosts occasional seminars by active corporate executives, venture capitalists, and academics for the benefit of personnel dispatched to Silicon Valley from LPs, providing opportunities to connect with industry experts. Support for portfolio companies is not limited to simply providing introductions; Vendor II also plans to propose business partnerships in the United States and Japan and provide support in the establishment of joint ventures.

Financial Information of the Target Group

The consolidated financial information of the Target Group for the latest two financial years are not available for the Target Group as a whole as the Target Company, Simply Sino, Smiley Bee and Linkenway were incorporated on 1 December 2015, 1 January 2016, 1 January 2016 and 2 January 2014 respectively.

Set out below is the (i) audited consolidated financial information of HMV Marketing, being the principal operating company of the Target Group, for the period from 11 December 2013 (date of incorporation) to 31 December 2014, extracted from its audited financial statements, prepared in accordance with the Hong Kong Financial Reporting Standards, and (ii) the unaudited revenue and net loss (before and after tax) of HMV Marketing for the year ended 31 December 2015, extracted from the unaudited financial statements of HMV Marketing prepared for the same period in accordance with the Hong Kong Financial Reporting Standards:

	For the period from 11 December 2013 (date of incorporation) to 31 December 2014	**Year ended 31 December 2015**
	HK$'000	*HK$'000*
	(audited)	(unaudited)
Revenue	43,747	79,033
Net loss before tax and extraordinary items	24,135	53,622
Net loss after tax and extraordinary items	24,135	53,552

The unaudited net liabilities of HMV Marketing were approximately HK$77,687,000 as at 31 December 2015.

The revenue of HMV Marketing for the period from 11 December 2013 (date of incorporation) to 31 December 2014 were revenue arising from the Central Retail Store only. The financial operation of the information of the Target Business as disclosed in the section headed "Information on the HMV IP Rights and the Target Business — Financial Information of the Target Business" of the circular of vendor Listco dated 16 October 2015, reflects the revenue generated from the operation of all HMV retail stores located in Hong Kong, except for the Central Retail Store since 1 January 2014, during the relevant reporting periods.

For the year ended 31 December 2015, the revenue of HMV Marketing for the period from 1 January to 30 November 2015 only includes the Central Retail Store and after the completion of acquisition of the Target Business on 30 November 2015, the revenue of HMV Marketing includes revenue from all HMV retail stores located in Hong Kong.

HMV Marketing completed its acquisition of the Target Business on 30 November 2015.

The accountant's report of the Target Business for each of the periods ended 26 April 2014, 25 April 2015 and 30 April 2016 respectively is set out in Appendix V to this circular. During each of the periods ended 26 April 2014, 25 April 2015 and 30 April 2016, the Target Business, together with (i) all rights to use the name "HMV", the various trade marks and trade mark applications and the HMV domain names for the purposes of conducting the Target Business (as defined in the Oct 2015 Circular) and any other business to be conducted in the Macau Special Administrative Region of the PRC and Taiwan that is licensed to HMV HK on an exclusive, irrevocable, royalty-free and perpetual basis pursuant to the HMV Trade mark License Agreement (as defined in the circular of the Vendor Listco dated 16 October 2015); and (ii) the retailing business of "HMV" operating through the Central Retail Store selling music, movies and television series related contents and products have been historically carried out by HMV HK. For the period from 28 April 2013 to 26 April 2014, HMV HK was also involved in the operations of an in-store café and a kids learning centre. On 1 January 2014, HMV HK disposed of its e-commerce business division and the management and operating right of the Central Retail Store to HMV Marketing.

On 30 November 2015, HMV HK disposed of the Target Business and the assets of the Target Business (as defined in circular of the Vendor Listco dated 16 October 2015) to HMV Marketing and the Target Business was carried on by HMV Marketing thereon, and, all the revenue and expenses of the Target Business prior to and after 30 November 2015 were recorded in HMV HK and HMV Marketing respectively.

Set out below is the audited combined statements of profit or loss of the Target Group for the period ended 31 December 2014 and 31 December 2015.

Audited Combined Statements of Profit or Loss

	For the period from 11 December 2013 to 31 December 2014 *HK$*	**For the year ended 31 December 2015** *HK$*
Revenue	43,746,521	79,032,894
Cost of sales	(26,863,275)	(50,004,829)
Gross profit	16,883,246	29,028,065
Other income	449,214	833,188
Selling and distribution expense	(25,713,986)	(35,209,260)
Administrative expense	(15,872,851)	(38,449,942)
Other operating expense	–	(15,873,054)
Loss before income tax	(24,254,377)	(59,671,003)
Income tax credit	–	69,992
Loss for the period/year	(24,254,377)	(59,601,011)

The net liabilities of the Target Group as at 31 December 2015 and 2014 were approximately HK$83.9 million and HK$24.3 million respectively.

Set out below is the unaudited financial information of Linkenway for the period from 2 January 2014 (date of incorporation) to 31 December 2014 and the year ended 31 December 2015, extracted from the unaudited financial statements of Linkenway prepared for the same period in accordance with International Financial Reporting Standards:

	For the period from 2 January 2014 (date of incorporation) to 31 December 2014 *HK$'000* (unaudited)	**For the year ended 31 December 2015** *HK$'000* (unaudited)
Revenue	–	–
Net loss before tax and extraordinary items	120	6,044
Net loss after tax and extraordinary items	120	6,044

The unaudited net liabilities of Linkenway were approximately HK$6,164,000 as at 31 December 2015.

As at 31 March 2016, the unaudited net liabilities of Simply Sino and Smiley Bee were approximately HK$5,000 and approximately HK$5,000, respectively.

Set out below is the audited financial information of the Target Business for the period from 27 April 2014 to 25 April 2015 and the period from 26 April 2015 to 30 April 2016, extracted from its audited financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

	For the period from 27 April 2014 to 25 April 2015	**For the period from 26 April 2015 to 30 April 2016**
	HK$'000	*HK$'000*
	(audited)	(audited)
Revenue	175,701	83,068
Net (loss)/profit before tax and extraordinary items	(12,830)	65,274
Net (loss)/profit after tax and extraordinary items	(12,830)	65,274

Business review

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability and is indirectly owned by Vendor I as to approximately 81.63% and by the Vendor II as to approximately 18.37%. As at the date of this circular, the Target Company is the sole beneficial owner of the issued share capital of each of the Target Subsidiaries. The Target Company has no business activity other than being an investment holding company of its subsidiaries and injection of shareholder's loans to the Target Group for its business. The Target Group is principally engaged in the entertainment and media business and other ancillary business including, but not limited to, the operation of the retail stores under the brand "HMV".

HMV Marketing is a company incorporated in Hong Kong with limited liability. As at the date of this circular, HMV Marketing is the owner of the retailing business of "HMV" through physical retail stores in Hong Kong and has an exclusive, irrevocable, royalty-free and perpetual licence to use the name "HMV", the various HMV trademarks and the trade mark applications and HMV domain names for the purpose of conducting businesses in the PRC, Hong Kong and Singapore.

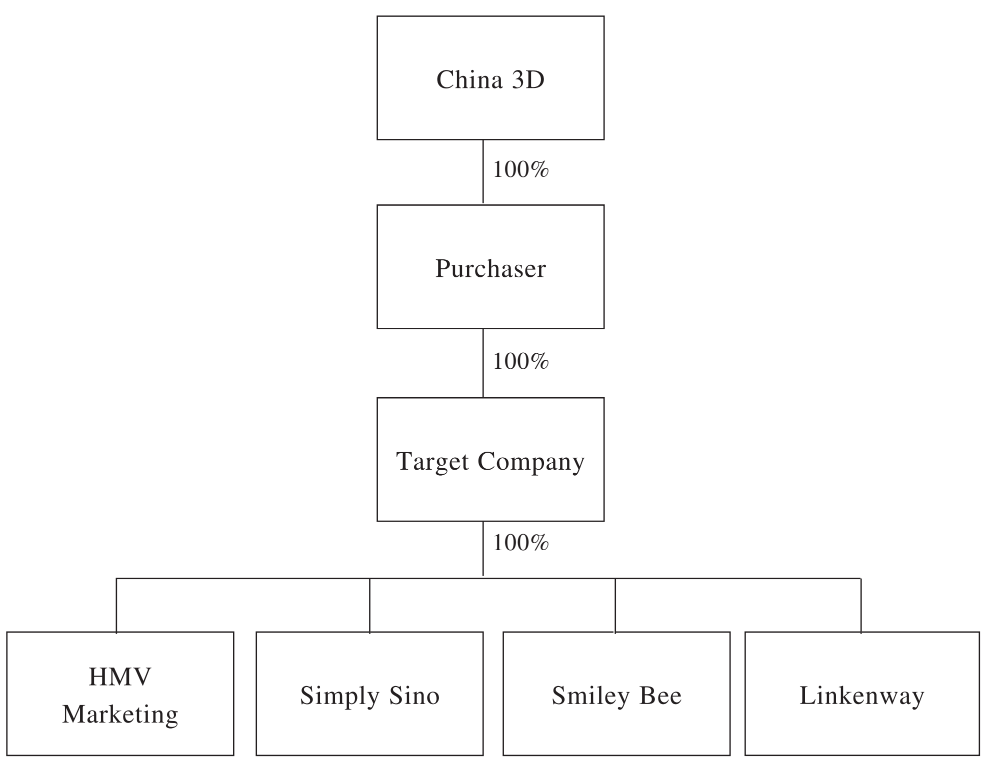
Each of Simply Sino and Smiley Bee is an investment holding company incorporated in the British Virgin Islands with limited liability and has no business activity save and except (i) Simply Sino has advanced a loan in the amount of HK$25,000,000 to a subsidiary of the Company; and (ii) Smiley Bee has advanced a loan in the amount of HK$8,000,000 to a third party independent from the Vendors and their connected persons. Linkenway is an investment holding company incorporated in the British Virgin Islands with limited liability and the holder of certain rights of an intellectual property.

As mentioned in section headed "Proposed appointment of Directors and co-chairman of the Company", each of Mr. Ho, Mr. Wu and Ms. Li will join the Company as members of the senior management of the Company. It is the intention of the Company that upon completion of the Acquisitions, they will be principally in charge of the business of the Target Group. Mr. Ho, Mr. Wu and Ms. Li will report to the chairman of the Group, Mr. Stephen Shiu Junior.

As mentioned in the section headed "Reasons for and benefits of the Acquisitions", the Company plans to leverage on the Target Group's operational model together with its synergistic effects with the Groups existing entertainment business, in particular, the music production business, to further improve the performance of the Group together with the Target Group.

In addition, the Company also plans to leverage on the widely recognised brand name of "HMV" to develop an over-the-top broadcasting channel, i.e. OTT. The Directors are of the view that the broadcasting market in Hong Kong is entering into a new era where the traditional free licensed television broadcasting will soon be taken over by over-the-top broadcasting market. The Company intends to develop a OTT broadcasting channel with the brand name "HMV" where customers will be offered with a wide choice of films, pop songs, TV series, etc. over the Internet. With the combined expertise of the Company in the entertainment industry and the experience of Mr. Ho, Mr. Wu and Ms. Li in the music retail industry, the Company targets to develop the "HMV" brand name to be a key-player in the OTT market in Asia Pacific.

Set out below is the simplified shareholding chart of the Target Group after completion of the Acquisitions:



LISTING RULE IMPLICATIONS

As the Acquisition I and the Acquisition II took place within a 12-month period, the Acquisition I and the Acquisition II are required to be aggregated under Rule 19.22 of the GEM Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition II in aggregate with the Acquisition I under Rule 19.07 of the GEM Listing Rules exceed 25% but are below 100%, the Acquisition I and Acquisition II constitutes a major transaction of the Company under the GEM Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under the GEM Listing Rules.

Mr. Shiu Stephen Junior, an executive Director and Chairman of the Company who is interested in approximately 0.009% of the entire issued share capital of the Company, is also the holder of 2,937,500 share options of the Vendor Listco and has resigned as a non-executive director of Vendor Listco on 21 August 2015. As such, Mr. Shiu Stephen Junior is a connected person of the Vendor Listco and will abstain from voting resolutions (1) and (2) set out in the Notice of SGM.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, save and except as disclosed, no Shareholders of the Company or any of their respective associates have any material interest in the Acquisition I, Acquisition II, the Change of Company Name and the allotment and issuance of Consideration Shares under Special Mandate.

CHANGE OF COMPANY NAME

The Board proposes to change the name of the Company from "China 3D Digital Entertainment Limited" to "HMV Digital China Group Limited" and to adopt the Chinese name of "HMV數碼中國集團有限公司" as the secondary name of the Company to replace the existing Chinese name of "中國3D數碼娛樂有限公司" which was adopted for identification purposes only.

Conditions of the Change of Company Name

The Change of Company Name is subject to the following conditions:

1. the completion of the Acquisitions;

2. the passing of a special resolution by the Shareholders at the SGM approving the Change of Company Name; and

3. the approval of the Registrar of Companies in Bermuda having been obtained for the Change of Company Name.

The relevant filings with the Registrar of Companies in Bermuda will be made after the passing of the special resolution at the SGM.

Subject to the satisfaction of the conditions set out above, the Change of Name will take effect from the date of entry of the new English name and the secondary name of the Company on the register maintained by the Registrar of Companies in Bermuda. Thereafter, the Company will carry out all necessary registration and/or filing procedures with the Registrar of Companies in Bermuda and the Companies Registry in Hong Kong.

Reasons for the Change of Company Name

The Group intends to (i) expand its entertainment business by entering the music distribution business; and (ii) integrate the business of the Target Group with its existing businesses in the entertainment industry whereby the Group can utilize the Target Group to promote and distribute its existing movie productions and promote its artists.

The Board considers that the Change of Company Name can promote and strengthen the Company's corporate image and enable the Group to better identify and obtain business opportunities for its future development. As such, the Board is of the view that the Change of Company Name is in the best interests of the Company and the Shareholders as a whole.

Effects of the Change of Company Name

The Change of the Company name will not affect any rights of the Shareholders. Once the proposed Change of the Company name becomes effective, any issue of share certificates of the Company thereafter will be in the new name of the Company and the shares of the Company will be traded on the Stock Exchange in the new name of the Company. However, all existing share certificates in issue bearing the existing name of the Company will, after the change of name has become effective, continue to be evidence of title to the shares of the Company and be valid for trading, settlement and registration purposes.

There will not be any arrangement for free exchange of existing share certificates for new share certificates bearing the new name of the Company.

FUND RAISING ACTIVITIES DURING THE PAST TWELVE MONTHS

Save as disclosed in the table below, the Company has not undertaken any equity fund raising exercise over the period of twelve months prior to the Latest Practicable Date:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
20 July 2015	Placing of new shares under specific mandate pursuant to the Previous Placing Agreement	Approximately HK$195 million	Approximately: (a) HK$10 million for the expansion of the money lending business of the Company; (b) HK$70 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (c) HK$106 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (d) HK$9 million for general working capital and for development of the Group's business	Approximately: (a) HK$99 million were used for the expansion of the money lending business of the Company; (b) HK$35 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (c) HK$52 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (d) HK$9 million for general working capital and for development of the Group's business.
26 May 2015	Placing of new shares under specific mandate pursuant to the Previous Placing Agreement (terminated on 20 July 2015 pursuant to the Termination Agreement)	Approximately HK$195 million	Approximately: (a) HK$10 million for the expansion of the money lending business of the Company; (b) HK$70 million for expansion and/or possible investment plan on cinemas and/or operation rights of cinemas in the PRC; and (c) HK$106 million for investment and/or production of new movies and/or acquire the distribution rights of movies; and (d) HK$9 million for general working capital and for development of the Group's business.	Not applicable

SGM

The SGM will be held at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong on at 4:00 p.m. on Wednesday, 20 July 2016 for the purpose of considering and, if thought fit, approving the ordinary resolutions in respect of the Sale and Purchase Agreements and the transactions contemplated thereunder, including the issue of the Consideration Shares under the Specific Mandate.

The notice convening the SGM is set out on pages 145 to 148 of this circular. A form of proxy for use at the SGM is also enclosed to this circular. Whether or not you are able to attend the SGM and/or vote at the SGM in person, you are requested to complete and return the enclosed form of proxy to the Company's Hong Kong branch share registrar, Tricor Secretaries Limited at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Board considers that the Acquisitions, Change of Company Name and the allotment and issuance of Consideration Shares under Special Mandate is fair and reasonable and in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favor of the resolutions as set out in the notice of SGM.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices of this circular.

Yours faithfully,
By Order of the Board
China 3D Digital Entertainment Limited
Shiu Stephen Junior
Chairman

Mr. Wu King Shiu, Kelvin ("**Mr. Wu**"), aged 46, is the chief investment officer and executive director of the Vendor Listco. Mr. Wu was appointed as the chairman of Vendor Listco and was re-designated from chief executive officer to chief investment officer on 16 March 2016. Mr. Wu is a member of the board of directors of Kabushiki Kaisha Hyakusen Renma, Japan and Brave Entertainment Co., Ltd., South Korea. He has over 18 years of experience in the finance and investment industries. He is the co-founder and the principal partner of AID Partners Capital Limited and the director of board of Shunwei Capital Partners. He was formerly the chief executive officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited (Stock Code: 1132), a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), one of the leading film entertainment companies in Asia, from 2009 to 2011 and the chief executive officer of Legendary East Ltd.. Prior to founding AID Partners Capital Limited, Mr. Wu was the president of Investec Asia Limited from 2005 to 2007, where he managed its direct investment business involving energy, consumer and finance related industries. Mr. Wu also worked for other investment banks, including as managing director of China Everbright Capital Ltd., head of corporate finance for Grand Cathay Securities (Hong Kong) Limited, director of corporate finance department of Core Pacific-Yamaichi Capital Limited and held senior position in BNP Prime Peregrine Capital Limited. Besides, Mr. Wu also served as chief operating officer of Sega.com Asia Networks Limited in year 2000. Mr. Wu currently is a member of the board of governors of Chu Hai College of Higher Education.

Mr. Wu received his bachelor degree majored in business administration from the Chinese University of Hong Kong. He also has a post graduate diploma from Osaka University of Foreign Studies (Renamed Osaka University), Japan.

Mr. Ho Gilbert Chi Hang ("**Mr. Ho**"), aged 39, is the chief executive officer and executive director of Vendor Listco. Mr. Ho was re-designated from chief investment officer to chief executive officer of Vendor Listco on 16 March 2016. Mr. Ho is the managing partner of AID Partners Capital Limited. He has extensive experience in the area of corporate management, investments, corporate finance, merger and acquisition transactions and international brand and retail management. Prior to joining AID Partners Capital Limited, he was the vice president of ITC Corporation Limited (Stock Code: 372), a company listed on the Stock Exchange, the senior investment director of New World Development Company Limited (Stock Code: 17), a company listed on the Stock Exchange, an executive director of New World Strategic Investment Limited and a partner of an international law firm Fried, Frank, Harris, Shriver and Jacobson LLP. He is a committee member of the Chinese People's Political Consultative Conference of Shenyang, Liaoning Province (中國人民政治協商會議遼寧省瀋陽市委員會), a Standing Committee Member of the Youth Federation of Inner Mongolia (內蒙古自治區青年聯合會) and the Vice Chairman of Inner Mongolia & Hong Kong Youth Exchange Association (蒙港青年交流促進會). Mr. Ho holds a Bachelor of Commerce degree and a Bachelor of Laws degree from the University of Sydney, Australia and is a solicitor admitted in New South Wales, Australia and England and Wales and a solicitor and barrister admitted in the High Court of Australia.

Mr. Ho was a non-executive director of Renhe Commercial Holdings Company Limited (Stock Code: 1387), a non-executive director of Capital Environment Holdings Limited (Stock Code: 3989) and an independent non-executive director of Infinity Development Holdings Company Limited (Stock Code: 640) and is an independent non-executive director of Kam Hing International Holdings Limited (Stock Code: 2307) and Hailiang International Holdings Limited (Stock Code: 2336), all of the above-mentioned companies are listed on the Stock Exchange.

Ms. Li Mau ("**Ms. Li**"), aged 37, is the founder and the chief executive officer of HMV Cultural F&B Group ("**HMV F&B Group**"), a food and beverage group jointly owned by Hainan Airline Group and Ms Li. Ms. Li is primarily responsible for the overall corporate strategies and management of the HMV F&B Group and oversees the overall operation of the HMV F&B Group's business. In addition to the internal management, Ms. Li also manages the business development globally. Ms. Li is the founder and chairman of i-Future Teens International Foundation Limited, a registered charitable organization in Hong Kong, providing developmental opportunities and exposures to children and youth from under-resourced neighborhoods in Hong Kong to inspire them to identify their own talents and dreams.

Ms. Li has accumulated extensive experience in investment and business management through her working experience in difference business segments in Asia and Europe. She is currently holding the position of chairman at HMV Asia Limited, and venture partner at AID Partners Capital Limited, a private equity firm based in Hong Kong.

A. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the key financial information of Target Group for the period ended 31 December 2014 and the year ended 2015.

Business review

The Target Company is an investment holding company and has not carried out any business since the date of incorporation. The Target Group is principally engaged in the entertainment and media business and other ancillary businesses including, but not limited to, the operation of the retail stores under the brand "HMV".

Financial review

The Target Group reported a loss for the year ended 31 December 2015 of HK$59.6 million as compared to a loss of HK$24.3 million for the period ended 31 December 2014.

Revenue increased to HK$79.0 million for the year ended 31 December 2015, compared to that of HK$43.7 million for the year ended 31 December 2014. The increase in revenue was mainly attributable to the acquisition of four (4) HMV stores in December 2015 and the opening of HMV flagship store in late 2015, which generated more retail sales.

Total operating expenses (being selling and distribution expenses, administrative expenses and other operating expenses) for the year ended 31 December 2015 were HK$89.5 million as compared to HK$41.6 million for the period ended 31 December 2014. The increase in total operating expenses was mainly due to (i) continuous expansion of existing business and operation of the Target Group, (ii) pre-operating costs for the HMV flagship store opened in late 2015, (iii) the increase in amortization expense relating to the intangible assets arose from the acquisition of the Target Business, and (iv) increase in remuneration of employees and rental of premises.

Remuneration amount of the employees

As at 31 December 2015, the Target Group had 218 full-time employees (31 December 2014: 37 full-time employees). Employees remuneration (including directors' remuneration) were approximately HK$14.9 million (the period ended 31 December 2014: HK$6.0 million). The remuneration packages of the Target Group's directors and employees are kept at a competitive level to attract, retain and motivate directors and employees of the quality required to the Target Group successfully. In general, remuneration consists of a combination of a fixed salary paid in cash and a performance linked bonus paid in cash.

Details of charges on assets

As at 31 December 2015, the Target Group had pledged bank deposits of HK$7.0 million (31 December 2014: Nil) to a bank to secure banking facilities granted to the Target Group.

Gearing ratio

As at 31 December 2015, total borrowings of the Target Group (including amounts due to the ultimate holding company, immediate holding company, fellow subsidiaries, related company and advances from a director) amounted to approximately HK$254.8 million (31 December 2014: HK$45.4 million). The Target Group's gearing ratio (expressed as a percentage of total borrowings over total assets) decreased from 132.1% in 2014 to 103.6% in 2015.

Liquidity and financial resources

As at 31 December 2015, the cash and cash equivalents of the Target Group was approximately HK$14.4 million (31 December 2014: HK$6.6 million), of which the increase was mainly attributable to the net cash generated from financing activities. The carrying amounts of all cash and cash equivalents are denominated in HK dollars.

Significant investments held

The leasehold improvements of retail stores and office represented the major capital assets of the Target Group. The net carrying amount of the leasehold improvements as at 31 December 2015 was approximately HK$41.6 million (31 December 2014: HK$7.4 million).

Contingent liabilities

The Target Group did not have any significant contingent liabilities as at 31 December 2015 (31 December 2014: Nil).

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET BUSINESS

Management Discussion and Analysis for the period ended 30 April 2016

Business review

The Target Business has continued to engage in the business of entertainment retail operations. The principal activities of the Target Business consisted of the retailing of musical recordings, compact discs, vinyls, digital versatile discs, blu-ray discs and other entertainment related products as well as in-store café.

Financial Review

The Target Business reported a profit for the period ended 30 April 2016 of approximately HK$65.3 million, which consisted of a gain of approximately HK$67.0 million arising from the disposal of the Target Business, as compared to a loss of HK$12.8 million for the period ended 25 April 2015.

Revenue decreased to HK$83.1 million for the period ended 30 April 2016, compared to that of HK$175.7 million for the period ended 25 April 2015. The decrease in revenue was mainly attributable to the disposal of the Target Business in November 2015.

Total operating expenses (being selling and distribution costs, administrative expenses and other expenses) for the period ended 30 April 2016 decreased to approximately HK$36.5 million as compared to HK$77.0 million for the period ended 25 April 2015. The decrease in total operating expenses was also mainly attributable to the disposal of the Target Business.

Significant investments held

The net carrying amount of the leasehold improvements as at 30 April 2016 was nil (25 April 2015: HK$5.6 million) as the result of the disposal of the Target Business.

Remuneration amount of the employees

As at 30 April 2016, the Target Business had no full-time employees (25 April 2015: 94). Employee remuneration (including directors' remuneration) totalled HK$12.7 million (25 April 2015: HK$25.6 million). The remuneration packages of the Target Business' directors and employees are kept at a competitive level to attract, retain and motivate directors and employees of the quality required to the Target Business successfully. In general, remuneration consists of a combination of a fixed salary paid in cash and a performance linked bonus paid in cash.

Details of charges on assets

As at 30 April 2016, the Target Business had pledged bank deposits of HK$0.8 million (25 April 2015: HK$10.1 million) to a bank to secure banking facilities granted to the HMV HK comprising the Target Business.

Gearing ratio

As at 30 April 2016, the Target Business had an amount due to a related company of approximately HK$6,000 (25 April 2015: HK$27.2 million). The gearing ratio was 0.2% which was based on total amount of debt divided by shareholder's equity.

Contingent liabilities

As at 30 April 2016, the Target Business had no contingent liabilities, including pension obligations (25 April 2015: Nil).

Management Discussion and Analysis for the period ended 25 April 2015

Business Review

The Target Business has continued to engage in the business of entertainment retail operations. The principal activities of the Target Business consisted of the retailing of musical recordings, compact discs, vinyls, digital versatile discs, blu-ray discs and other entertainment related products as well as in-store café.

The shop located in Elements mall in Hong Kong reopened on 18 July 2014 after a temporary closure for relocation within the mall on 10 June 2013.

Financial Review

The Target Business reported a loss for the period ended 25 April 2015 of HK$12.8 million as compared to a loss of HK$10.9 million for the period ended 26 April 2014.

Revenue decreased to HK$175.7 million for the period ended 25 April 2015, compared to that of HK$193.1 million for the period ended 26 April 2014. The decrease in revenue was mainly attributable to the entering into of the Operation Management Agreement, which the term commenced from 1 January 2014 and the operating results of the Central Retail Shop were therefore not consolidated in the financial information of the Target Business since the commencement of such term, as well as the relocation of the shop located at the Elements mall in Hong Kong during the period which then had a smaller size compared to the original location and also required time for customers to get familiar with the new location. Total operating expenses (being selling and distribution costs, administrative expenses and other expenses) for the period ended 25 April 2015 decreased to HK$77.0 million as compared to HK$91.2 million for the period ended 26 April 2014. The decrease in total operating expenses was also mainly attributable to eight months trading of the Central Retail Shop being included in last year before the Operation Management Agreement commenced.

Significant investments held

The leasehold improvements of retail stores and office represented the major capital assets. The net carrying amount of the leasehold improvements as at 25 April 2015 was HK$5.6 million (26 April 2014: HK$3.3 million).

Remuneration amount of the employees

As at 25 April 2015, the Target Business had 94 full-time employees (26 April 2014: 87). Employee remuneration (including directors' remuneration) totalled HK$25.6 million (26 April 2014: HK$23.9 million). The remuneration packages of the Target Business' directors and employees are kept at a competitive level to attract, retain and motivate directors and employees of the quality required to the Target Business successfully. In general, remuneration consists of a combination of a fixed salary paid in cash and a performance linked bonus paid in cash.

Details of charges on assets

As at 25 April 2015, the Target Business had pledged bank deposits of HK$10.1 million (26 April 2014: HK$10.1 million) to a bank to secure banking facilities granted to the Target Business.

Gearing ratio

As at 25 April 2015, the Target Business had an amount due to the immediate holding company, Mighty Merit Group Limited, of HK$7.6 million which was unsecured, interest-free, and had no fixed terms of repayment. The Target Business also had the loans from the immediate holding company of HK$11.7 million which were unsecured, bear interest at a rate of 8% per annum. The loans of US$1 million (equivalent to HK$7.8 million) and US$0.5 million (equivalent to HK$3.9 million) were repayable on 29 January 2016 and 24 March 2016 respectively.

The Target Business' overdraft facilities amounting to HK$10.0 million (26 April 2014: HK$8.0 million), of which HK$7.6 million (26 April 2014: HK$8.0 million) had been utilised as at 25 April 2015, were secured by the pledge of the Target Business' time deposit of HK$10.1 million (26 April 2014: HK$10.1 million) and guaranteed by a director of the Target Business. The bank overdrafts bore interest of 5.25% p.a. and were repayable on demand.

As at 25 April 2015, the Target Business had no other significant debt. The gearing ratio was 11,248% which was based on total amount of debts and overdrafts divided by shareholders' equity.

Contingent liabilities

As at 25 April 2015, the Target Business had no contingent liabilities, including pension obligations (26 April 2014: Nil).

Management Discussion and Analysis for the period ended 26 April 2014

Business Review

The Target Business has continued to engage in the business of entertainment retail operations. The principal activities of the Target Business consisted of the retailing of musical recordings, compact discs, vinyls, digital versatile discs, Blu-ray discs and other entertainment related products. During the period, the Target Business also involved in the operations of an in-store café and a kids learning centre.

HMV HK entered into the Operation Management Agreement during the period, which has a term of thirty years commencing from 1 January 2014, appointing HMV Marketing to operate the Central Retail Shop and the e-commerce business operating under the domain www.hmv.com.hk.

Financial Review

The Target Business reported a loss for the period ended 26 April 2014 of HK$10.9 million as compared to a loss of HK$49.1 million for the period ended 27 April 2013.

Revenue decreased to HK$193.1 million for the period ended 26 April 2014 as compared to that of HK$265.0 million for period ended 27 April 2013. The decrease in the revenue of the Target Business was mainly attributable to the entering into of the Operation Management Agreement, which term commenced from 1 January 2014 and the operating results of the Central Retail Shop were therefore not included in the financial information of the Target Business since the commencement of such term, as well as the temporary closure of the shop located at the Elements mall in Hong Kong between June 2013 to July 2014 due to relocation within the mall. Total operating expenses (being selling and distribution costs, administrative expenses and other expenses) for the period ended 26 April 2014 decreased to HK$91.2 million as compared to HK$151.8 million for the period ended 27 April 2013. The decrease in total operating expenses was mainly attributable to impairment loss on unsecured loans to the former ultimate holding company, HMV Group plc, amounting to HK$47.4 million included in the period ended 27 April 2013.

Significant investments held

The leasehold improvements of retail stores and office represented the major capital assets. The net carrying amount of the leasehold improvements as at 26 April 2014 was HK$3.3 million (27 April 2013: HK$10.4 million).

Remuneration amount of the employees

As at 26 April 2014, the Target Business had 87 full-time employees (27 April 2013: 106). Employee remuneration (including directors' remuneration) totalled HK$23.9 million (27 April 2013: HK$30.1 million). The remuneration packages of the Target Business' directors and employees are kept at a competitive level to attract, retain and motivate directors and employees of the quality required to the Target Business successfully. In general, remuneration consists of a combination of a fixed salary paid in cash and a performance linked bonus paid in cash.

Details of charges on assets

As at 26 April 2014, the Target Business had pledged bank deposits of HK$10.1 million (27 April 2013: HK$10.1 million) to a bank to secure banking facilities granted to the Target Business.

Gearing ratio

As at 26 April 2014, the Target Business had an amount due to the immediate holding company, Billion Express Consultants Limited, of HK$4.4 million, and an amount due to the ultimate holding company, HMV Asia Limited, of HK$8.0 million, both of which were unsecured, interest-free, and had no fixed terms of repayment.

The Target Business' overdraft facilities amounting to HK$8.0 million (27 April 2013: HK$10.0 million), of which HK$8.0 million (27 April 2013: nil) had been utilised as at 26 April 2014, were secured by the pledge of the Target Business' time deposit of HK$10.1 million (27 April 2013: HK$10.1 million) and guaranteed by a director of the Target Business. The bank overdrafts bore interest of 5.25% p.a. and were repayable on demand.

As at 26 April 2014, the Target Business had no other significant debt. The gearing ratio was 155% which was based on total amount of debts and overdrafts divided by shareholders' equity.

Contingent liabilities

As at 26 April 2014, the Target Business had no contingent liabilities, including pension obligations (27 April 2013: Nil).

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 30 June 2015 have been set out in pages 27 to 91 of the Annual Report 2014-2015 of the Company which was posted on 30 September 2015 on the Stock Exchange's website (http://www.hkexnews.hk).

Please also see below quick link to the Annual Report 2014-2015:

http://www.hkexnews.hk/listedco/listconews/GEM/2015/0930/GLN20150930139.pdf

The audited consolidated financial statements of the Group for the year ended 30 June 2014 have been set out in pages 26 to 81 of the Annual Report 2013-2014 of the Company which was posted on 30 September 2014 on the Stock Exchange's website (http://www.hkexnews.hk).

Please also see below quick link to the Annual Report 2013-2014:

http://www.hkexnews.hk/listedco/listconews/GEM/2014/0930/GLN20140930113.pdf

The audited consolidated financial statements of the Group for the year ended 30 June 2013 have been set out in pages 27 to 102 of the Annual Report 2012-2013 of the Company which was posted on 27 September 2013 on the Stock Exchange's website (http://www.hkexnews.hk).

Please also see below quick link to the Annual Report 2012-2013:

http://www.hkexnews.hk/listedco/listconews/GEM/2013/0927/GLN20130927015.pdf

The three auditors' reports for the consolidated financial statements of the Group for the years ended 30 June 2013, 2014 and 2015 are qualified reports.

In addition, the unaudited consolidated financial statements of the Group for the six months ended 31 December 2015 have been set out in pages 5 to 23 of the Interim Report 2015-2016 of the Company which was posted on 16 February 2016 on the Stock Exchange's website (http://www.hkexnews.hk).

Please also see below quick link to the Interim Report 2015-2016:

http://www.hkexnews.hk/listedco/listconews/GEM/2016/0216/GLN20160216019.pdf

2. STATEMENT OF INDEBTEDNESS

At as the close of business on 30 April 2016, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this circular, the Enlarged Group had outstanding indebtedness denominated in Hong Kong dollars of approximately HK$269.9 million which comprised of secured borrowings of approximately HK$53 million, unsecured borrowings of approximately HK$191.9 million, promissory note payable of approximately HK$14.2 million, convertible bond of HK$9 million and finance lease payable of approximately HK$1.8 million.

Contingent liabilities

As at 30 April 2016, the Enlarged Group did not have any contingent liabilities.

Disclaimer

Save as aforesaid or as otherwise disclosed herein, the Enlarged Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, or hire purchase commitments, (whether secured or unsecured, guaranteed or not), any mortgages or charges or other material contingent liabilities or guarantees at the close of business on 30 April 2016.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 April 2016. The Directors are not aware of any material changes in the Enlarged Group's indebtedness and contingent liabilities since the close of business on 30 April 2016.

3. MATERIAL ADVERSE CHANGE

As disclosed in the announcement dated 13 November 2015 of the Company, the Group recorded a loss attributable to owners of the Company of approximately HK$14.2 million which is mainly due to the increase in the administrative and other expenses of the Group. As at the Latest Practicable Date, save as disclosed, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 30 June 2015, the date to which the latest published audited financial statements of the Group were made up.

4. WORKING CAPITAL

The Directors are of the opinion that, after taking into accounts the financial resources available to the Group and the Target Group, including the existing cash and bank balances, which, as at 30 April 2016, the Enlarged Group has cash and bank balances of approximately HK$206.6 million, and other internal resources available, the Group and the Target Group has sufficient working capital after entering into the Acquisitions for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECTS

The Group intends to continue developing its model management agency and entertainment business. On 14 December 2015, the Company has acquired 40% issued share capital of Starz Holdings Limited and its group ("**Starz Group**"). The acquisition enhances the Group's presence in the market of Hong Kong, Macau, PRC and Taiwan. Furthermore, the acquisition will complement the Group's business projects in the entertainment industry, enabling further collaborations with potential and existing business partners through the Starz Group.

The Group intends to continue developing its visual entertainment business. 3D and VFX are now key elements of big budget films. With the increasing budgets of tentpole movies, there is a tremendous demand for world-class 3D and VFX services. On 24 March 2016, the Company entered into a sales and purchase agreement with AID Partners Visual Entertainment, L.P. for the acquisition of 4% of the issued share capital of Prime Focus World N.V. The acquisition enhances the Group's presence in Asia Pacific region and allows the Group to gain a firm foothold in the entertainment industry in Hong Kong and the People's Republic of China.

The Group is operating the cinemas in Xiamen, Guangzhou and Chongqing, the PRC. The Group intends to continue expanding its cinemas operation by expanding its existing operation by renting more space and acquiring more advance equipment and setting up or acquiring additional cinemas in different provinces in the PRC.

The Group will maintain a continuous production and launch of movies in the market and also intends to expand its money lending business in order to have stable interest income stream and prospects.

In spite of all these expansion plans of the Group, the utmost important action of the Group now is to strengthen its existing operations and enhancing cost efficiency and profitability.

The following is the text of a report on the Target Group, prepared for the purpose of incorporation in this circular, received from the independent reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong.

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

24 June 2016

The Board of Directors
China 3D Digital Entertainment Limited

Dear Sirs,

We set out below our report on the financial information of HMV M&E Limited (the "**Target Company**") and its subsidiaries (collectively referred to as the "**Target Group**") which comprises the combined statements of financial position of the Target Group as at 31 December 2014 and 2015 and the statement of financial position of the Target Company as at 31 December 2015, and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the period from 11 December 2013 (date of incorporation of HMV Marketing Limited) to 31 December 2014 and the year ended 31 December 2015 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory notes (the "**Financial Information**"), prepared on the basis of preparation as set out in note 2 of Section II below, for inclusion in the circular issued by China 3D Digital Entertainment Limited dated 24 June 2016 (the "**Circular**") in connection with the proposed acquisition of the entire issued share capital of the Target Company by entering into the Sale and Purchase Agreement I and II as defined in this Circular (the "**Acquisition**").

The Target Company was incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 1 December 2015. Pursuant to several restructuring as set out in note 2 of Section II below, the Target Company has become the holding company of the companies now comprising the Target Group. Apart from the restructuring as mentioned above, the Target Company has no business activity other than being an investment holding company of its subsidiaries. During the Relevant Periods, the Target Group is principally engaged in the entertainment and media business and other ancillary businesses including, but not limited to, the operation of the retail stores under the brand "HMV".

As at the date of this report, the Target Company has direct or indirect interests in subsidiaries as set out in note 2 of Section II below. No audited financial statements have been prepared for the Target Company, Linkenway Limited, Simply Sino Limited and Smiley Bee Limited since their dates of incorporation as they were incorporated in jurisdiction where there is no statutory audit requirements.

The statutory financial statements of HMV Marketing Limited for the period from 11 December 2013 (date of incorporation) to 31 December 2014 and the year ended 31 December 2015 were audited by BDO Limited, Certified Public Accountants. These statutory financial statements were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

All companies comprising the Target Group have adopted 31 December as their financial year end date.

For the purpose of this report, the directors of the Target Company have prepared the combined financial statements of the Target Group for the Relevant Periods (the "**Underlying Financial Statements**") in accordance with the basis of preparation set out in note 2 of Section II below and the accounting policies set out in note 4 of Section II below which conform with HKFRSs issued by the HKICPA.

The Financial Information has been prepared by the directors of the Target Company based on the Underlying Financial Statements with no adjustment made thereon.

Directors' responsibility

The directors of the Target Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with the basis of preparation set out in note 2 of Section II below and the accounting policies set out in note 4 of Section II below which conform with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information, and have carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis of preparation as set out in note 2 of Section II below and in accordance with the accounting policies as set out in note 4 of Section II below, gives a true and fair view of the financial position of the Target Group as at 31 December 2014 and 2015 and the financial position of the Target Company as at 31 December 2015 and of the financial performance and cash flows of the Target Group for each of the Relevant Periods.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 4(b) to the Financial Information which indicates that the Target Group incurred a loss of HK$59,601,011 for the year ended 31 December 2015 and, as of that date, the Target Group's current liabilities exceeded its current assets by HK$215,127,724 and total liabilities exceeded total assets by HK$83,855,380 while the Target Company's current liability exceeded its current asset by HK$5,297 and total liability exceeded total assets by HK$5,296. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Target Group's and the Target Company's ability to continue as a going concern.

I. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Period from 11 December 2013 to 31 December 2014 HK$	Year ended 31 December 2015 HK$
Revenue	7	43,746,521	79,032,894
Cost of sales		(26,863,275)	(50,004,829)
Gross profit		16,883,246	29,028,065
Other income	8	449,214	833,188
Selling and distribution expenses		(25,713,986)	(35,209,260)
Administrative expenses		(15,872,851)	(38,449,942)
Other operating expenses		–	(15,873,054)
Loss before income tax	9	(24,254,377)	(59,671,003)
Income tax credit	10	–	69,992
Loss and total comprehensive income for the period/year		(24,254,377)	(59,601,011)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2014 HK$	2015 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	11,138,015	51,731,672
Intangible assets	16	–	77,310,525
Goodwill	17	443,463	10,699,463
Deposits and other receivables	19	–	16,810,692
		11,581,478	156,552,352
Current assets			
Inventories	18	6,648,627	39,903,012
Trade and other receivables	19	1,695,713	12,171,174
Amounts due from fellow subsidiaries	20	7,604,490	15,622,353
Amount due from a related company	20	272,764	206,161
Pledged bank deposits	21	–	7,000,000
Cash and cash equivalents	21	6,591,315	14,433,038
		22,812,909	89,335,738
Current liabilities			
Trade and other payables	22	12,520,260	49,648,923
Amount due to the ultimate holding company	20	25,726,859	245,066,968
Amount due to the immediate holding company	20	9,680,992	9,680,992
Amounts due to fellow subsidiaries	20	–	11,805
Amount due to a related company	20	20,645	54,774
Advances from a director	23	10,000,000	–
		57,948,756	304,463,462
Net current liabilities		(35,135,847)	(215,127,724)
Total assets less current liabilities		(23,554,369)	(58,575,372)
Non-current liabilities			
Other payables	22	700,000	8,552,000
Deferred tax liabilities	24	–	16,728,008
		700,000	25,280,008
Net liabilities		(24,254,369)	(83,855,380)
EQUITY			
Share capital	25	8	8
Accumulated losses		(24,254,377)	(83,855,388)
Capital deficiency		(24,254,369)	(83,855,380)

STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December 2015** *HK$*
ASSETS AND LIABILITIES		
Non-current asset		
Investment in a subsidiary	15	1
Current asset		
Amount due from the immediate holding company	20	8
Current liability		
Amount due to a fellow subsidiary	20	5,305
Net current liability		(5,297)
Total assets less current liability		(5,296)
Net liability		(5,296)
EQUITY		
Share capital	25	8
Accumulated loss	26	(5,304)
Capital deficiency		(5,296)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total
	HK$	*HK$*	*HK$*
At 11 December 2013 (date of incorporation of HMV Marketing Limited)	–	–	–
Issue of share	8	–	8
Loss and total comprehensive income for the period	–	(24,254,377)	(24,254,377)
At 31 December 2014 and 1 January 2015	8	(24,254,377)	(24,254,369)
Loss and total comprehensive income for the year	–	(59,601,011)	(59,601,011)
At 31 December 2015	8	(83,855,388)	(83,855,380)

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Period from 11 December 2013 to 31 December 2014 HK$	Year ended 31 December 2015 HK$
Cash flows from operating activities			
Loss before income tax		(24,254,377)	(59,671,003)
Adjustments for:			
Amortisation of intangible assets		–	323,475
Bad debts written off			
– amount due from a related company		1,513,718	–
– other receivables		1,777,690	1
Depreciation of property, plant and equipment		3,243,819	17,391,750
Impairment of inventories		405,632	2,199,443
Impairment of other receivables	19	–	5,850,000
Interest expense		1	–
Interest income		(2)	(5)
Operating loss before working capital changes		(17,313,519)	(33,906,339)
Increase in inventories		(7,049,803)	(19,434,039)
Increase in trade and other receivables		(3,415,995)	(20,488,796)
Increase in trade and other payables		11,989,309	35,474,663
Change in amounts due from/(to) related companies		(1,765,837)	100,732
Net cash used in operating activities		(17,555,845)	(38,253,779)
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,661,209)	(41,998,227)
Acquisition of e-commerce operation, net of cash acquired	27(a)	4,999	–
Acquisition of HMV IP Rights and HMV Business, net of cash acquired	27(b)	–	(105,557,711)
Increase in pledged bank deposits		–	(7,000,000)
Interest received		2	5
Net cash used in investing activities		(13,656,208)	(154,555,933)

	Note	Period from 11 December 2013 to 31 December 2014 HK$	Year ended 31 December 2015 HK$
Cash flows from financing activities			
Proceeds from issue of share		8	–
Change in amounts due from fellow subsidiaries		(7,604,490)	(8,688,674)
Change in amount due to the ultimate holding company		25,726,859	219,340,109
Change in amount due to the immediate holding company		9,680,992	–
Advances/(repayment of advances) from a director		10,000,000	(10,000,000)
Interest paid		(1)	–
Net cash generated from financing activities		37,803,368	200,651,435
Net increase in cash and cash equivalents		6,591,315	7,841,723
Cash and cash equivalents at beginning of the period/year		–	6,591,315
Cash and cash equivalents at end of the period/year	21	6,591,315	14,433,038

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company was incorporated in the British Virgin Islands (the "**BVI**") with limited liability on 1 December 2015. The address of its registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The Target Group is principally engaged in the entertainment and media business and other ancillary businesses including, but not limited to, the operation of the retail stores under the brand "HMV". The Target Company is an investment holding company. Particulars of the Target Company's subsidiaries have been set out in note 2 below. The Target Company has not carried out any business since the date of incorporation save for the restructuring as detailed in note 2 below.

As at 31 December 2015, the immediate holding company of the Target Company was Action Key Investments Limited, a limited liability company incorporated in Samoa. In the opinion of the directors of the Target Company, its ultimate holding company is AID Partners Capital Holdings Limited ("**AID Partners**"), a limited liability company incorporated in the Cayman Islands with its shares listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8088).

2. RESTRUCTURING AND BASIS OF PREPARATION

During the period from 11 December 2013 (date of incorporation of HMV Marketing Limited) to 31 December 2014 and for the year ended 31 December 2015 (the "**Relevant Periods**"), the Target Group has undergone the following restructuring:

(i) HMV Marketing Limited ("**HMV Marketing**") is a limited liability company incorporated in Hong Kong on 11 December 2013. Upon its incorporation, 1 ordinary share at par value of HK$1 was issued and allotted to HMV eShop Limited ("**HMV eShop**"), an indirect wholly owned subsidiary of AID Partners. On 14 December 2015, the Target Company acquired from HMV eShop the entire equity interest in HMV Marketing at cash consideration of HK$1. As a result of this transaction, the Target Company has become the holding company of HMV Marketing.

Subsequent to the Relevant Periods, the Target Group has undergone other restructuring as below:

(i) Linkenway Limited ("**Linkenway**") is a limited liability company incorporated in the BVI on 2 January 2014. Upon its incorporation, 1 ordinary share at par value of US$1 was issued and allotted to Honour Best Holdings Limited ("**Honour Best**"), a direct wholly-owned subsidiary of AID Partners. On 26 February 2016, the Target Company acquired from Honour Best the entire equity interest in Linkenway at cash consideration of US$1. As a result of this transaction, the Target Company has become the holding company of Linkenway.

(ii) On 1 January 2016, each of Simply Sino Limited and Smiley Bee Limited was incorporated as a company in the BVI with limited liability. Upon their incorporation, 1 ordinary share at par value of US$1 was issued and allotted to the Target Company.

(iii) On 29 February 2016, the Target Group has completed a restructuring of the inter-company balances between the Target Group and its holding companies. As a result of the set-off and assignment of such inter-company balances, the net payable of HK$239,090,000 due from the Target Company to Action Key Investments Limited, the immediate holding company of the Target Company, has been capitalised and satisfied by issuance of 9,999 ordinary shares.

Following the aforementioned restructuring, the Target Company became the holding company of these companies.

Prior to the restructuring, all entities which took part in the restructuring, were collectively controlled and wholly-owned by AID Partners (the "**Controlling Shareholder**").

The Target Company and its subsidiaries now comprising the Target Group have been both before and after the restructuring under the common control of the Controlling Shareholder. Accordingly, for the purpose of this report, the Financial Information of the Target Group has been prepared as if the Target Company had been the holding company of these companies throughout the Relevant Periods, the Financial Information was prepared based on the financial statements of these companies for the Relevant Periods.

The combined statements of profit or loss and other comprehensive income and combined statements of cash flows of the Target Group for the Relevant Periods include the results and cash flows of the companies now comprising the Target Group as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever was earlier. The combined statements of financial position of the Target Group as at 31 December 2014 and 2015 have been prepared to present the state of the affairs of the Target Group as if the current group structure had been in existence as at the respective dates.

Particulars of the Target Company's subsidiaries during the Relevant Periods and up to the date of this report are as follows:

Name of subsidiary	Place and date of incorporation	Place of operation	Issued and fully paid share capital	Percentage of effective equity interest directly held by the Target Company			Principal activities
				As at 31 December		Date of this report	
				2014	2015		
HMV Marketing Limited	Hong Kong/ 11 December 2013	Hong Kong	HK$1	N/A	100%	100%	Retailing of musical recordings, compact discs, vinyls, digital versatile discs, blu-ray discs and other entertainment related products, and also involved in operation of an in-store café and e-commerce business
Linkenway Limited	The BVI/ 2 January 2014	Hong Kong	US$1	N/A	N/A	100%	Investment holding
Simply Sino Limited	The BVI/1 January 2016	Hong Kong	US$1	N/A	N/A	100%	Investment holding
Smiley Bee Limited	The BVI/1 January 2016	Hong Kong	US$1	N/A	N/A	100%	Investment holding

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has consistently applied all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (collectively referred to as the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") which are relevant to the Target Group and become effective during the Relevant Periods.

At the date of this report, the HKICPA has issued the following new or amended HKFRSs that have been issued but are not yet effective and are potentially relevant to the Target Group, and have not been adopted by the Target Group in preparing the Financial Information:

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle[1]
Amendments to HKAS 1	Disclosure Initative[1]
HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 16 – Leases

HKFRS 16 supersedes HKAS 17 "Leases", HK(IFRIC) – Int 4 "Determining whether an Arrangement contain a Lease", HK(SIC) – Int 15 "Operating Lease – Incentives" and HK(SIC) – Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17 "Leases". Under HKFRS 16, leases are recorded on the statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. lease of 12 months or less, including the effect of any extension options) and (b) leases of low value assets (for example, a lease of a personal computer).

HKFRS 16 substantially carries forward the lessor's accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows: (a) if the head lease is a short-term lease that the entity, as a lessee, the sublease shall be reclassified as an operating lease; (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

The Target Group is in the process of making an assessment on the impact of these standards or amendments to existing HKFRSs and is not yet in a position to determine whether they will have a significant impact on the Target Group's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with all applicable HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 5.

(b) Basis of measurement and going concern assumption

The Financial Information has been prepared under historical cost convention. The significant accounting policies that have been used in the preparation of this Financial Information are summarised below. These policies have been consistently applied to all the periods presented unless otherwise stated.

The Target Group incurred a loss of HK$59,601,011 for the year ended 31 December 2015 (Period from 11 December 2013 (date of incorporation of HMV Marketing Limited) to 31 December 2014: HK$24,254,377) and as of that date, the Target Group's current liabilities exceeded its current assets by HK$215,127,724 (2014: HK$35,135,847) and total liabilities exceeded total assets by HK$83,855,380 (2014: HK$24,254,369) while the Target Company's current liability exceeded its current asset by HK$5,297 and total liability exceeded total assets by HK$5,296. These conditions indicated the existence of material uncertainties which may cast significant doubt about the Target Group's and the Target Company's ability to continue as a going concern and therefore, the Target Group and the Target Company may be unable to realise its assets and discharge its liabilities in the ordinary course of business.

Notwithstanding the above, the directors of the Target Company, after reviewing the Target Group's cash flow projections prepared by the directors which covered for a period of twelve months from the end of the latest reporting period, are of the view that the Target Group and the Target Company can continue as a going concern and believe that the Target Group will have sufficient working capital to fulfil its financial obligations as and when they fall due within the next twelve months from the end of the latest reporting period, after taking into consideration the followings:

(i) Restructuring

The payable balances due from the Target Group to the ultimate holding company of HK$245,066,968 and the immediate holding company of HK$9,680,992 as at 31 December 2015 are part of the balances which have been capitalised in the restructuring in February 2016 as further detailed in note 2.

(ii) Attainment of profitable and positive cash flow operations

The Target Group continues to implement measures to tighten cost controls over various costs and expenses with the aim to attain profitable and positive cash flow operations through its HMV retail business.

After taking into account the above measures, the directors of the Target Company consider that the Target Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the Financial Information on a going concern basis.

Should the Target Group and the Target Company be unable to continue in business as a going concern, adjustments would have to be made in the Financial Information to reduce the value of the assets to their estimated realisable amounts, to provide for any further liabilities which may arise, and to reclassify non-current assets and non-current liabilities to current assets and current liabilities respectively. The effect of these potential adjustments has not been reflected in the Financial Information.

(c) Functional and presentation currency

The presentation currency of the Financial Information of the Target Group is Hong Kong dollars ("**HK$**"), which is also the Target Group's functional currency.

(d) Business combination and basis of consolidation

The Financial Information incorporates the financial statements of the Target Company and its subsidiaries for the Relevant Periods. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

Restructuring occurred during the Relevant Periods is accounted for as explained in note 2 above.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Target Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Target Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Target Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

The results of subsidiaries acquired or disposed of are included in profit or loss from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Target Group.

When the Target Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

(e) Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvements	20% or over the terms of the lease, whichever is shorter
Computer equipment	$33^{1}/_{3}\%$
Office equipment	$33^{1}/_{3}\%$
Furniture and fixtures	20%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(g) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges as the lessee

Where the Target Group has the rights to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Intangible assets

(i) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("**CGU**") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(ii) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses.

Amortisation is recognised in profit or loss and is provided on straight-line method over their estimated useful lives as follows:

Trademarks	20 years

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in profit or loss immediately.

(i) Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or CGU that include intangible asset with an indefinite useful life are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost of disposal, and value in use based on an internal discounted cash flow evaluation.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

(j) Financial instruments

Financial assets and financial liabilities are recognised when, and only when, the Target Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

(i) Financial assets

The Target Group's financial assets include trade and other receivables, pledged bank deposits, cash and cash equivalents, amounts due from fellow subsidiaries and a related company.

Financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment losses on loans and receivables are provided for when objective evidence is received that the Target Group will not be able to collect amounts due to it in accordance with the original terms of the receivables. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss in the period in which the impairment occurs.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss in the period in which the reversal occurs.

(ii) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The Target Group's financial liabilities include trade and other payables, advances from a director and amounts due to the ultimate holding company, the immediate holding company, fellow subsidiaries and a related company. These financial liabilities are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

(iii) Derecognition

Financial assets are derecognised when the contractual rights to the future cash flows in relation to the financial assets expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(k) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined on the actual basis and comprises invoiced value of purchases, freight and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less any estimated costs to make the sale.

(l) Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash in hand and at banks, including short-term bank deposits, and assets similar in nature to cash, which are not restricted as to use.

(m) Income tax

Income tax for the period comprises current tax and deferred tax.

Current tax is based on profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(n) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

(o) Revenue recognition

Revenue, which is the fair value of consideration received or receivable, is recognised when it is probable that economic benefits will flow to the Target Group, when the revenue and costs, if applicable, can be measured reliably and on the following bases:

– 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.

– Revenue from sales of food and beverage is recognised, net of discounts, in profit or loss at the point of sale to customers.

– Concession stores income is accrued as earned on the basis of the terms of relevant concession agreements, which is on the basis of a minimum payment and a variable amount based on turnover.

– Marketing income is recognised when services are rendered or substantially performed in accordance with the terms of the contract.

– Interest income is recognised as it accrues, taking into account the effective yield on the asset.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to long service payment and annual leave are recognised when they accrue to employees. Provision is made for the estimated liabilities for long service payment and annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefit schemes

The Target Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance and pays contributions to independently administered funds on a mandatory or contractual basis. The assets of these schemes are held separately from those of the Target Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the Target Group. The Target Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense on accrual basis.

All eligible employees have participated in the Mandatory Provident Fund Scheme ("**MPF Scheme**") in Hong Kong. Under the MPF Scheme, contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. There is no voluntary contribution from the Target Group or the employees and there are no other legal or constructive obligations to the Target Group.

(iii) Bonus plans

The Target Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(q) Provisions and contingent liabilities

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within control of the Target Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or the Target Company's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(s) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it operates (the "**functional currency**") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Target Group's chief operating decision maker, i.e. the board of directors, for the purposes of allocating resources to, and assessing the performance of, the Target Group's various business operation and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of intangible assets and estimated useful lives

The Target Group has made estimations and assumptions in relation to the potential future cash flows of identifiable intangible assets acquired as part of business combinations. This assessment involves estimations and assumptions relating to potential future revenues, appropriate discount rates and the estimated useful lives of such assets. These estimations and assumptions impact the statement of profit or loss and other comprehensive income over the estimated useful lives of the intangible assets.

(ii) Impairment of assets

The Target Group conducts impairment reviews of assets when events of changes in circumstances indicate that their carrying amounts may not be recoverable annually in accordance with relevant accounting standards. An impairment loss is recognised when the carrying amount of an asset is lower than the greater of its net selling price or the value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate.

(iii) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill have been allocated. The value in use calculation requires the Target Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise.

(iv) Impairment of trade and other receivables and amounts due from group companies and a related company

Management determines impairment of trade and other receivables and amounts due from group companies and a related company on a regular basis. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, impairment may be required.

(v) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of selling products of similar nature. Management reassesses the estimation at each reporting period end.

(vi) Deferred taxation

Deferred tax assets relating to certain tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact, where applicable and appropriate, the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

Deferred tax liabilities arise when the carrying amounts of the identifiable assets acquired in a business combination are recognised at their fair values at the acquisition date but the tax bases of the assets remain at cost to the previous owner, therefore a taxable temporary difference arises.

(vii) Provision for store reinstatement costs

The Target Group estimates the cost of store reinstatement based primarily on the latest quotation. Management carries out review at the end of each reporting period and reassesses the adequacy of the provision.

6. SEGMENT INFORMATION

(a) Reportable segment

The Target Group's operating activities are attributable to a single operating segment which is the operation of the retail stores under the brand "HMV" during the Relevant Periods. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to the HKFRSs. The board of directors reviews the Target Group's revenue analysis by services in order to assess performance and allocate resources. The board of directors reviews the results of the Target Group as a whole to make decisions. Accordingly, no analysis of this single operating segment is presented.

(b) Geographical information

Since all of the Target Group's revenue was generated in Hong Kong and all of the Target Group's non-current assets were located in Hong Kong, no geographical segment information is presented.

(c) Information about a major customer

During the Relevant Periods, no sales to a single customer amounted to 10% or more of the Target Group's revenue.

7. REVENUE

Revenue represents the net invoiced value of goods and food and beverage sold, net of discounts, and concession stores income, as follows:

	Period from 11 December 2013 to 31 December 2014	**Year ended 31 December 2015**
	HK$	*HK$*
Sales of goods	42,496,712	74,986,186
Sales of food and beverage	1,249,809	3,784,884
Concession stores income	–	261,824
	43,746,521	79,032,894

8. OTHER INCOME

	Period from 11 December 2013 to 31 December 2014	**Year ended 31 December 2015**
	HK$	*HK$*
Bank interest income	2	5
Marketing income	399,601	790,158
Sundry income	49,611	43,025
	449,214	833,188

9. LOSS BEFORE INCOME TAX

	Period from 11 December 2013 to 31 December 2014	Year ended 31 December 2015
	HK$	*HK$*
Loss before income tax is arrived at after charging/(crediting):		
Amortisation of intangible assets (included in administrative expenses)	–	323,475
Auditor's remuneration	110,000	200,000
Bad debts written off:		
– amount due from a related company	1,513,718	–
– other receivables	1,777,690	1
Cost of inventories recognised as expense, including	26,863,275	50,004,829
– impairment of inventories *(note 18)*	405,632	2,199,443
Depreciation of property, plant and equipment	3,243,819	17,391,750
Employee benefit expense *(note 11)*	5,978,557	14,873,884
Exchange losses, net	–	438
Impairment of other receivables *(note 19)*	–	5,850,000
Operating lease charges in respect of:		
– office equipment	592,635	13,827
– rented premises	16,067,084	20,310,819
Bank interest income	(2)	(5)

10. INCOME TAX CREDIT

	Period from 11 December 2013 to 31 December 2014	Year ended 31 December 2015
	HK$	*HK$*
Deferred tax *(note 24)*		
– Credited for the period/year	–	69,992

No Hong Kong profits tax has been provided as the Target Group did not derive any assessable profit for the Relevant Periods.

Reconciliation between income tax credit and accounting loss at applicable rates is as follows:

	Period from 11 December 2013 to 31 December 2014 *HK$*	**Year ended 31 December 2015** *HK$*
Loss before income tax	(24,254,377)	(59,671,003)
Tax on loss at applicable rate of 16.5%	(4,001,972)	(9,845,715)
Tax effect of non-deductible expenses	595,273	1,027,184
Tax effect of unrecognised temporary differences	(512,483)	600,984
Tax effect of unrecognised tax losses	3,919,182	8,287,539
Income tax credit	–	69,992

As at 31 December 2014 and 2015, the Target Group had unrecognised tax losses of approximately HK$23,753,000 and HK$73,980,000, respectively, to carry forward against future taxable income. The tax losses do not expire under current legislation. The tax losses and deductible temporary differences have not been recognised due to unpredictability of future profit streams against which the tax losses and temporary differences can be utilised.

11. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Period from 11 December 2013 to 31 December 2014 *HK$*	**Year ended 31 December 2015** *HK$*
Salaries and allowances	5,738,640	14,290,244
Retirement fund contributions	239,917	583,640
	5,978,557	14,873,884

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

No emoluments were paid or payable to the Target Company's directors, Messrs. Wu King Shiu, Kelvin and Ho Gilbert Chi Hang, during each of the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any emolument during each of the Relevant Periods.

During each of the Relevant Periods, no emoluments were paid by the Target Group to the directors as an inducement to join or upon joining the Target Group or as compensation for loss of office.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Target Group during each of the Relevant Periods, none of them is a director of the Target Company.

Emoluments payable to the five highest paid non-director individuals during each of the Relevant Periods are as follows:

	Period from 11 December 2013 to 31 December 2014	Year ended 31 December 2015
	HK$	*HK$*
Salaries, allowances and other benefits	4,560,452	3,375,210
Contributions to retirement benefits scheme	78,625	66,964
Performance related incentive payments	225,000	88,100
	4,864,077	3,530,274

Emoluments of the individuals were within the following bands:

	Number of individuals	
	Period from 11 December 2013 to 31 December 2014	Year ended 31 December 2015
Nil to HK$1,000,000	4	4
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	–
HK$2,500,001 to HK$3,000,000	1	–

During the Relevant Periods, no emoluments were paid by the Target Group to any of the five highest paid employees as an inducement to join or upon joining the Target Group or as compensation for loss of office.

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management who are not directors were within the following bands:

	Number of individuals	
	Period from 11 December 2013 to 31 December 2014	Year ended 31 December 2015
Nil to HK$1,000,000	4	1
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	–
HK$2,500,001 to HK$3,000,000	1	–

13. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

The Target Group

	Leasehold improvements *HK$*	Computer equipment *HK$*	Office equipment *HK$*	Furniture and fixtures *HK$*	Total *HK$*
At 11 December 2013 (date of incorporation of HMV Marketing Limited)					
Cost	–	–	–	–	–
Accumulated depreciation	–	–	–	–	–
Carrying amount	–	–	–	–	–
Period ended 31 December 2014					
Opening carrying amount	–	–	–	–	–
Additions	9,914,941	654,955	2,020,871	1,770,442	14,361,209
Acquisition of e-commerce operation *(note 27(a))*	–	20,625	–	–	20,625
Depreciation	(2,561,211)	(119,177)	(397,855)	(165,576)	(3,243,819)
Closing carrying amount	7,353,730	556,403	1,623,016	1,604,866	11,138,015
As at 31 December 2014					
Cost	9,914,941	675,580	2,020,871	1,770,442	14,381,834
Accumulated depreciation	(2,561,211)	(119,177)	(397,855)	(165,576)	(3,243,819)
Carrying amount	7,353,730	556,403	1,623,016	1,604,866	11,138,015
Year ended 31 December 2015					
Opening carrying amount	7,353,730	556,403	1,623,016	1,604,866	11,138,015
Additions	41,962,732	3,612,603	5,026,260	1,585,248	52,186,843
Acquisition of HMV IP Rights and HMV Business *(note 27(b))*	4,609,400	323,708	109,203	756,253	5,798,564
Depreciation	(12,354,859)	(2,171,784)	(2,060,457)	(804,650)	(17,391,750)
Closing carrying amount	41,571,003	2,320,930	4,698,022	3,141,717	51,731,672
As at 31 December 2015					
Cost	56,487,073	4,611,891	7,156,334	4,111,943	72,367,241
Accumulated depreciation	(14,916,070)	(2,290,961)	(2,458,312)	(970,226)	(20,635,569)
Carrying amount	41,571,003	2,320,930	4,698,022	3,141,717	51,731,672

During the year ended 31 December 2015, the directors have reassessed the estimated useful lives of certain property, plant and equipment of the Target Group's retail stores. Based on the re-assessment, the Target Group has fully depreciated property, plant and equipment of HK$5,561,290 and included in administrative expenses in profit or loss in the year. The re-assessment is not expected to have impact in future reporting periods.

15. INVESTMENT IN A SUBSIDIARY

The Target Company

	As at 31 December 2015
	HK$
Investment in HMV Marketing Limited, at cost	1

Particulars of the Target Company's subsidiaries are set out in note 2.

16. INTANGIBLE ASSETS

The Target Group

	Trademarks
	HK$
At 11 December 2013 (date of incorporation of HMV Marketing Limited) and 31 December 2014	
Cost	–
Accumulated amortisation	–
Carrying amount	–
Year ended 31 December 2015	
Opening carrying amount	–
Acquisition of HMV IP Rights and HMV Business *(note 27(b))*	77,634,000
Amortisation	(323,475)
Closing carrying amount	77,310,525
As at 31 December 2015	
Cost	77,634,000
Accumulated amortisation	(323,475)
Carrying amount	77,310,525

Trademarks arose from the acquisition of HMV IP Rights and HMV Business on 30 November 2015 (note 27(b)). Trademarks represent the rights to use the name "HMV", the various HMV trade marks and trade mark applications, and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through the four retail stores selling music, movies and television series related contents and products located in Hong Kong and any other business to be conducted in the People's Republic of China (the "**PRC**"), Hong Kong and Singapore.

Trademarks were valued as of the date of acquisition by the independent professional valuer, Grant Sherman Appraisal Limited ("**Grant Sherman**"), based on market approach using the Guideline Merger and Acquisition method (the "**GMA Method**").

The directors of the Target Company have conducted an impairment review for the trademarks based on a valuation performed by Grant Sherman using the GMA Method as at the end of the reporting period and no impairment is considered necessary. Details of impairment review are described in note 17.

17. GOODWILL

The Target Group

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Carrying amount at beginning of the period/year	–	443,463
Acquisition of e-commerce operation *(note 27(a))*	443,463	–
Acquisition of HMV IP Rights and HMV Business *(note 27(b))*	–	10,256,000
Carrying amount at end of the period/year	443,463	10,699,463

Goodwill acquired through acquisition of e-commerce operation and HMV IP Rights and HMV Business during the period ended 31 December 2014 and the year ended 31 December 2015 (notes 27(a) and (b)) are allocated to the Target Group's CGUs. A summary of goodwill allocation is presented below:

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
e-commerce operation	443,463	443,463
HMV IP Rights and HMV Business	–	10,256,000
As at 31 December	443,463	10,699,463

The recoverable amount of e-commerce operation to which the goodwill relates has been determined based on a value in use calculation. The calculation is based on financial budgets covering a five-year period approved by management. Cash flow beyond the five-year period is extrapolated using a zero growth rate. As at 31 December 2014 and 2015, key assumptions are based on past performance, management estimation on market development and growth rates for the business in which the CGU operates. As at 31 December 2014 and 2015, the discount rate used for value in use calculations of 33% and 33%, respectively, is pre-tax and reflects specific risks relating to the CGU.

The recoverable amount of HMV IP Rights and HMV Business to which the goodwill relates has been determined by the independent professional valuer, Grant Sherman, based on market approach using the GMA Method. Under the GMA Method, the fair market value is based on the comparable transaction prices at which assets similar to that of HMV IP Rights and the assets of HMV Business and is classified within level 2 measurement of the fair value hierarchy. The GMA Method provides an indication of value by comparing the prices at which similar assets have exchanged between willing buyers and sellers. When GMA Method is used, an indication of the value of a specific item of the asset is obtained by referring to considerations for acquisition of comparable assets. The market approach is preferred over value in use calculations as it refers to actual market transactions or market value benchmark of comparable assets. In addition, as HMV Business has not recorded net profit or a positive EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) for the year ended 31 December 2015, market approach by way of comparing earnings multiples is impractical. As a result, upon considering the characteristics of various approaches and the practicability of such methods in valuing the recoverable amount of HMV IP Rights and HMV Business to which the goodwill relates, the GMA Method under the market approach was adopted.

Apart from the considerations described above in determining the recoverable amounts of the CGUs, the directors of the Target Company are not aware of any other probable changes that would necessitate changes in the key assumptions. The Target Company's directors determine that the CGUs containing goodwill does not suffer any impairment.

18. INVENTORIES

The Target Group

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Finished goods for resale	6,648,627	39,903,012

During the period ended 31 December 2014 and year ended 31 December 2015, carrying values of inventories of HK$405,632 and HK$2,199,443 were written down and charged to the combined statements of profit or loss and other comprehensive income respectively (note 9).

19. TRADE AND OTHER RECEIVABLES

The Target Group

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Trade receivables	187,090	810,633
Other receivables	1,191,750	25,301,794
Deposits and prepayments *(note)*	316,873	2,869,439
	1,695,713	28,981,866
Categorised as:		
Current portion	1,695,713	12,171,174
Non-current portion	–	16,810,692
	1,695,713	28,981,866

Note:

As at 31 December 2014 and 2015, included in deposits and prepayments was a deposit of nil and HK$5,850,000 respectively for an investment in the production of a popular American television series in the PRC. The investment is subject to various conditions precedent, which, up to 14 August 2015, had not been satisfied. According to the agreement, the Target Group is now entitled to recover the full amount of the deposit and the Target Group is in the legal process of doing so. However, the Target Group considered that the chance of such deposit's recoverability was remote as at 31 December 2015, therefore an impairment of HK$5,850,000 has been provided for during the year ended 31 December 2015.

As at the end of each of the Relevant Periods, sales of goods and food and beverage are normally made on a cash basis. Credit card receivables from financial institutions in respect of those sales are aged within 45 days.

Ageing analysis of trade receivables, based on invoice date, as at the end of each of the Relevant Periods is as follows:

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
0 – 30 days	186,043	810,633
31 – 60 days	1,047	–
	187,090	810,633

Ageing analysis of trade receivables, based on due date, which are past due but not impaired as at the end of each of the Relevant Periods is as follows:

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Neither past due nor impaired	186,043	810,633
Less than 30 days past due	1,047	–
	187,090	810,633

Trade receivables that were neither past due nor impaired related to customers that had a good track record of credit with the Target Group. Based on past credit history, the Target Company's directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Target Group did not hold any collateral in respect of these balances.

There was no impairment made for the period ended 31 December 2014 and year ended 31 December 2015 on trade receivables.

As at the end of each of the Relevant Periods, all other receivables under current portion were not either past due or impaired. The other receivables under non-current portion as at 31 December 2015 were deposits for certain HMV stores' rental and renovation deposits.

The fair value of trade and other receivables is considered by the Target Company's directors not to be materially different from their carrying amounts.

20. AMOUNT(S) DUE FROM/(TO) THE ULTIMATE HOLDING COMPANY/THE IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES/A RELATED COMPANY

The amounts are unsecured, interest-free and repayable on demand.

Mr. Wu King Shiu, Kelvin, one of the directors of the Target Company, is also a director of the related companies. Details of the amounts due from/(to) the related companies of the Target Group, which are disclosed pursuant to Section 383(1)(d) of the Hong Kong Companies Ordinance, are as follows:

				Maximum balance outstanding during	
Name of the related companies	**At 11 December 2013**	**As at 31 December 2014**	**As at 31 December 2015**	**period ended 31 December 2014**	**year ended 31 December 2015**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
HMV Hong Kong Limited	–	272,764	(54,774)	926,789	3,765,233
HMV Kafe Limited	–	(20,645)	206,161	1,005	207,437
	–	252,119	151,387		

21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

The Target Group

Cash at banks earns interest at floating rates based on daily bank deposit rates.

As at 31 December 2014 and 2015, the Target Group had pledged bank deposits of nil and HK$7,000,000, respectively, to a bank to secure banking facilities in relation to performance bonds in respect of tenancy agreements of certain retail stores and supplier payments.

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Pledged bank deposits	–	7,000,000
Cash and cash equivalents	6,591,315	14,433,038
	6,591,315	21,433,038

22. TRADE AND OTHER PAYABLES

The Target Group

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Trade payables	9,237,448	32,714,421
Accruals and other payables *(note)*	3,982,812	25,486,502
	13,220,260	58,200,923
Categorised as:		
Current portion	12,520,260	49,648,923
Non-current portion	700,000	8,552,000
	13,220,260	58,200,923

Note:

As at 31 December 2014 and 2015, the balance included the provision for store reinstatement costs of HK$700,000 and HK$10,206,000 respectively which the Target Group is presently obligated to make under non-cancellable operating lease contracts.

Ageing analysis of trade payables, based on invoice date, as at the end of each of the Relevant Periods is as follows:

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Current or within 30 days	6,913,370	29,322,633
31 to 60 days	1,760,886	2,816,593
61 to 90 days	563,192	575,195
	9,237,448	32,714,421

Movements in the provision for store reinstatement costs during the Relevant Periods are as follows:

	Period from 11 December 2013 to 31 December 2014	Year ended 31 December 2015
	HK$	*HK$*
At beginning of the period/year	–	700,000
Additions	700,000	9,506,000
At end of the period/year	700,000	10,206,000
Categorised as:		
Current portion	–	1,654,000
Non-current portion	700,000	8,552,000
	700,000	10,206,000

23. ADVANCES FROM A DIRECTOR

The Target Group

As at 31 December 2014, advances from Mr. Wu King Shiu, Kelvin, one of the directors of the Target Company, were in the principal amounts of HK$2,500,000 and HK$7,500,000 and were unsecured, non-interest bearing and repayable on 27 April 2015 and 28 May 2015 respectively. The advances were fully repaid in 2015.

24. DEFERRED TAX LIABILITIES

The Target Group

Details of the deferred tax liabilities recognised and movements during the Relevant Periods are as follows:

	Fair value adjustments arising from acquisition of business As at 31 December	
	2014	2015
	HK$	*HK$*
At beginning of the period/year	–	–
Acquisition of HMV IP Rights and HMV Business *(note 27(b))*	–	16,798,000
Credited to profit or loss *(note 10)*	–	(69,992)
At end of the period/year	–	16,728,008

The amount credited to profit or loss relating to the amortisation of intangible assets.

No recognition of potential deferred tax assets relating to tax losses of the Target Group has been made as the recoverability of the potential deferred tax assets is uncertain.

25. SHARE CAPITAL

The Target Company was incorporated on 1 December 2015 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each. Upon incorporation, 1 ordinary share was allotted and issued as fully paid at par to the subscriber (equivalent to approximately HK$8).

26. ACCUMULATED LOSS

The Target Company

	Period from 1 December 2015 (date of incorporation) to 31 December 2015
	HK$
At beginning of the period	–
Loss for the period	(5,304)
At end of the period	(5,304)

27. BUSINESS ACQUISITION

(a) Acquisition of e-commerce operation

In December 2013, the Target Group entered into a business transfer agreement and deed of novation, pursuant to which the Target Group agreed to acquire assets and liabilities of e-commerce operation from its related company, HMV Hong Kong Limited, effective from 1 January 2014 at a cash consideration of HK$1. The acquisition of e-commerce operation enabled the Target Group to establish its online retail business.

The fair value of identifiable assets and liabilities of e-commerce operation as at the date of acquisition were:

	HK$
Net liabilities acquired:	
Property, plant and equipment *(note 14)*	20,625
Inventories	4,456
Trade receivables	26,633
Prepayments, deposits and other receivables	30,775
Cash and bank balances	5,000
Trade payables	(483,138)
Other payables and accruals	(47,813)
	(443,462)
Goodwill arising from acquisition *(note 17)*	443,463
Cash consideration	1
Consideration satisfied by:	
Cash	1

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the e-commerce operation is as follows:

	HK$
Purchase consideration settled in cash	(1)
Cash and bank balances acquired	5,000
Net cash inflow on acquisition	4,999

The fair value of trade receivables at the date of acquisition amounting to HK$26,633 which was also the gross contractual amounts of these trade and other receivables acquired. None of the contractual cash flows of the above amount was estimated to be uncollectible.

Goodwill of HK$443,463 arose on this acquisition, which was not deductible for tax purposes, comprised the expected synergies arising from the combination of the acquired business with the existing operation of the Target Group.

The acquired business contributed revenue of approximately HK$2,405,000 and a loss after income tax of approximately HK$565,000 to the Target Group for the period from 1 January 2014 to 31 December 2014.

Had the acquisition occurred on 11 December 2013 (date of incorporation of HMV Marketing Limited), the Target Group's revenue and loss after income tax would have been approximately HK$2,405,000 and approximately HK$565,000 respectively for the period ended 31 December 2014.

This pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Target Group that actually would have been achieved had the acquisition been completed on 11 December 2013 (date of incorporation of HMV Marketing Limited), nor was it intended to be a projection of future results.

(b) Acquisition of HMV IP Rights and HMV Business

On 30 November 2015, the Target Group completed the acquisition of HMV IP Rights and HMV Business from HMV Hong Kong Limited, a related Company of the Target Company, at a consideration of HK$105,736,711 in cash. The HMV IP Rights represent all the rights to use the name "HMV", the various HMV trade marks and trade mark applications and the HMV domain names (the "**HMV IP Rights**") for the purposes of conducting the retail business of "HMV" operating through the four retail stores selling music, movies and television series related contents and products located in Hong Kong (the "**HMV Business**") and any other business to be conducted in the PRC, Hong Kong and Singapore. The acquisition of HMV IP Rights and HMV Business enables the Target Group to further develop and cultivate its lifestyle and entertainment business.

The provisional fair value of identifiable assets and liabilities of HMV IP Rights and HMV Business as at the date of acquisition were:

	HK$
Net assets acquired:	
Intangible assets *(note 16)*	77,634,000
Property, plant and equipment *(note 14)*	5,798,564
Inventories	16,019,789
Prepayments, deposits and other receivables	12,647,358
Cash and cash equivalents	179,000
Deferred tax liabilities recognised upon fair value adjustments *(note 24)*	(16,798,000)
Provisional fair value of net assets acquired	95,480,711
Goodwill arising from acquisition *(note 17)*	10,256,000
Consideration satisfied by:	
Cash	105,736,711

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the HMV IP Rights and HMV Business is as follows:

	HK$
Purchase consideration settled in cash	(105,736,711)
Cash and bank balances acquired	179,000
Net cash outflow on acquisition	(105,557,711)

As at 31 December 2015, the Target Group has not finalised the fair value assessments for intangible assets acquired from the acquisition. The relevant fair values of net assets acquired stated above are on a provisional basis.

The acquisition-related costs of approximately HK$2,264,000 were borne by the Target Company's ultimate holding company and fellow subsidiary for the year ended 31 December 2015.

The fair value of trade and other receivables at the date of acquisition amounting to HK$12,647,358 was also the gross contractual amounts of these trade and other receivables acquired. None of the contractual cash flows of the above amount was estimated to be uncollectible.

Goodwill of HK$10,256,000 arose on this acquisition, which is not deductible for tax purposes, comprises the expected synergies arising from the combination of the acquired business with the existing operations of the Target Group.

The acquired business contributed revenue of approximately HK$12,712,000 and a loss after income tax of approximately HK$283,000 to the Target Group for the period from 1 December 2015 to 31 December 2015.

Had the acquisition occurred on 1 January 2015, the Target Group's revenue and loss after income tax would have been approximately HK$121,259,000 and approximately HK$10,728,000 respectively for the year ended 31 December 2015.

This pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and the results of operations of the Target Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

28. COMMITMENTS

(a) Operating leases

The Target Group as lessee

At the end of each of the Relevant Periods, the Target Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Within one year	36,000	19,075,200
In the second to fifth years, inclusive	–	51,313,985
	36,000	70,389,185

The Target Group leased its properties under operating leases. The leases run for an initial period of 1 year and 3 to 5 years as at 31 December 2014 and 2015 respectively, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Target Group and respective landlords/lessors. The lease contracts include terms of contingent rentals but the payment obligations in respect of operating leases on properties with rentals vary with gross revenues are not included as future minimum lease payments.

The Target Company as lessee

The Target Company did not have any significant operating lease commitments as at the end of each of the Relevant Periods.

(b) Capital commitments

The Target Group

At the end of each of the Relevant Periods, the Target Group had the following outstanding capital commitments:

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Commitments for the acquisition of property, plant and equipment		
– contracted but not provided for	–	2,117,680

The Target Company

The Target Company did not have any significant capital commitments as at the end of each of the Relevant Periods.

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in the Financial Information, the Target Group had the following material transactions with related parties during the Relevant Periods:

	Period from 11 December 2013 to 31 December 2014 *HK$*	**Year ended 31 December 2015** *HK$*
Consultancy fee paid to a related company, HMV Kafe Limited *(note (i))*	52,903	120,000
Equipment rental charge by a related company, HMV Hong Kong Limited *(note (i))*	576,795	–
Internet rental charge by a related company, HMV Hong Kong Limited *(note (i))*	82,923	106,400
Purchase of goods from related companies:		
– HMV Hong Kong Limited *(note (i))*	7,187,830	10,728,075
– HMV Kafe Limited *(note (i))*	30,292	44,837
Sale of goods to a related company, HMV Hong Kong Limited *(note (i))*	2,129,749	4,532,873
Rental expenses charge by a related company, HMV Hong Kong Limited *(note (i))*	4,901,562	2,588,317
Purchase of property, plant and equipment from a fellow subsidiary, HMV Ideal Limited *(note (ii))*	–	682,616

Notes:

(i) Mr. Wu King Shiu, Kelvin, one of the directors of the Target Company, is also a director of HMV Kafe Limited and HMV Hong Kong Limited. The terms are mutually agreed by the Target Group and the contracting parties.

(ii) Messrs. Wu King Shiu, Kelvin and Ho Gilbert Chi Hang, directors of the Target Company, are also directors of HMV Ideal Limited. The terms are mutually agreed by the Target Group and the contracting party.

(b) Compensation of key management personnel

The directors are of the opinion that the key management personnel were solely the directors of the Target Company, details of whose emoluments are set out in note 12 to the Financial Information.

30. MAJOR NON-CASH TRANSACTIONS

During the period ended 31 December 2014, there was no significant non-cash transaction.

During the year ended 31 December 2015, the Target Group acquired certain property, plant and equipment at net book value of HK$682,616 from a fellow subsidiary and the amount was settled through the current account with the Target Group.

31. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

The Target Group

	As at 31 December	
	2014	**2015**
	HK$	*HK$*
Financial assets		
Loans and receivables		
Trade and other receivables*	1,378,840	26,112,427
Amounts due from fellow subsidiaries	7,604,490	15,622,353
Amount due from a related company	272,764	206,161
Pledged bank deposits	–	7,000,000
Cash and bank balances	6,591,315	14,433,038
	15,847,409	63,373,979
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables#	12,520,260	47,994,923
Amount due to the ultimate holding company	25,726,859	245,066,968
Amount due to the immediate holding company	9,680,992	9,680,992
Amounts due to fellow subsidiaries	–	11,805
Amount due to a related company	20,645	54,774
Advances from a director	10,000,000	–
	57,948,756	302,809,462

* Excluded from trade and other receivables as disclosed in the combined statements of financial position of HK$1,695,713 and HK$28,981,866 as at 31 December 2014 and 2015, respectively, is an amount of HK$316,873 and HK$2,869,439 representing prepayments.

Excluded from trade and other payables as disclosed in the combined statements of financial position of HK$13,220,260 and HK$58,200,923 as at 31 December 2014 and 2015, respectively, is an amount of HK$700,000 and HK$10,206,000 representing provision for store reinstatement costs.

The Target Company

	As at 31 December 2015
	HK$
Financial assets	
Loans and receivables	
Amount due from the immediate holding company	8
Financial liabilities	
Financial liabilities measured at amortised cost	
Amount due to a fellow subsidiary	5,305

Fair value and fair value hierarchy of financial instruments

The fair values of financial assets included in trade and other receivables, amounts due from fellow subsidiaries and a related company, amounts due to holding companies, fellow subsidiaries and a related company, pledged bank deposits, cash and bank balances, advances from a director, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts due to the short-term maturities of these instruments.

The fair values of non-current deposits paid have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group is exposed to a variety of financial risks, as detailed below, which are managed by the directors:

(a) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Target Group. The Target Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligation is arising from the carrying amounts of the respective recognised financial assets as disclosed in note 31.

The Target Group's pledged bank deposits and bank balances are deposited with banks in Hong Kong with good credit standings. The Target Group has no other significant exposure to credit risk apart from trade and other receivables as disclosed in note 19 to the Financial Information.

(b) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Group carries out its business mainly in Hong Kong and most of the transactions are denominated in Hong Kong Dollars. The Target Group's assets and liabilities are mainly denominated in Hong Kong Dollars. The Target Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its exposures recognised in the statement of financial position. The directors of the Target Company consider the Target Group's currency risk to be minimal.

(c) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group has no significant exposure to interest rate risk as majority of the Target Group's financial assets and financial liabilities are non-interest bearing and no sensitivity analysis has been prepared.

(d) Liquidity risk

Liquidity risk relates to the risk that the Target Group will not be able to meet its obligations associated with its financial liabilities. The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 December 2014 and 2015, the Target Group's current liabilities exceeded its current assets by HK$35,135,847 and HK$215,127,724 respectively and had a capital deficiency of HK$24,254,369 and HK$83,855,380 respectively. The Target Company's current liability exceeded its current asset by HK$5,297 and had a capital deficiency of HK$5,296 as at 31 December 2015. These situations indicate the existence of a material uncertainty which may cast significant doubt about the Target Group's and the Target Company's ability to continue as a going concern. As mentioned in note 4(b) to the Financial Information, the directors of the Target Company are satisfied that the Target Group and the Target Company will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The maturity profile of the Target Group's and Target Company's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

The Target Group

	Carrying amount	**Total contractual undiscounted cash flows**	**On demand or within 1 year**
	HK$	*HK$*	*HK$*
As at 31 December 2014			
Trade and other payables*	12,520,260	12,520,260	12,520,260
Amount due to the ultimate holding company	25,726,859	25,726,859	25,726,859
Amount due to the immediate holding company	9,680,992	9,680,992	9,680,992
Amount due to a related company	20,645	20,645	20,645
Advances from a director	10,000,000	10,000,000	10,000,000
	57,948,756	57,948,756	57,948,756
As at 31 December 2015			
Trade and other payables*	47,994,923	47,994,923	47,994,923
Amount due to the ultimate holding company	245,066,968	245,066,968	245,066,968
Amount due to the immediate holding company	9,680,992	9,680,992	9,680,992
Amount due to fellow subsidiaries	11,805	11,805	11,805
Amount due to a related company	54,774	54,774	54,774
	302,809,462	302,809,462	302,809,462

* Exclude from trade and other payables as disclosed in the combined statements of financial position of HK$13,220,260 and HK$58,200,923 as at 31 December 2014 and 2015 respectively is an amount of HK$700,000 and HK$10,206,000 representing the provision for store reinstatement costs.

The Target Company

	Carrying amount	**Total contractual undiscounted cash flows**	**On demand or within 1 year**
	HK$	*HK$*	*HK$*
As at 31 December 2015			
Amount due to a fellow subsidiary	5,305	5,305	5,305

33. CAPITAL MANAGEMENT

The primary objective of the Target Group's capital management is to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

For capital management purpose, the directors of the Target Company regard total equity presented on the face of combined statements of financial position as capital. The amount of capital deficiency of the Target Group as at 31 December 2014 and 2015 was HK$24,254,369 and HK$83,855,380 respectively and the amount of capital deficiency of the Target Company as at 31 December 2015 was HK$5,296 which indicate the existence of a material uncertainty that may cast significant doubt on the Target Group's and the Target Company's ability to continue as a going concern, please refer to note 4(b) for details.

34. EVENTS AFTER THE REPORTING PERIOD

Apart from the restructuring as described in note 2 above, there are no other significant events which have taken place subsequent to 31 December 2015.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of the companies comprising the Target Group in respect of any period subsequent to 31 December 2015.

Yours faithfully,

BDO Limited
Certified Public Accountants
Chiu Wing Cheung Ringo
Practising Certificate no. P04434

The following is the text of a report on the HMV Business, prepared for the purpose of incorporation in this circular, received from the independent reporting accountant, BDO Limited, Certified Public Accountants, Hong Kong.

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

24 June 2016

The Board of Directors
China 3D Digital Entertainment Limited

Dear Sirs,

We set out below our report on the financial information of the HMV Business, being (i) all rights to use the name "HMV", the various trade marks and trade mark applications and the HMV domain names for the purposes of conducting the business in the People's Republic of China (the "**PRC**"), Hong Kong and Singapore that is licensed to HMV Hong Kong Limited ("**HMV HK**") on an exclusive, irrevocable, royalty-free and perpetual basis pursuant to the HMV trade mark license agreement; and (ii) the retailing business of "HMV" operating through the retail stores selling music, movies and television series related contents and products as carried out by HMV HK, which comprises the statements of financial position of the HMV Business as at 26 April 2014, 25 April 2015 and 30 April 2016, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the HMV Business for each of the periods ended 26 April 2014, 25 April 2015 and 30 April 2016 (the "**Relevant Periods**"), and a summary of accounting policies and other explanatory notes (the "**Financial Information**"), prepared on the basis of presentation set out in note 2 of Section II below, for inclusion in the circular issued by China 3D Digital Entertainment Limited dated 24 June 2016 (the "**Circular**") in connection with the proposed acquisition of the entire issued share capital of HMV M&E Limited by entering into the Sale and Purchase Agreement I and II as defined in this Circular (the "**Acquisition**").

HMV HK was incorporated in Hong Kong with limited liability on 25 March 1998. HMV HK was principally engaged in the operation of its sole business, HMV Business, and holds the IP rights of Taiwan and Macau. For the purpose of this report, the directors of HMV HK have prepared the financial statements of HMV Business for the Relevant Periods (the "**Underlying Financial Statements**") in accordance with the basis of presentation set out in note 2 of Section II below and the accounting policies set out in note 4 of Section II below which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The statutory financial statements of HMV HK for the periods from 28 April 2013 to 26 April 2014 and from 27 April 2014 to 25 April 2015 were audited by Ernst & Young, Certified Public Accountants. These financial statements were prepared in accordance with HKFRSs issued by the HKICPA.

The Financial Information has been prepared by the directors of HMV HK based on the Underlying Financial Statements with no adjustment made thereon.

Directors' responsibility

The directors of HMV HK are responsible for the preparation and true and fair presentation of the Financial Information and the Underlying Financial Statements in accordance with the basis of presentation set out in note 2 of Section II below and accounting policies set out in note 4 of Section II below that conform with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, and for such internal control as the directors of HMV HK determine is necessary to enable the preparation of the Financial Information and the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to form an opinion on the Financial Information based on our procedures and to report our opinion to you.

For the purpose of this report, we have carried out audit procedures in respect of the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the Financial Information, and have carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, the Financial Information gives, for the purpose of this report, and on the basis of presentation set out in note 2 of Section II below, a true and fair view of the financial position of the HMV Business as at 26 April 2014, 25 April 2015 and 30 April 2016, and of its financial performance and cash flows for each of the Relevant Periods.

I. FINANCIAL INFORMATION

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Period from 28 April 2013 to 26 April 2014 HK$	Period from 27 April 2014 to 25 April 2015 HK$	Period from 26 April 2015 to 30 April 2016 HK$
Revenue	7	193,082,611	175,700,695	83,068,087
Cost of sales		(122,704,646)	(114,717,690)	(50,757,579)
Gross profit		70,377,965	60,983,005	32,310,508
Other income and gains	7	10,844,421	3,698,785	3,450,110
Gain on disposal of HMV Business	30	–	–	67,000,506
Selling and distribution costs		(61,127,161)	(52,596,326)	(25,519,591)
Administrative expenses		(21,539,899)	(22,718,485)	(10,320,524)
Other expenses		(8,484,065)	(1,699,213)	(622,416)
Finance costs	8	(137,285)	(497,767)	(1,024,764)
(Loss)/Profit before income tax	9	(10,066,024)	(12,830,001)	65,273,829
Income tax expense	11	(838,119)	–	–
(Loss)/Profit and total comprehensive income for the period		(10,904,143)	(12,830,001)	65,273,829

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 26 April 2014 HK$	As at 25 April 2015 HK$	As at 30 April 2016 HK$
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	13	4,068,957	7,281,824	–
Deposits	16	14,879,068	7,886,175	–
		18,948,025	15,167,999	–
Current assets				
Inventories	14	14,845,389	19,932,239	–
Accounts receivable	15	454,829	556,104	–
Prepayments, deposits and other receivables	16	6,908,875	9,141,438	339,398
Amounts due from fellow subsidiaries	17	7,734,312	–	–
Amounts due from related companies	18	3,430,356	4,359,411	103,714
Pledged deposits	19	10,100,583	10,138,765	781,106
Cash and bank balances		734,741	788,515	4,403,074
		44,209,085	44,916,472	5,627,292
Current liabilities				
Accounts payable	20	17,259,647	21,507,722	801,307
Other payables and accruals	21	10,331,491	8,569,268	2,012,046
Provision for store reinstatement costs	22	269,345	1,926,162	203,000
Amount due to the then ultimate holding company	17	8,000,000	–	–
Amount due to the immediate holding company	17	–	7,635,719	–
Amounts due to the then immediate holding company	17	4,356,422	–	–
Amount due to a related company	18	–	266,058	6,086
Loans from the immediate holding company	23	–	11,670,000	–
Bank overdrafts	24	7,950,570	7,636,725	–
		48,167,475	59,211,654	3,022,439
Net current (liabilities)/assets		(3,958,390)	(14,295,182)	2,604,853
Total assets less current liabilities		14,989,635	872,817	2,604,853
Non-current liabilities				
Provision for store reinstatement costs	22	1,920,104	633,287	–
Net assets		13,069,531	239,530	2,604,853
EQUITY				
Share capital	26	64,622,000	6,000	6,000
Reserves	27	(51,552,469)	233,530	2,598,853
Total equity		13,069,531	239,530	2,604,853

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium*	Capital reduction reserve*	Capital contribution reserve*	(Accumulated losses)/ Retained profit*	Total equity
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
As at 28 April 2013	6,000	64,616,000	–	657,185	(41,305,511)	23,973,674
Transfer upon abolition of nominal value of shares on 3 March 2014 *(note 26(i))*	64,616,000	(64,616,000)	–	–	–	–
Loss and total comprehensive income for the period	–	–	–	–	(10,904,143)	(10,904,143)
As at 26 April 2014 and 27 April 2014	64,622,000	–	–	657,185	(52,209,654)	13,069,531
Capital reduction *(note 26(ii))*	(64,616,000)	–	5,017,778	–	59,598,222	–
Loss and total comprehensive income for the period	–	–	–	–	(12,830,001)	(12,830,001)
As at 25 April 2015 and 26 April 2015	6,000	–	5,017,778	657,185	(5,441,433)	239,530
Profit and total comprehensive income for the period	–	–	–	–	65,273,829	65,273,829
Dividends paid *(note 28)*	–	–	(5,017,778)	–	(57,890,728)	(62,908,506)
As at 30 April 2016	6,000	–	–	657,185	1,941,668	2,604,853

* Total of these reserves amounts to a deficit of HK$51,552,469, a surplus of HK$233,530 and a surplus of HK$2,598,853 as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively in the statements of financial position.

HMV Business is not a legal entity. The equity items presented above represent share capital and reserves of HMV HK, the company that carried out HMV Business during the Relevant Periods.

STATEMENTS OF CASH FLOWS

	Notes	Period from 28 April 2013 to 26 April 2014 HK$	Period from 27 April 2014 to 25 April 2015 HK$	Period from 26 April 2015 to 30 April 2016 HK$
Cash flows from operating activities				
(Loss)/Profit before income tax		(10,066,024)	(12,830,001)	65,273,829
Adjustments for:				
Interest income		(34,299)	(38,182)	(30,988)
Gain on disposal of HMV Business	30	–	–	(67,000,506)
Gain on disposal of a business division	29	(443,463)	–	–
Depreciation		3,904,883	2,391,977	1,783,655
Finance costs		137,285	497,767	1,024,764
Impairment losses on property, plant and equipment	13	1,375,157	551,290	93,000
Write-down of inventories	14	1,019,161	2,744,262	151,277
Write-off of property, plant and equipment	13	5,926,741	–	–
Write back of other payables	21	–	–	(203,856)
Write back of provision for store reinstatement costs	22	–	–	(1,981,960)
Operating profit/(loss) before working capital changes		1,819,441	(6,682,887)	(890,785)
Decrease/(Increase) in inventories		4,734,457	(7,831,112)	3,761,173
Decrease/(Increase) in accounts receivable		286,004	(101,275)	556,104
(Increase)/Decrease in prepayments, deposits and other receivables		(5,465,593)	4,760,330	4,040,857
(Decrease)/Increase in accounts payable		(16,301,360)	4,248,075	(20,706,415)
Decrease in other payables and accruals		(1,522,460)	(1,762,223)	(6,353,366)
(Increase)/Decrease in amounts due from fellow subsidiaries		(7,614,546)	7,734,312	–
(Increase)/Decrease in amounts due from related companies		(3,430,356)	(929,055)	4,255,697
Increase/(Decrease) in amount due to a related company		–	266,058	(259,972)
Provision for store reinstatement costs utilised	22	(516,970)	–	(467,489)
Cash used in operation		(28,011,383)	(297,777)	(16,064,196)
Hong Kong profits tax refunded		1,036,909	–	–
Net cash used in operating activities		(26,974,474)	(297,777)	(16,064,196)

	Notes	Period from 28 April 2013 to 26 April 2014	Period from 27 April 2014 to 25 April 2015	Period from 26 April 2015 to 30 April 2016
		HK$	*HK$*	*HK$*
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,210,265)	(5,786,134)	(300,395)
Proceeds from disposal of property, plant and equipment		10,271	–	–
Proceeds from disposal of HMV Business, net of cash disposed	30	–	–	105,557,711
Acquisition of Singapore IP rights		–	–	(4,091,494)
Disposal of a business division, net of cash disposed	29	(4,999)	–	–
Interest received		34,299	38,182	30,988
Net cash (used in)/generated from investing activities		(2,170,694)	(5,747,952)	101,196,810
Cash flows from financing activities				
Loan from ultimate holding company		–	1,600,000	–
Repayment of loan from ultimate holding company		–	(1,600,000)	–
Loans from the immediate holding company		–	11,670,000	5,000,000
Repayment of loan from the immediate holding company		–	–	(16,670,000)
Repayment to the then immediate holding company		(4,000,000)	–	–
Loan from the then ultimate holding company		8,000,000	–	–
Change in amount due from the then immediate holding company		(643,578)	–	–
Change in amount due to the then immediate holding company		–	(4,894,634)	–
Change in amount due to the immediate holding company		–	–	(7,461,788)
Interest paid		(137,285)	(323,836)	(1,198,695)
Dividends paid	28	–	–	(62,908,506)
Net cash generated from/(used in) financing activities		3,219,137	6,451,530	(83,238,989)

	Notes	Period from 28 April 2013 to 26 April 2014 HK$	Period from 27 April 2014 to 25 April 2015 HK$	Period from 26 April 2015 to 30 April 2016 HK$
Net (decrease)/increase in cash and cash equivalents		(25,926,031)	405,801	1,893,625
Cash and cash equivalents at beginning of the period		28,810,785	2,884,754	3,290,555
Cash and cash equivalents at end of the period		2,884,754	3,290,555	5,184,180
Analysis of balances in cash and cash equivalents				
Cash and bank balances		734,741	788,515	4,403,074
Bank deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	19	10,100,583	10,138,765	781,106
Bank overdrafts	24	(7,950,570)	(7,636,725)	–
		2,884,754	3,290,555	5,184,180

II. NOTES TO THE FINANCIAL INFORMATION

1. INFORMATION ABOUT HMV HK AND ITS HMV BUSINESS

HMV HK was incorporated in Hong Kong with limited liability on 25 March 1998. The registered office of HMV HK is located at 25th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.

During the period from 28 April 2013 to 17 September 2014, Billion Express Consultants Limited, a company with limited liability incorporated in the British Virgin Islands (the "**BVI**") and HMV Asia Limited, a company with limited liability incorporated in the BVI, was considered by the directors of HMV HK as the immediate holding company and the ultimate holding company of HMV HK respectively.

On 18 September 2014, Billion Express Consultants Limited transferred its entire equity interest in HMV HK to Mighty Merit Group Limited, a company with limited liability incorporated in the BVI which is an indirect wholly-owned subsidiary of AID Partners Capital II, L.P. and a related company of HMV HK. Accordingly, HMV HK's immediate holding company and ultimate holding company are Mighty Merit Group Limited and AID Partners Capital II, L.P., respectively, since 18 September 2014.

During the Relevant Periods, HMV HK was principally engaged in the operation of its HMV Business being (i) all rights to use the name "HMV", the various trade marks and trade mark applications and the HMV domain names for the purposes of conducting the business in the PRC, Hong Kong and Singapore that is licensed to HMV HK on an exclusive, irrevocable, royalty-free and perpetual basis pursuant to the HMV trade mark license agreement; and (ii) the retailing business of "HMV" operating through the retail stores selling music, movies and television series related contents and products as carried out by HMV HK.

On 1 January 2014, HMV HK disposed of its e-commerce business division and the management and operating right of the HMV retail store located at Central, Hong Kong to HMV Marketing Limited ("**HMV Marketing**"), a related company of HMV HK. On 30 November 2015, HMV HK disposed of the HMV Business and the assets of the HMV Business to HMV Marketing.

2. BASIS OF PRESENTATION

The HMV Business was not a separate legal entity and was the sole business carried out by HMV HK during the Relevant Periods. For the purpose of this report, the Financial Information is presented solely for the purpose of reflecting the results of operations and financial position of HMV HK comprising the HMV Business, and includes certain items which were not attributable to the retailing business as carried out by HMV HK. These items include:

(a) proceeds of HK$105,557,711 and a gain of HK$67,000,506 arising from the disposal of HMV Business as set out in note 30 and included in the statements of cash flows and statements of profit or loss and other comprehensive income respectively;

(b) the items in the statement of financial position as of 30 April 2016 including cash and bank balances of HK$4,403,074 represent the financial position subsequent to the disposal of HMV Business as set out in note 30; and

(c) dividends of HK$62,908,506 were paid after the disposal of HMV Business as set out in note 30 and included in the statements of changes in equity (note 28).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, HMV HK comprising the HMV Business has consistently applied all Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKASs**") and Interpretations (collectively referred to as the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") which are relevant to HMV HK comprising the HMV Business and become effective during the Relevant Periods.

At the date of this report, the HKICPA has issued the following new or amended HKFRSs that have been issued but are not yet effective and are potentially relevant to HMV HK comprising the HMV Business, and have not been adopted by HMV HK comprising the HMV Business in preparing the Financial Information:

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle[1]
Amendments to HKAS 1	Disclosure Initative[1]
HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to each performance obligation

Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

HKFRS 16 – Leases

HKFRS 16 supersedes HKAS 17 "Leases", HK(IFRIC) – Int 4 "Determining whether an Arrangement contain a Lease", HK(SIC) – Int 15 "Operating Lease – Incentives" and HK(SIC) – Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17 "Leases". Under HKFRS 16, leases are recorded on the statement of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. lease of 12 months or less, including the effect of any extension options) and (b) leases of low value assets (for example, a lease of a personal computer).

HKFRS 16 substantially carries forward the lessor's accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows: (a) if the head lease is a short-term lease that the entity, as a lessee, the sublease shall be reclassified as an operating lease; (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

HMV HK comprising the HMV Business is in the process of making an assessment on the impact of these standards or amendments to existing HKFRSs and so far it has concluded that the adoption of these standards or amendments has no significant impact on the financial statements of HMV HK comprising the HMV Business.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared in accordance with all applicable HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Financial Information of HMV HK comprising the HMV Business is made up to the Saturday on or immediately preceding 30 April each year. Consequently, the Financial Information for the current period cover the 53 weeks ended 30 April 2016 whilst the comparative periods covered the 52 weeks ended 25 April 2015 and the 52 weeks ended 26 April 2014.

(b) Basis of measurement

The Financial Information has been prepared under historical cost convention as explained in the accounting policies set out below.

(c) Functional and presentation currency

The presentation currency of the Financial Information of HMV HK comprising the HMV Business is Hong Kong dollars ("**HK$**"), which is also the functional currency of HMV HK.

(d) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the HMV Business recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its expected residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	10% or over the remaining lease terms, whichever is shorter
Furniture, fixtures and equipment	10% to $33^1/_3$%
Computer equipment	20% to $33^1/_3$%

Where parts of an item of plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The expected residual values, the estimated useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial period end.

An item of plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(f) Operating leases

Leases where substantially all the rewards and risks of the ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

(g) Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in the profit or loss.

(ii) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

(iii) Impairment of financial assets

HMV HK comprising the HMV Business assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, HMV HK comprising the HMV Business first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If HMV HK comprising the HMV Business determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to HMV HK comprising the HMV Business.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the profit or loss.

(iv) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The related interest expense is recognised in the profit or loss.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined on the actual basis and comprises invoiced value of purchases, freight and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less any estimated costs to be incurred to disposal.

(i) Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash in hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the HMV Business's cash management.

For the purpose of the statements of financial position, cash and bank balances comprise cash in hand and at banks, including term deposits, which are not restricted as to use.

(j) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the profit or loss.

(k) Deferred income

A liability is recognised based on the fair value of credit awards earned by the customers in accordance with the membership programme of HMV HK comprising the HMV Business and its past experience on the level of redemption of credit awards and are recorded in deferred income. The revenue of the HMV Business is deducted when the credit awards are recognised.

(l) Income tax

Income tax comprises current tax and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting periods, taking into consideration interpretations and practices prevailing in the countries in which the HMV Business operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting periods are used to determine deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to HMV HK comprising the HMV Business and when the revenue can be measured reliably, on the following bases:

(i) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that HMV HK comprising the HMV Business maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate to the net carrying amount of the financial asset;

(iii) rendering of services, when the services have been performed;

(iv) management support services income and marketing income, when services have been performed; and

(v) expenses recovery income, when the relevant costs have been incurred.

(n) Employee benefits

(i) Paid leave carried forward

HMV HK comprising the HMV Business provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following period. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the period by the employees and carried forward.

(ii) Retirement benefits schemes

HMV HK comprising the HMV Business continues to operate an occupational retirement scheme registered under the Occupational Retirement Schemes Ordinance. This scheme has been granted exemption pursuant to Section 5 of the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries. When an employee leaves the scheme before his/her interest in the employer contributions of HMV HK comprising the HMV Business vests fully, the ongoing contributions payable by HMV HK comprising the HMV Business are reduced by the relevant amount of the forfeited employer's contributions.

Contributions from the scheme are charged to the profit or loss as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of HMV HK comprising the HMV Business in an independently administered fund.

In addition, HMV HK comprising the HMV Business also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF scheme. The assets of the MPF Scheme are held separately from those of the HMV Business in an independently administered fund. Employer contributions of HMV HK comprising the HMV Business vested fully with the employees when contributed into the MPF Scheme.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when HMV HK comprising the HMV Business can no longer withdraw the offer of those benefits and when HMV HK comprising the HMV Business recognises restructuring costs involving the payment of termination benefits.

(iv) Share-based payments

HMV Group plc, the former ultimate holding company of HMV HK comprising the HMV Business, operated equity-settled long term incentive schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of HMV Group plc's operations. Employees (including directors) of HMV HK receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 was measured by reference to the fair value at the date at which they are granted. The fair value was determined by reference to the observable market price of shares at the time the award was made.

The cost of equity-settled transactions was recognised, together with a corresponding increase in equity as capital contribution reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period had expired and the best estimate of the number of equity instruments that would ultimately vest. The charge or credit to the profit or loss for a period represented the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either HMV HK or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(o) Foreign currency transaction

Foreign currency transactions are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting periods. Differences arising on settlement or translation of monetary items are recognised in the profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(q) Related parties

(a) A person or a close member of that person's family is related to HMV HK comprising the HMV Business if that person:

(i) has control or joint control over HMV HK comprising the HMV Business;

(ii) has significant influence over HMV HK comprising the HMV Business; or

(iii) is a member of key management personnel of HMV HK comprising the HMV Business or the parent of HMV HK comprising the HMV Business.

(b) An entity is related to HMV HK comprising the HMV Business if any of the following conditions applies:

(i) The entity and HMV HK comprising the HMV Business are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of HMV HK comprising the HMV Business or an entity related to HMV HK comprising the HMV Business.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to HMV HK comprising the HMV Business or to the parent of HMV HK comprising the HMV Business.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(r) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted price (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Information on a recurring basis, HMV HK comprising the HMV Business determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of accounting policies of HMV HK comprising the HMV Business, the directors of HMV HK are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Impairment of other receivables and amounts due from related companies

Recoverability of these receivables is reviewed by management based on the ageing characteristics of the receivables, and the current creditworthiness and past collection history of customers or debtors. Judgement is required in assessing the ultimate realisation of these loans and receivables, and the financial conditions of these customers or debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers or debtors were to deteriorate, resulting in an impairment as to their abilities to make payments, additional provision may be required in future accounting periods.

(ii) Provision for store reinstatement costs

Management of HMV HK comprising the HMV Business estimates the cost of store reinstatement based primarily on the latest quotation. Management carries out review at the end of each reporting period and reassess the adequacy of the provision.

6. SEGMENT INFORMATION

The chief operating decision maker ("**CODM**") has been identified as the directors of HMV HK. The CODM reviews the internal reporting of HMV HK comprising the HMV Business in order to assess performance and allocate resources and has determined the operating segments based on these reports. For management purpose, HMV HK comprising the HMV Business has only one reportable operating segment which is the operation of retail stores. Since this is the only reportable operating segment of HMV HK comprising the HMV Business, no further operating segment analysis thereof is presented. Management assesses the performance of this single segment based on a measure of revenue and operating result before income tax.

A measure of total assets for this single segment is the total assets on the statements of financial position. A measure of total liabilities for this single segment is the total liabilities on the statements of financial position.

Geographical information

As all of revenue of HMV HK comprising the HMV Business revenue is derived from external customers based in Hong Kong and all of the identifiable assets and liabilities of HMV HK comprising the HMV Business are located in Hong Kong, no geographical information is presented in accordance with HKFRS 8 "Operating Segments".

Information about a major customer

During the Relevant Periods, no sales to a single customer amounted to 10% or more of the revenue of HMV HK comprising the HMV Business.

7. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold and services rendered, net of discounts. An analysis of revenue and other income and gains is as follows:

	Period from 28 April 2013 to 26 April 2014	Period from 27 April 2014 to 25 April 2015	Period from 26 April 2015 to 30 April 2016
	HK$	*HK$*	*HK$*
Revenue			
Sale of goods	192,782,220	175,500,301	83,015,498
Rendering of services	300,391	200,394	52,589
	193,082,611	175,700,695	83,068,087
Other income and gains			
Bank interest income	34,299	38,182	30,988
Management support services income from fellow subsidiary	1,517,806	–	–
Management support services income from a related company	–	898,982	–
Marketing income	7,665,408	2,548,542	877,355
Gain on disposal of a business division *(note 29)*	443,463	–	–
Recovery of depreciation expenses of property, plant and equipment from a related company	576,795	–	–
Recovery of rental expenses from a related company	583,300	–	–
Write back of other payables	–	–	203,856
Write back of provision for store reinstatement costs *(note 22)*	–	–	1,981,960
Others	23,350	213,079	355,951
	10,844,421	3,698,785	3,450,110

8. FINANCE COSTS

	Period from 28 April 2013 to 26 April 2014 *HK$*	Period from 27 April 2014 to 25 April 2015 *HK$*	Period from 26 April 2015 to 30 April 2016 *HK$*
Interest charges on:			
Bank overdrafts	137,285	301,392	180,246
Loans from the immediate holding company	–	173,931	844,518
Loan from the ultimate holding company	–	22,444	–
	137,285	497,767	1,024,764

9. (LOSS)/PROFIT BEFORE INCOME TAX

	Period from 28 April 2013 to 26 April 2014 *HK$*	Period from 27 April 2014 to 25 April 2015 *HK$*	Period from 26 April 2015 to 30 April 2016 *HK$*
(Loss)/Profit before income tax is arrived at after charging:			
Cost of inventories recognised as expense, including	122,525,906	114,638,337	50,732,653
– Write-down of inventories *(note 14)*	1,019,161	2,744,262	151,277
Cost of services rendered	178,740	79,353	24,926
Depreciation of property, plant and equipment	3,904,883	2,391,977	1,783,655
Auditor's remuneration	255,000	266,000	200,000
Foreign exchange losses, net	603	55,438	75
Impairment losses on property, plant and equipment *(note 13)*	1,375,157	551,290	93,000
Write-off of property, plant and equipment *(note 13)*	5,926,741	–	–
Staff costs, including directors' remuneration			
Salaries, allowances and other benefits	22,699,031	24,402,110	12,111,900
Retirement benefits scheme contributions (defined contribution schemes)	1,196,991	1,217,790	624,125
	23,896,022	25,619,900	12,736,025

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

During the Relevant Periods, the emoluments paid or payable to the directors of HMV HK were as follows:

Period ended 26 April 2014

	Fees	Salaries, allowances and other benefits	Contributions to retirement benefit scheme (defined contribution schemes)	Total
	HK$	*HK$*	*HK$*	*HK$*
Name of directors				
Mr. Wu King Shiu, Kelvin	–	–	–	–
Ms. Li Mau	–	–	–	–
Mr. Chang Tat Joel	–	–	–	–
Ms. Butt Emily Oy-Fong	–	1,166,760	87,507	1,254,267
	–	1,166,760	87,507	1,254,267

Period ended 25 April 2015

	Fees	Salaries, allowances and other benefits	Contributions to retirement benefit scheme (defined contribution schemes)	Total
	HK$	*HK$*	*HK$*	*HK$*
Name of directors				
Mr. Wu King Shiu, Kelvin	–	–	–	–
Ms. Li Mau	–	–	–	–
Mr. Chang Tat Joel (resigned on 27 June 2014)	–	–	–	–
Ms. Butt Emily Oy-Fong (resigned on 26 January 2015)	–	1,184,011	64,454	1,248,465
	–	1,184,011	64,454	1,248,465

Period ended 30 April 2016

	Fees	Salaries, allowances and other benefits	Contributions to retirement benefit scheme (defined contribution schemes)	Total
	HK$	*HK$*	*HK$*	*HK$*
Name of directors				
Mr. Wu King Shiu, Kelvin	–	–	–	–
Ms. Li Mau	–	–	–	–
	–	–	–	–

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no remuneration was paid by HMV HK to the directors as an inducement to join or upon joining HMV HK or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest for the Relevant Periods included one former director whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining four, four and five individuals during the Relevant Periods are as follows:

	Period from 28 April 2013 to 26 April 2014	Period from 27 April 2014 to 25 April 2015	Period from 26 April 2015 to 30 April 2016
	HK$	*HK$*	*HK$*
Salaries, allowances and other benefits	2,977,941	3,031,760	2,363,428
Contributions to retirement benefits scheme (defined contribution schemes)	196,695	199,032	130,083
	3,174,636	3,230,792	2,493,511

Emoluments of the remaining individuals were within the following bands:

	Number of individuals		
	Period from 28 April 2013 to 26 April 2014	**Period from 27 April 2014 to 25 April 2015**	**Period from 26 April 2015 to 30 April 2016**
	HK$	*HK$*	*HK$*
Nil to HK$1,000,000	3	3	5
HK$1,000,001 to HK$1,500,000	1	1	–

During the Relevant Periods, no emoluments were paid by HMV HK to any of the five highest paid employees as an inducement to join or upon joining HMV HK or as compensation for loss of office.

(c) Senior management's emoluments

Emoluments paid or payable to members of senior management (including directors) were within the following bands:

	Number of individuals		
	Period from 28 April 2013 to 26 April 2014	**Period from 27 April 2014 to 25 April 2015**	**Period from 26 April 2015 to 30 April 2016**
	HK$	*HK$*	*HK$*
Nil to HK$1,000,000	3	3	5
HK$1,000,001 to HK$1,500,000	2	2	–

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax was made for each of the Relevant Periods as the HMV Business had no assessable profits arising in Hong Kong for the periods ended 26 April 2014, 25 April 2015 and 30 April 2016 respectively.

	Period from 28 April 2013 to 26 April 2014	**Period from 27 April 2014 to 25 April 2015**	**Period from 26 April 2015 to 30 April 2016**
	HK$	*HK$*	*HK$*
Current tax – Hong Kong profits tax	–	–	–
Deferred tax *(note 25)*	838,119	–	–
Income tax expense	838,119	–	–

A reconciliation of the tax expense applicable to (loss)/profit before income tax at the statutory tax rate to the income tax expense at the effective tax rate is as follows:

	Period from 28 April 2013 to 26 April 2014	**Period from 27 April 2014 to 25 April 2015**	**Period from 26 April 2015 to 30 April 2016**
	HK$	*HK$*	*HK$*
(Loss)/Profit before income tax	(10,066,024)	(12,830,001)	65,273,829
Tax calculated at the statutory tax rate of 16.5%	(1,660,894)	(2,116,950)	10,770,182
Tax effect of expenses not deductible for tax purposes	223,760	131,207	215,903
Tax effect of income not taxable for tax purposes	(77,840)	–	(11,383,929)
Tax effect of tax losses not recognised	1,198,765	2,083,313	1,178,190
Tax effect of deductible temporary differences not recognised	1,154,328	(97,570)	(780,346)
Income tax expense	838,119	–	–

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$*	Furniture, fixtures and equipment *HK$*	Computer equipment *HK$*	Total *HK$*
At 28 April 2013				
Cost	26,284,741	9,533,397	7,459,265	43,277,403
Accumulated depreciation	(15,836,750)	(7,300,144)	(7,214,140)	(30,351,034)
Net carrying amount	10,447,991	2,233,253	245,125	12,926,369
Period ended 26 April 2014				
Opening carrying amount	10,447,991	2,233,253	245,125	12,926,369
Additions	1,456,542	556,952	366,771	2,380,265
Depreciation	(2,973,050)	(760,624)	(171,209)	(3,904,883)
Write-off *(note 9)*	(4,425,443)	(1,415,271)	(86,027)	(5,926,741)
Disposals	–	(10,271)	–	(10,271)
Disposal of a business division *(note 29)*	–	–	(20,625)	(20,625)
Impairment *(note 9)*	(1,214,919)	(149,280)	(10,958)	(1,375,157)
Closing carrying amount	3,291,121	454,759	323,077	4,068,957
As at 26 April 2014				
Cost	15,652,273	5,585,536	6,339,733	27,577,542
Accumulated depreciation and impairment	(12,361,152)	(5,130,777)	(6,016,656)	(23,508,585)
Net carrying amount	3,291,121	454,759	323,077	4,068,957
Period ended 25 April 2015				
Opening carrying amount	3,291,121	454,759	323,077	4,068,957
Additions	4,462,701	1,508,548	184,885	6,156,134
Depreciation	(1,834,764)	(432,941)	(124,272)	(2,391,977)
Impairment *(note 9)*	(269,916)	(268,874)	(12,500)	(551,290)
Closing carrying amount	5,649,142	1,261,492	371,190	7,281,824

	Leasehold improvements *HK$*	Furniture, fixtures and equipment *HK$*	Computer equipment *HK$*	Total *HK$*
As at 25 April 2015				
Cost	20,114,974	7,050,884	6,512,131	33,677,989
Accumulated depreciation and impairment	(14,465,832)	(5,789,392)	(6,140,941)	(26,396,165)
Net carrying amount	5,649,142	1,261,492	371,190	7,281,824
Period ended 30 April 2016				
Opening carrying amount	5,649,142	1,261,492	371,190	7,281,824
Additions	238,200	155,195	–	393,395
Depreciation	(1,365,397)	(330,248)	(88,010)	(1,783,655)
Disposal of HMV Business *(note 30)*	(4,428,945)	(1,086,439)	(283,180)	(5,798,564)
Impairment *(note 9)*	(93,000)	–	–	(93,000)
Closing carrying amount	–	–	–	–
As at 30 April 2016				
Cost	791,473	100,865	9,996	902,334
Accumulated depreciation and impairment	(791,473)	(100,865)	(9,996)	(902,334)
Net carrying amount	–	–	–	–

The demand for musical recordings, compact discs and digital versatile discs continued to decrease during the Relevant Periods and HMV HK comprising the HMV Business had enhanced the product mix being offered in the retail stores. Management performed an impairment assessment on certain property, plant and equipment of the retail store investments of HMV HK comprising the HMV Business, in accordance with the accounting policy on impairment of non-financial assets. Based on the assessment, an impairment loss of approximately HK$1,375,157, HK$551,290 and HK$93,000 was recognised in "Other expenses" line item of profit or loss for the periods ended 26 April 2014, 25 April 2015 and 30 April 2016 respectively. The recoverable amounts of these property, plant and equipment using value-in-use calculation were determined by the discounted cash flows generated from these retail store investments based on a management budget plan and a pre-tax discount rate of 13%, 13% and nil as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively.

14. INVENTORIES

	As at 26 April 2014 HK$	As at 25 April 2015 HK$	As at 30 April 2016 HK$
Finished goods for resale	14,845,389	19,932,239	–

During the periods ended 26 April 2014, 25 April 2015 and 30 April 2016, carrying values of inventories of HK$1,019,161, HK$2,744,262 and HK$151,277 were written down and charged and charged to the statements of profit or loss and other comprehensive income respectively (note 9).

15. ACCOUNTS RECEIVABLE

HMV HK comprising the HMV Business's trading on credit is made mainly with creditworthy credit card service companies. The credit period is generally within one week, one week and one week for the periods ended 26 April 2014, 25 April 2015 and 30 April 2016 respectively. HMV HK comprising the HMV Business seeks to maintain strict control over its outstanding receivables to minimise credit risk.

Accounts receivable, based on invoice date, as at the end of each of the Relevant Periods are all aged within 30 days and neither past due nor impaired. Receivables that were neither past due nor impaired relate to a number of creditworthy credit card service companies for whom there was no recent history of default. The HMV Business does not hold any collateral or other credit enhancements over its accounts receivable balances.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 26 April 2014 HK$	As at 25 April 2015 HK$	As at 30 April 2016 HK$
Long-term rental deposits			
Deposits due over one year *(note (i))*	14,879,068	7,886,175	–
Prepayments	1,436,153	762,547	–
Deposits and other receivables	5,472,722	8,378,891	339,398
Prepayments, deposits and other receivables due within one year	6,908,875	9,141,438	339,398
	21,787,943	17,027,613	339,398

Note:

(i) The long-term rental deposits represent the rental deposits paid to various landlords with lease terms that will expire more than one year after the end of each of the Relevant Periods.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

17. AMOUNTS DUE FROM/(TO) THE THEN ULTIMATE HOLDING COMPANY/THE IMMEDIATE HOLDING COMPANY/THE THEN IMMEDIATE HOLDING COMPANY/ FELLOW SUBSIDIARIES

The amounts due are unsecured, interest-free and repayable on demand.

18. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due from/(to) related companies are unsecured, interest-free and repayable on demand.

Particulars of the amounts due from related companies, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance, are as follows:

	As at 26 April 2014	**As at 25 April 2015**	**As at 30 April 2016**
	HK$	*HK$*	*HK$*
HMV Marketing Limited *(note (ii))*	2,847,056	–	103,714
AID Partners Capital Limited *(note (ii))*	583,300	–	–
8088 Management Limited *(note (ii))*	–	35,303	–
HMV Kafe Limited *(note (i))*	–	2,698,289	–
HMV Singapore Pte Ltd. *(note (i))*	–	1,625,819	–
	3,430,356	4,359,411	103,714
Maximum balance outstanding during the period			
HMV Marketing Limited	7,498,324	2,847,056	4,132,193
AID Partners Capital Limited	583,300	583,300	–
8088 Management Limited	–	35,303	541,457
HMV Kafe Limited	–	7,305,389	3,922,822
HMV Singapore Pte Ltd.	–	2,967,331	1,805,523

Notes:

(i) At the end of each of the Relevant Periods, Mr. Wu King Shiu Kelvin, one of the directors of HMV HK and spouse of the controlling shareholder of HMV Kafe Limited and HMV Singapore Pte Ltd., Ms. Li Mau, had significant influence over HMV Kafe Limited and HMV Singapore Pte Ltd. through her indirect equity interest in these related companies.

(ii) At the end of each of the Relevant Periods, one of the directors of HMV HK, Mr. Wu King Shiu Kelvin, had control over AID Partners Capital Limited, HMV Marketing Limited and 8088 Management Limited.

19. PLEDGED DEPOSITS

As at 26 April 2014, 25 April 2015 and 30 April 2016, HMV HK comprising the HMV Business has pledged a bank deposit of HK$10,100,583, HK$10,138,765 and HK$781,106 respectively to a bank to secure banking facilities granted to HMV HK comprising the HMV Business (note 24).

20. ACCOUNTS PAYABLE

Ageing analysis of accounts payable, based on invoice date, as at the end of each of the Relevant Periods is as follows:

	As at 26 April 2014	**As at 25 April 2015**	**As at 30 April 2016**
	HK$	*HK$*	*HK$*
Current or within 30 days	12,026,783	15,211,828	357,148
31 to 60 days	4,583,381	4,972,956	340,442
61 to 90 days	649,483	1,322,938	103,717
	17,259,647	21,507,722	801,307

21. OTHER PAYABLES AND ACCRUALS

	As at 26 April 2014	**As at 25 April 2015**	**As at 30 April 2016**
	HK$	*HK$*	*HK$*
Sundry payables	2,088,217	1,253,759	246,806
Deferred income	141,077	131,053	–
Deferred lease incentives	4,408,805	2,865,036	17,460
Accruals and receipts in advance	3,693,392	4,319,420	1,747,780
	10,331,491	8,569,268	2,012,046

During the period ended 30 April 2016, HMV HK has written back other payables of HK$203,856 which was incurred during the period ended 26 April 2014 due to disagreement on the amount with the creditor. HMV HK engaged solicitor to negotiate with the creditor and received no response since 23 May 2014. Therefore, the directors of HMV HK are of the opinion that the probability of paying such amount is remote. Accordingly, HMV HK decided to fully write back other payables of HK$203,856 during the period ended 30 April 2016.

22. PROVISION FOR STORE REINSTATEMENT COSTS

Under the terms of the rental agreements signed with landlords, HMV HK comprising the HMV Business shall remove and reinstate the rented retail stores at the cost of HMV HK comprising the HMV Business upon expiry of the relevant rental agreements. Accordingly, provision is made for the best estimate of the expected reinstatement costs to be incurred.

Movements in the provision for store reinstatement costs during the Relevant Periods are as follows:

	HK$
As at 28 April 2013	2,536,419
Additions	170,000
Utilisation	(516,970)
As at 26 April 2014 and 27 April 2014	2,189,449
Additions	370,000
As at 25 April 2015 and 26 April 2015	2,559,449
Additions	93,000
Utilisation	(467,489)
Write back to profit or loss *(note 7)*	(1,981,960)
As at 30 April 2016	203,000

	As at 26 April 2014	**As at 25 April 2015**	**As at 30 April 2016**
	HK$	*HK$*	*HK$*
Categorised as:			
Non-current liabilities	1,920,104	633,287	–
Current liabilities	269,345	1,926,162	203,000
	2,189,449	2,559,449	203,000

23. LOANS FROM THE IMMEDIATE HOLDING COMPANY

Loans from the immediate holding company with principal amounts of US$1,000,000 (HK$7,780,000 equivalent) and US$500,000 (HK$3,890,000 equivalent) were unsecured, interest-bearing at 8% per annum and repayable on 29 January 2016 and 24 March 2016, respectively. The loans were fully repaid during the period ended 30 April 2016.

24. BANK OVERDRAFTS

As at 26 April 2014 and 25 April 2015, overdraft facilities of HMV HK comprising the HMV Business amounting to HK$8,000,000 and HK$10,000,000 respectively of which HK$7,950,570 and HK$7,636,725 respectively had been utilised, were secured by the pledge of time deposit of HMV HK comprising the HMV Business of HK$10,100,583 and HK$10,138,765 as at 26 April 2014 and 25 April 2015 respectively (note 19) and guaranteed by a director of HMV HK. The bank overdrafts of HMV HK comprising the HMV Business bore interest at 5.25% and 5.25% as at 26 April 2014 and 25 April 2015 respectively and were repayable on demand. As at 30 April 2016, HMV HK comprising the HMV Business did not obtain any overdraft facilities.

25. DEFERRED TAX ASSETS

Movements in deferred tax assets during the Relevant Periods are as follows:

	Accelerated tax depreciation	Losses available for offsetting against future taxable profits	Others	Total
	HK$	*HK$*	*HK$*	*HK$*
As at 28 April 2013	780,207	39,274	18,638	838,119
Charged to profit or loss *(note 11)*	(780,207)	(39,274)	(18,638)	(838,119)
As at 26 April 2014, 25 April 2015 and 30 April 2016	–	–	–	–

At the end of each of the Relevant Periods, net deferred tax assets of HMV HK comprising the HMV Business have not been recognised in respect of the following items:

	As at 26 April 2014	As at 25 April 2015	As at 30 April 2016
	HK$	*HK$*	*HK$*
Unused tax losses	7,265,251	19,870,766	27,323,012
Accelerated tax depreciation	6,624,510	6,347,198	1,048,154
Others	371,417	57,400	84,000
	14,261,178	26,275,364	28,455,166

The above unused tax losses, which are subject to agreement by the Hong Kong Inland Revenue Department, are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses and the deductible temporary differences on account of the unpredictability of future profit streams of the HMV Business.

26. SHARE CAPITAL

	As at 26 April 2014 HK$	As at 25 April 2015 HK$	As at 30 April 2016 HK$
Authorised:			
At beginning of the period 26 April 2014: 100,000 ordinary shares of HK$1 each; 25 April 2015 and 30 April 2016: Nil par value	100,000	–	–
The concept of authorised share capital was abolished on 3 March 2014 *(note (i))*	(100,000)	–	–
At end of the period Nil par value	–	–	–
Issued and fully paid:			
At beginning of the period 26 April 2014: 6,000 ordinary shares of HK$1 each; 26 April 2015: 64,622,000 ordinary shares with no par value; 30 April 2016: 6,000 ordinary shares with no par value	6,000	64,622,000	6,000
Transfer from share premium account on 3 March 2014 *(note (i))*	64,616,000	–	–
Capital reduction *(note (ii))*	–	(64,616,000)	–
At end of the period 6,000 ordinary shares with no par value (26 April 2014: 64,622,000 ordinary shares with no par value)	64,622,000	6,000	6,000

Notes:

(i) Under Section 135 of the Hong Kong Companies Ordinance, Cap. 622 (the "**New Companies Ordinance**"), which came into effect on 3 March 2014, shares in a company do not have nominal value. Accordingly, the concept of authorised share capital was abolished. The no nominal value regime applied to HMV HK. Following the transitional and saving provisions in the New Companies Ordinance, share premium account became part of the HMV HK's share capital at the beginning of 3 March 2014.

(ii) Pursuant to a special resolution by the sole shareholder of HMV HK on 9 December 2014 and a reduction of share capital return to the Companies Registry on 22 January 2015, the issued and paid-up capital of HMV HK was reduced from HK$64,622,000 to HK$6,000 by crediting HK$64,616,000 arising from the reduction applied to offset the entire accumulated losses of HK$59,598,222 as at 25 January 2015 and the remaining balance of HK$5,017,778 was credited to a capital reduction reserve account.

27. RESERVES

The amounts of the reserves and the movements therein for the current and prior periods are presented in the statements of changes in equity. The nature and purpose of reserves are as follows:

(i) Prior to 3 March 2014, the share premium account represented the amount paid by the shareholders for share capital in excess of its nominal value and its application was governed by Section 48 of the Hong Kong Companies Ordinance, Cap. 32.

In accordance with the transitional and saving provisions set out in Section 37 of Schedule 11 to the New Companies Ordinance, on 3 March 2014, any amount standing to the credit of the share premium account has become part of HMV HK's share capital (note 26(i)).

(ii) Capital reduction reserve represents the remaining balance arising from capital reduction of HK$64,616,000 from the issued and paid-up capital to offset with the entire accumulated losses of HK$59,598,222 as at 25 January 2015 pursuant to a special resolution by the sole shareholder of HMV HK on 9 December 2014 and a reduction of share capital return to the Companies Registry on 22 January 2015.

(iii) Capital contribution reserve represents cumulative expenses recognised on the granting of share options of the then ultimate holding company of HMV HK, HMV Group plc, to participants over the vesting period, as explained in the accounting policy for share-based payments in note 4(n)(iv) to the Financial Information.

(iv) (Accumulated losses)/Retained profit represents cumulative net gains and losses recognised in profit or loss.

28. DIVIDENDS

	Period from 28 April 2013 to 26 April 2014	**Period from 27 April 2014 to 25 April 2015**	**Period from 26 April 2015 to 30 April 2016**
	HK$	*HK$*	*HK$*
2016 First interim dividend of HK$8,651.42 per share	–	–	51,908,506
2016 Second interim dividend of HK$1,833.33 per share	–	–	11,000,000
	–	–	62,908,506

During the period ended 30 April 2016, interim dividends totalling HK$62,908,506 was declared and paid, in which, HK$5,017,778 and HK$57,890,728 were distributed from capital reduction reserve and retained profit of the Company, respectively.

29. DISPOSAL OF A BUSINESS DIVISION

In December 2013, HMV HK entered into a business transfer agreement and deed of novation, pursuant to which HMV HK agreed to transfer its assets and liabilities of its e-commerce operation to HMV Marketing Limited, a related company of HMV HK, effective from 1 January 2014 at a cash consideration of HK$1.

	HK$
Property, plant and equipment *(note 13)*	20,625
Inventories	4,456
Accounts receivable	26,633
Prepayments, deposits and other receivables	30,775
Cash and bank balances	5,000
Accounts payable	(483,138)
Other payables and accruals	(47,813)
	(443,462)
Gain on disposal of a business division *(note 7)*	443,463
Consideration	1
Satisfied by:	
Cash	1

An analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of the business division is as follows:

	HK$
Cash consideration	1
Cash and bank balances disposed of	(5,000)
Net cash outflow of cash and cash equivalents in respect of the disposal of e-commerce operation	(4,999)

30. DISPOSAL OF HMV BUSINESS

On 28 August 2015, HMV HK and HMV Marketing Limited, a related company of HMV HK, entered into a sale and purchase agreement in connection with the disposal of the HMV Business including the HMV IP Rights at an aggregate consideration of HK$105,736,711. The HMV IP Rights represent all the rights to use the name "HMV", the various HMV trade marks and trade mark applications and the HMV domain names (the "**HMV IP Rights**") for the purposes of conducting the retail business of "HMV" operating through the four retail stores selling music, movies and television series related contents and products located in Hong Kong and any other business to be conducted in the PRC, Hong Kong and Singapore. The disposal was completed on 30 November 2015.

	HK$
Property, plant and equipment *(note 13)*	5,798,564
Inventories	16,019,789
Prepayments, deposits and other receivables	12,647,358
Cash and bank balances	179,000
HMV IP Rights	4,091,494
	38,736,205
Gain on disposal of HMV Business	67,000,506
Consideration	105,736,711
Satisfied by:	
Cash	105,736,711

An analysis of the net cash inflow of cash and cash equivalents in respect of the disposal of HMV Business is as follows:

	HK$
Cash consideration	105,736,711
Cash and bank balances disposed of	(179,000)
Net cash inflow of cash and cash equivalents in respect of the disposal of HMV Business	105,557,711

31. OPERATING LEASE COMMITMENTS

HMV HK comprising the HMV Business as lessee

Operating lease payments represent rental payable by HMV HK comprising the HMV Business for its office, retail stores and warehouse. Leases are negotiated and rentals are fixed for an average term of one to four years, one to three years, two to three years as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively and the leases for certain retail stores include contingent rents, which are determined by applying pre-determined percentages to sales less the basic rentals of the respective leases.

The lease payments recognised as expense during the Relevant Periods are as follows:

	As at 26 April 2014	**As at 25 April 2015**	**As at 30 April 2016**
	HK$	*HK$*	*HK$*
Minimum lease payments	35,471,392	28,389,915	12,867,330
Contingent rents	59,053	42,916	2,166
	35,530,445	28,432,831	12,869,496

At the end of each of the Relevant Periods, total future minimum lease payments under non-cancellable operating leases falling due are as follows:

	As at 26 April 2014	**As at 25 April 2015**	**As at 30 April 2016**
	HK$	*HK$*	*HK$*
Within one year	46,020,872	35,523,428	1,024,863
In the second to fifth years, inclusive	40,208,862	7,329,740	–
	86,229,734	42,853,168	1,024,863

The above lease commitments only include commitments for basic rentals and do not include commitments for contingent rents, if any, as it is not practical to determine in advance the amount of such additional rentals.

Included in the operating lease arrangements were three, two and four operating leases as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively entered into with respective landlords on behalf of related companies. The minimum lease payments of these operating lease arrangements of HK$19,002,900, HK$17,828,580 and HK$19,143,645 as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively were absorbed by the related companies and settled through current account with the related companies.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in the Financial Information, HMV HK comprising the HMV Business had the following material transactions with related parties during the Relevant Periods:

	Notes	Period from 28 April 2013 to 26 April 2014 HK$	Period from 27 April 2014 to 25 April 2015 HK$	Period from 26 April 2015 to 30 April 2016 HK$
Fellow subsidiary:				
Sale of goods	(i)	844,954	–	–
Management support service fee received/receivable	(ii)	1,517,806	–	–
Related companies:				
Sales of goods	(i)	7,187,830	6,491,944	9,550,643
Purchases of goods	(i)	429,420	7,491,127	3,645,753
Management support service fee received/receivable	(ii)	–	898,982	–
Recovery of depreciation expenses of property, plant and equipment received	(iii)	576,795	–	–
Recovery of rental expenses received	(iii)	583,300	–	–
Immediate holding company:				
Interest expense paid	(iv)	–	173,931	844,518
Ultimate holding company:				
Interest expense paid	(v)	–	22,444	–

Notes:

(i) The prices of goods sold or purchased are mutually agreed between the parties.

(ii) Management support services fee income earned from a fellow subsidiary and a related company are charged at 12.5% and 6.6% for the periods ended 26 April 2014 and 25 April 2015 of certain office administrative costs incurred by HMV HK comprising the HMV Business.

(iii) Income received from the recovery of depreciation expenses of property, plant and equipment and rental expenses are determined with reference to the actual costs incurred.

(iv) Interest expense arose from loans from the immediate holding company at an interest rate of 8% per annum from 30 January 2015 to 25 April 2015 and from 26 April 2015 to 7 December 2015 for the periods ended 25 April 2015 and 30 April 2016 respectively. The loans were fully repaid during the period ended 30 April 2016.

(v) Interest expense arose from a loan from the ultimate holding company at an interest rate of 8% per annum from 5 December 2014 to 6 February 2015. The loan was fully repaid during the period ended 25 April 2015.

(b) Compensation of key management personnel

Members of key management personnel of HMV HK comprising the HMV Business during the Relevant Periods comprised only directors whose remuneration are set out in note 10.

(c) In December 2013, HMV HK comprising the HMV Business entered into an operation management agreement with certain related companies to appoint a related company as the manager to operate and manage one of its retail stores in Hong Kong, effective from 1 January 2014, for a term of 30 years. Pursuant to the agreement, the manager shall conduct and be in charge of the day-to-day business operations and bear all capital expenditure and operation expenses of the store. The manager shall entitle to receive management fee which equals to all revenue of the store for the respective years during the agreement term. Furthermore, HMV HK is entitled to 25% of the excess amount of net profit of the store over HK$200,000,000 as owner's profit distribution. Such agreement was terminated upon completion of disposal of HMV Business on 30 November 2015.

On 28 April 2014, HMV HK comprising the HMV Business entered into an operation management agreement with a related company to appoint the related company as the manager to operate and manage its kids learning centre in Hong Kong, effective from 1 May 2014, for a term of 30 years. Pursuant to the agreement, the manager shall conduct and be in charge of the day-to-day business operations and bear all capital expenditure and operation expenses of the centre. The manager shall entitle to receive management fee which equals to all revenue of the centre for the respective years during the agreement term. Furthermore, HMV HK is entitled to 25% of the excess amount of net profit of the centre over HK$20,000,000 as owner's profit distribution. On 1 April 2015, HMV HK entered into a deed of novation to assign all the rights, obligations and benefits in managing the kids learning centre from the related company to another related company at nil consideration.

(d) During the Relevant Periods, one of the directors of HMV HK, Mr. Wu King Shiu, Kelvin, guaranteed certain bank overdrafts of up to HK$8,000,000, HK$10,000,000 and nil and letters of guarantee facilities of HK$8,000,000, HK$6,000,000 and HK$781,106 made to HMV HK comprising the HMV Business as at 26 April 2014, 25 April 2015 and 30 April 2016, respectively. The bank overdrafts of HK$7,950,570, HK$7,636,725 and nil and letters of guarantee facilities amounting to HK$2,427,411, HK$3,710,246 and HK$478,795 were utilised by HMV HK comprising the HMV Business as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively.

33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

	As at 26 April 2014 HK$	As at 25 April 2015 HK$	As at 30 April 2016 HK$
Financial assets			
Loans and receivables			
Accounts receivable	454,829	556,104	–
Financial assets included in prepayments, deposits and other receivables	20,351,790	16,265,066	339,398
Amounts due from fellow subsidiaries	7,734,312	–	–
Amounts due from related companies	3,430,356	4,359,411	103,714
Pledged deposits	10,100,583	10,138,765	781,106
Cash and bank balances	734,741	788,515	4,403,074
	42,806,611	32,107,861	5,627,292
Financial liabilities			
Financial liabilities measured at amortised cost			
Accounts payable	17,259,647	21,507,722	801,307
Financial liabilities included in other payables and accruals	3,956,272	2,858,494	703,929
Amount due to the then ultimate holding company	8,000,000	–	–
Amount due to the immediate holding company	–	7,635,719	–
Amount due to the then immediate holding company	4,356,422	–	–
Amount due to a related company	–	266,058	6,086
Loans from the immediate holding company	–	11,670,000	–
Bank overdrafts	7,950,570	7,636,725	–
	41,522,911	51,574,718	1,511,322

Fair value and fair value hierarchy of financial instruments

Management of HMV HK has assessed that the fair values of financial assets included in accounts receivable, prepayments, deposits and other receivables, amounts due from fellow subsidiaries and related companies, amounts due to holding companies and a related company, loans from the immediate holding company, pledged deposits, cash and bank balances, bank overdrafts, accounts payable and financial liabilities included in other payables and accruals approximate to their carrying amounts due to the short-term maturities of these instruments.

The fair values of non-current deposits paid have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The principal financial instruments of HMV HK comprising the HMV Business comprise cash and bank balances and amounts due to holding companies. The main purpose of these financial instruments is to raise finance for the HMV Business's operations. The HMV Business has various other financial assets and liabilities such as accounts receivable, financial assets included in prepayments, deposits and other receivables, pledged deposits, accounts payable, amounts due from fellow subsidiaries and related companies, bank overdrafts and financial liabilities included in other payables and accruals, which arise directly from its operations.

Management of HMV HK reviews and agrees policies for managing the risks arising from the HMV Business's financial instruments. The main risks arising from the financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk, which are summarised below.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The exposure of HMV HK comprising the HMV Business to the risk of changes in market interest rates relates primarily to its cash and bank balances, pledged deposits and bank overdrafts.

Interest on cash and bank balances and pledged deposits will fluctuate at floating rates based on daily bank deposit rates, and the interest on bank overdrafts will fluctuate at floating rates based on prime rate quoted by DBS Bank (Hong Kong) Limited.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the (loss)/profit before income tax (through the impact on floating rate bank deposits and overdrafts).

	Increase/ (Decrease) in basis point	**Decrease/ (Increase) in (loss)/ profit before income tax**
	%	*HK$*
As at 26 April 2014		
HK$	0.5	14,424
HK$	(0.5)	(14,424)
As at 25 April 2015		
HK$	0.5	16,453
HK$	(0.5)	(16,453)
As at 30 April 2016		
HK$	0.5	25,921
HK$	(0.5)	(25,921)

Foreign currency risk

HMV HK comprising the HMV Business is exposed to foreign currency risk primarily through purchases that are denominated in a currency other than the functional currency of HMV HK. Approximately 19%, 15% and 12% as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively of the purchases are denominated in currencies other than its functional currency.

The following tables demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the British Pound ("**GBP**") exchange rate, with all other variables held constant, on the (loss)/profit before income tax (due to changes in fair value of monetary assets and liabilities).

	Increase/ (Decrease) in basis point	Decrease/ (Increase) in (loss)/ profit before income tax
	%	*HK$*
As at 26 April 2014		
HK$ weakens against GBP	5	(42,461)
HK$ strengthens against GBP	(5)	42,461
As at 25 April 2015		
HK$ weakens against GBP	5	(27,795)
HK$ strengthens against GBP	(5)	27,795
As at 30 April 2016		
HK$ weakens against GBP	5	(5,233)
HK$ strengthens against GBP	(5)	5,233

Credit risk

Accounts receivable represents the major exposure to the credit risk arising from default of the counterparty, with a maximum exposure equals to the carrying amounts of these financial assets in the statements of financial position. HMV HK comprising the HMV Business only engages with recognised and creditworthy third parties on specific terms mutually agreed prior to any business transaction.

The credit risk of other financial assets, which comprise cash and bank balances, amounts due from fellow subsidiaries and related companies, and financial assets included in deposits and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the exposure to credit risk of HMV HK comprising the HMV Business arising from accounts receivable are disclosed in note 15 to the Financial Information.

Liquidity risk

HMV HK comprising the HMV Business aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The HMV HK comprising the HMV Business finances its working capital requirements through a combination of funds generated from operations, bank borrowings and funding from its immediate holding company.

The maturity profile of the financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

	Carrying amount *HK$*	**Total contractual undiscounted cash flows** *HK$*	**On demand or within 1 year** *HK$*
As at 26 April 2014			
Accounts payable	17,259,647	17,259,647	17,259,647
Financial liabilities included in other payables and accruals	3,956,272	3,956,272	3,956,272
Amount due to the then immediate holding company	4,356,422	4,356,422	4,356,422
Amount due to the then ultimate holding company	8,000,000	8,000,000	8,000,000
Bank overdrafts	7,950,570	7,985,354	7,985,354
	41,522,911	41,557,695	41,557,695
As at 25 April 2015			
Accounts payable	21,507,722	21,507,722	21,507,722
Financial liabilities included in other payables and accruals	2,858,494	2,858,494	2,858,494
Amount due to the immediate holding company	7,635,719	7,635,719	7,635,719
Amount due to a related company	266,058	266,058	266,058
Loans from the immediate holding company	11,670,000	12,430,522	12,430,522
Bank overdrafts	7,636,725	7,670,136	7,670,136
	51,574,718	52,368,651	52,368,651
As at 30 April 2016			
Accounts payable	801,307	801,307	801,307
Financial liabilities included in other payables and accruals	703,929	703,929	703,929
Amount due to a related company	6,086	6,086	6,086
	1,511,322	1,511,322	1,511,322

35. CAPITAL MANAGEMENT

The primary objective of the capital management of HMV HK comprising the HMV Business is to safeguard the HMV Business's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The HMV HK comprising the HMV Business manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. The HMV HK comprising the HMV Business is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

For capital management purpose, the directors of HMV HK regard total equity presented in the face of statements of financial position as capital. The amount of total equity was HK$13,069,531, HK$239,530 and HK$2,604,853 as at 26 April 2014, 25 April 2015 and 30 April 2016 respectively.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by HMV HK comprising the HMV Business in respect of any period subsequent to 30 April 2016.

Yours faithfully,

BDO Limited
Certified Public Accountants
Chiu Wing Cheung, Ringo
Practising Certificate no. P04434

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(1) Introduction to the unaudited pro forma financial information

The accompanying unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared to illustrate the effect of the acquisition of the entire issued share capital of HMV M&E Limited (the "**Target Company**") (the "**Acquisition**"), assuming the transaction had been completed on 31 December 2015, might have affected the financial position of the Group. The Target Company and its subsidiaries are referred to as the Target Group.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2015 as extracted from the interim report of the Group for the six months ended 31 December 2015 and the audited combined statement of financial position of the Target Group as at 31 December 2015 as extracted from the Accountants' Report set out in Appendix IV of the Circular after making certain proforma adjustments resulting from the Acquisition.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Group that would have been attained had the Acquisition actually occurred on 31 December 2015. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in the interim report of the Group for the six months ended 31 December 2015, the financial information of the Target Group as set out in Appendix III of the Circular and other financial information included elsewhere in the Circular.

(2) Unaudited Pro Forma Financial Information of the Enlarged Group

	The Group	The Target Group	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Non-current assets					
Investment in a subsidiary	–	–	623,288	(623,288)	–
Property, plant and equipment	27,629	51,732	–	–	79,361
Intangible assets	–	77,311	–	–	77,311
Goodwill	–	10,699		707,142	717,841
Interest in associates	6,198	–	–	–	6,198
Interest in a joint venture	111	–	–	–	111
Investments at fair value through other comprehensive income	22,768	–	–	–	22,768
Prepayments, deposits and other receivables	69,437	16,811	–	–	86,248
Film rights and films production in progress	210,824	–	–	–	210,824
Loans receivables	5,272	–	–	–	5,272
	342,239	156,553	623,288	83,854	1,205,934
Current assets					
Inventories	69	39,903	–	–	39,972
Loans receivables	111,050	–	–	–	111,050
Trade receivables	18,277	811	–	–	19,088
Prepayments, deposits and other receivables	66,799	27,189	–	–	93,988
Investments at fair value through profit or loss	35,380	–	–	–	35,380
Pledged bank deposits	5,984	7,000	–	–	12,984
Bank and cash balances	47,353	14,433	–	–	61,786
	284,912	89,336	–	–	374,248
Current liabilities					
Trade payables	27,850	32,714	–	–	60,564
Accruals, deposits received and other payables	74,335	271,749	–	–	346,084
Other borrowings	66,390	–	–	–	66,390
Convertible bond	2,000	–	–	–	2,000
Promissory note payable	14,160	–	–	–	14,160
Finance lease payables	365	–	–	–	365
Tax payables	9	–	–	–	9
	185,109	304,463	–	–	489,572
Net current assets/(liabilities)	99,803	(215,127)	–	–	(115,324)
Total assets less current liabilities	442,042	(58,574)	623,288	83,854	1,090,610
Non-current liabilities					
Other payables	–	8,552	–	–	8,552
Finance lease payables	1,560	–	–	–	1,560
Provision for asset retirement	1,914	–	–	–	1,914
Deferred tax liabilities	–	16,728	–	–	16,728
	3,474	25,280	–	–	28,754
NET ASSETS/(LIABILITIES)	438,568	(83,854)	623,288	83,854	1,061,856
Capital and reserves					
Share capital	38,328	1	13,699	(1)	52,027
Reserves	401,095	(83,855)	609,589	83,855	1,010,684
Equity attributable to owners of the Company	439,423	(83,854)	623,288	83,854	1,062,711
Non-controlling interests	(855)	–	–		(855)
TOTAL EQUITY	438,568	(83,854)	623,288	83,854	1,061,856

(3) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) The balances have been extracted from the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2015 as set out in the interim report of the Company for the six months ended 31 December 2015.

(2) The figures are extracted from the audited combined statement of financial position as at 31 December 2015, included in the accountants' report of the Target Group as set out in Appendix IV to the Circular.

(3) The adjustments represent the fair value of the 1,369,863,013 consideration shares ("**Consideration Shares**") assumed to be issued at the share price of HK$0.455 as at 31 December 2015. Pursuant to the sales and purchase agreement dated 14 March 2016 and 1 April 2016, the acquisition of 81.63% (the "**Acquisition I**") and 18.37% (the "**Acquisition II**") of the issued share capital of the Target Company were satisfied by the issue and allotment of 1,118,219,178 shares and 251,643,835 shares.

An analysis of the consideration of the Acquisition assuming the Acquisition had taken place on 31 December 2015 is set out as below:

	Pro-forma Fair value as at 31 December 2015
	HK$'000
Fair value of consideration share for Acquisition I (1,118,219,178 shares)	508,790
Fair value of consideration share for Acquisition II (251,643,835 shares)	114,498
Fair value of Consideration Share	623,288
Number of new Shares to be issued	1,369,863,013
	HK$'000
Share capital	13,699
Share Premium	609,589
	623,288

The final valuation of the Consideration Shares may be different from the amount stated herein.

(4) The adjustment reflects the recognition of goodwill of approximately HK$707,142,000, arising from the acquisition of the entire issued share capital in the Target Company, as if the Acquisition had been completed on 31 December 2015.

For the preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the adjusted net liabilities ("**Adjusted Net liabilities**") of the Target Group of approximately HK$94,553,000 (calculated as net liabilities of the Target Group of HK$83,854,000 minus goodwill of the Target Group of HK$10,699,000) have been assumed to approximate the fair values of the underlying assets and liabilities of the Target Group at the completion of the Acquisition ("**Completion**").

The goodwill of approximately HK$717,841,000 is calculated based on the excess of the fair value of the Consideration Share of HK$623,288,000 over the Adjusted Net Liabilities of approximately HK$94,553,000. Since the actual fair values of assets and liabilities of the Target Group as at the date of Completion would be different from the amounts used in the preparation of the unaudited pro forma assets and liabilities of the Enlarged Group, the actual goodwill arising from the Acquisition to be recognized by the Group might be different from the amount shown in this note.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the directors of the Company have assessed whether the goodwill will be impaired as at 31 December 2015 on a pro forma basis in accordance with Hong Kong Accounting Standard 36 ("**HKAS 36**") "Impairment of Assets" and concluded that the entire amount of goodwill arising on the Acquisition as at 31 December 2015 based on the management's assessment on the recoverable amount of the cash generating unit comprising the goodwill. Accordingly, in the pro forma of assets and liabilities of the Enlarged Group, goodwill amounting to HK$717,841,000 is recognized at 31 December 2015. The actual amount of impairment of goodwill arising from the Acquisition at the date of completion may be different from that presented above and the difference may be significant.

The Company will adopt consistent accounting policies, principal assumptions and valuation methods to assess the impairment of the goodwill arising from the Acquisition in future financial statements.

(5) Save as set out above, the Unaudited Pro Forma Financial Information does not take into account any trading results or other transactions of the Group and the Target Group subsequent to the date of the financial statements as included in the Unaudited Pro Forma Financial Information.

B. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountant, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.

24 June 2016

The Board of Directors
China 3D Digital Entertainment Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of China 3D Digital Entertainment Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the pro forma statement of assets and liabilities as at 31 December 2015 (the "**Unaudited Pro Forma Financial Information**") as set out on pages 129 to 135 of the investment circular issued by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix VI of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed acquisition of the entire equity interest in HMV M&E Limited on the Group's financial position as at 31 December 2015 as if the transaction had been taken place at 31 December 2015. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's condensed financial statements as included in the interim report for the six months ended 31 December 2015, on which no audit or review report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock exchange of Hong Kong Limited (the "**GEM Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Ng Ka Lok
Practicing Certificate Number P06084
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 circular 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 in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

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

Long position in the Shares

Name of Director	Capacity/Nature of interests	Number of ordinary/ underlying Shares held	Approximate percentage
Shiu Stephen Junior	Beneficial owner	141,920	0.00

Save as disclosed above, as at the Latest Practicable Date, none of the directors or chief executives of the Company 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors as referred to in Rule 5.46 of the GEM Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

As at the Latest Practicable Date, the register of substantial shareholders maintained under Section 336 of the SFO shown that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Long position in the Shares

Name	Capacity/Nature of interests	Number of ordinary/underlying Shares held	Approximate percentage
Platinum Century Limited *(Note 1)*	Beneficial owner	214,000,000	5.58%
Clayton Ip *(Note 2)*	Beneficial owner	229,820,000	5.99%
Li Chung Foon *(Note 3)*	Beneficial owner	195,000,000	5.09%
Global Zone Development Limited *(Note 4)*	Beneficial owner	340,000,000	8.87%
Ip Mei Yee *(Note 5)*	Beneficial owner	208,500,480	5.44%

Notes :

1. Platinum Century Limited is wholly-owned by Ms. Tam Yuk Ching Jenny.
2. Mr. Clayton Ip is an independent third party of the Group.
3. Ms. Li Chung Foon is an independent third party of the Group.
4. Global Zone Development Limited is wholly-owned by Mr. Chung Man Tai, Leslie.
5. Mr. Ip Mei Yee is an independent third party of the Group.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executives of the Company, no other person (not being a director or chief executive of the Company) had any interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

3. DIRECTORS' SERVICE CONTRACTS

Each of the current executive Directors have entered into a service agreement with the Company to serve as an executive Director for an initial term of two years commencing from their date of appointment, and will continue thereafter until terminated by not less than three months' notice in writing served by either party.

Each of the current independent non-executive Directors has entered into a letter of appointment with the Company for a term of two years commencing on the following dates respectively, with all the term being renewed automatically for successive term of one year each commencing from the date next after the expiry of the then current term, unless terminated by not less than three months' notice in writing served by either party:

Name of Directors	Commencing date
Mr. Chan Chi Ho	2 July 2010
Mr. Kam Tik Lun	13 July 2010
Mr. Tam Kwok Ming, Banny	15 November 2011

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has a service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. EXPERT AND CONSENT

The following is the qualification of the expert whose advice is contained in this circular:

Name	**Qualification**
BDO Limited	Certified Public Accountants
ZHONGHUI ANDA CPA Limited	Certified Public Accountants

BDO Limited and ZHONGHUI ANDA CPA Limited have given and have not withdrawn its written consents to the issue of its circular with the inclusion of their letters and/or references to its names included herein in the form and context in which they appears.

As at the Latest Practicable Date, BDO Limited and ZHONGHUI ANDA CPA Limited were not interested in any shareholding in any member of the Group or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, and had no direct or indirect interest in any assets which have been or proposed to be acquired or disposed of by or leased to any member of the Group since 30 June 2015, being the date to which the latest published audited accounts of the Company were made up.

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors, directly or indirectly, had any interest in any assets which had since 30 June 2015 (being the date to which the latest published audited financial statements of the Enlarged Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

There was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors were materially interested and which was significant to the business of the Enlarged Group.

6. COMPETING INTERESTS

Potential competing interests from HMV HK prior to Completion

HMV Hong Kong Limited ("**HMV HK**") is indirectly wholly-owned by AID Partners Capital II, L.P.. AID Partners Capital II, L.P. is controlled by AID Partners GP2, Ltd., which is ultimately controlled by Mr. Wu and in which Mr. Ho is a director. 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 IP Rights and the HMV Business (as defined in the circular of Vendor Listco dated 16 October 2015), 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; 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 and as at the Latest Practical Date, 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 Target Group and that of HMV HK.

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.

As at the Latest Practicable Date, save as disclosed above and so far as the Directors were aware, none of the other Directors or their respective associates were interested in any business which competes or is likely to compete, whether directly or indirectly, with the business of the Group and the business of the Target Group.

7. MATERIAL CONTRACTS

Save for and except for the transactions disclosed below, there were no material contracts (not being contracts entered into in the ordinary course of business carried on by the Enlarged Group) being entered into by any member of the Enlarged Group within the two (2) years immediately preceding the Latest Practicable Date:

(i) on 4 April 2014, the Company entered into a placing agreement with Kingston Securities Limited, to place a maximum number of 134,100,000 placing shares, on a best effort basis, at a price of HK$0.128 per placing share, and on the assumption of full completion of such placing, the net proceeds from such placing is approximately HK$16.68 million;

(ii) on 5 June 2014, the Company entered into a placing agreement with Kingston Securities Limited, to place a maximum number of 1,500,000,000 placing shares, on a best effort basis, at a price of HK$0.07 per placing share, and on the assumption of full completion of such placing, the net proceeds from such placing is approximately HK$102 million;

(iii) the sale and purchase agreement dated 26 October 2014 entered into between the Vendor I, as the purchaser, the Company and HMV Asia Limited, Ms. Wong Nga Fan, Ms. Butt, Emily Oy-Fong and Mr. Wu as the vendors in relation to the sale and purchase of an aggregate of approximately 35.46% of the issued share capital of HMV Ideal Limited. The consideration for the said acquisition is the aggregate of the 980 ordinary shares of VS Media Co Limited and the aggregate of all amounts owed by VS Media Co Limited to each of HMV Ideal Limited, HMV Marketing, Vissible Co & Limited and Viss Me Co & Limited outstanding as at the close of business on the date of completion, which amounted to approximately HK$5,924,000;

(iv) on 1 December 2014, the Company entered into a placing agreement with Kingston Securities Limited, to place a maximum number of 1,013,100,000 placing shares, on a best effort basis, at a price of HK$0.027 per placing share, and on the assumption of full completion of such placing, the net proceeds from such placing is approximately HK$26.5 million;

(v) on 1 April 2015, the Company entered into a placing agreement with Kingston Securities Limited, to place a maximum number of 131,800,000 placing shares, and on the assumption of full completion of such placing, the net proceeds from such placing is approximately HK$14.08;

(vi) on 4 May 2015, the Company entered into a share exchange agreement with Great China Mania Holdings Inc.;

(vii) on 26 May 2015, the Company entered into a placing agreement with Kingston Securities Limited and terminated on 20 July 2015;

(viii) on 20 July 2015, the Company entered into a placing agreement with Kingston Securities Limited, to place a maximum number of 800,000,000 placing shares, on a best effort basis, at a price of HK$0.25 per placing share, and on the assumption of full completion of such placing, the net proceeds from such placing is approximately HK$195 million;

(ix) the sale and purchase agreement dated 28 August 2015 entered into between the HMV Marketing as the purchaser and HMV HK as the vendor, pursuant to which HMV Marketing agreed to acquire and HMV HK agreed to sell the HMV IP Rights (as defined in the Oct Circular) and the Target Business (as defined in the Oct Circular) at the consideration of HK$114,324,709), subject to adjustments in accordance with the sale and purchase agreement. Details of the sale and purchase agreement are set out in the Oct Circular;

(x) on 14 December 2015 and 6 January 2016, the Company entered into a sale and purchase agreement and a supplemental agreement with Mr. Stephen Chau respectively, in relation to the sale and purchase of 40% of the issued share capital of Starz Holdings Limited for a consideration in the sum of HK$13,600,000, payable by cash and convertible bonds issued by the Company;

(xi) the loan agreement dated 28 January 2016 entered into between Vendor Listco and Simply Sino, pursuant to which a loan in the amount of HK$25,000,000 has been made by Vendor Listco to Simply Sino on 28 January 2016, which is interest bearing at the rate of five per cent. (5%) per annum for a term of one (1) year and extendable for one (1) year after the initial repayment date at the option of the lender;

(xii) the loan agreement dated 29 January 2016 entered into between Peak Lion Group Limited as borrower, Simply Sino as lender and the Company as guarantor, pursuant to which a loan in the amount of HK$25,000,000 has been made by Simply Sino to Peak Lion Group Limited, which is interest bearing at the rate of five per cent. (5%) per annum for a term of two (2) years. Peak Lion Group Limited has executed a share mortgage over 25 shares in CineUnited Circuits Company Limited 影聯院線有限公司 dated 29 January 2016 in favour of Simply Sino;

(xiii) the loan agreement dated 24 February 2016 entered into between Vendor I and the Target Company, pursuant to which a loan in the amount of US$13,000,000 has been made by Vendor I to the Target Company on 24 February 2016, which is interest bearing at the rate of 3% per annum for a term of one (1) year;

(xiv) the loan agreement dated 24 February 2016 entered into between the Target Company and HMV Marketing, pursuant to which a loan in the amount of US$13,000,000 has been made by the Target Company to HMV Marketing on 24 February 2016, which is interest bearing at the rate of three per cent. (3%) per annum for a term of one (1) year;

(xv) the sale and purchase agreement dated 1 March 2016 entered into between Vendor I, as the vendor, WiL Fund I, L.P., as the purchaser (the "**WiL**") and Vendor Listco, as the guarantor, pursuant to which Vendor I agreed to sell and WiL agreed to purchase 2,250 ordinary shares in the share capital of the Target Company for a cash consideration of US$9,000,000 (equivalent to approximately HK$70,200,000);

(xvi) on 24 March 2016, the Company entered into a sale and purchase agreement with AID Partners Visual Entertainment, L.P. pursuant to which the Company acquire 4% preference shares of Prime Focus World N.V. at a consideration of US$13,619,726; and

(xvii) the Sale and Purchase Agreement I and Sale and Purchase Agreement II.

8. LITIGATION

A writ of summons (the "**Writ**") was issued against the Company by Green Giant Investments Limited ("**Green Giant**") on 12 February 2015. It was alleged in the Writ that the Company refused and/or unreasonably withheld to register a transfer of the promissory note (the "**Note**") or issue a new promissory note as requested upon transfer of the Note by Dragonlott Holdings Limited to Green Giant. Green Giant claims the principal amount of the Note of HK$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The court 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 proceedings. In the opinion of the Directors, the Note payable of HK$14,160,000 is properly recognized as at 30 September 2015, as such, the Directors did not consider that the litigation to have any significant impact on the Group's financial position and operations.

As at the Latest Practicable Date, save for as disclosed above, the Group and the Target Group was not engaged in any other litigation or claims of material importance known to the Directors to be pending or threatened against the Group and the Target Group.

9. GENERAL

(a) The registered address of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is at 7/F., Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong.

(c) The share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited located at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Mr. To Chi ("**Mr. To**"). Mr. To has been appointed as the company secretary of the Company with effect from 7 August 2014. Mr. To holds a Master of Finance from RMIT University. He is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. To has over 25 years of experience in company management, accounting, taxation as well as corporate finance.

(e) The compliance officer of the Company is Mr. Lee Wing Ho, Albert. Mr. Lee, aged 46, joined the Company in February 2011. Mr. Lee holds a Bachelor of Arts from Trinity Western University, Canada, and a Master of Business Administration from South Eastern University, United States of America. Mr. Lee is a Certified Facility Manager and is a member of International Facility Management Association and The Hong Kong Institute of Real Estate. Mr. Lee has over 18 years of experience in real estate and leasing management, cinemas consultancy as well as in the fields of movie production and distribution in Hong Kong and the PRC.

(f) 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, Banny. 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 of Directors. The Audit Committee is also responsible for reviewing and monitoring the Company's internal control procedures. The biography of the members of the Audit Committee are set out below:

(i) KAM TIK LUN, aged 40, joined the Company in July 2010. Mr. Kam is the Chairman of the Audit Committee and the Remuneration Committee and the member of Nomination Committee of the Company. Mr. Kam holds a Bachelor of Commerce from Concordia University, Canada and a Postgraduate Diploma in International Corporate and Financial Law from The University of Wolverhampton, UK and a Master of Laws in International Corporate and Financial Law from The University of Wolverhampton, UK. Mr. Kam is a member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. Mr. Kam has over 10 years' experience in the financial markets. Mr. Kam has vast experience in providing business consultancy, business valuation services, financial analysis and corporate advisory. Mr. Kam is also an independent non-executive director of Easy Repay Finance & Investment Limited, a company listed on the GEM.

(ii) CHAN CHI HO, aged 40, joined the Company in July 2010. Mr. Chan is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chan holds a Bachelor of Engineer in Civil Engineering from The University of Hong Kong and a Bachelor of Law from The University of London. Mr. Chan is a member of Hong Kong Institute of Engineers. Mr. Chan was a project engineer of Maunsell AECOM and has more than 11 years' experience in the planning, design and project management of infrastructure facilities in Hong Kong, the PRC and overseas. Currently, Mr. Chan is also a managing director of EDM Construction Limited with vast experience in managing interior fitting out and decoration construction projects in different aspects such as residential, commercial, hotel and institutional.

(iii) TAM KWOK MING, BANNY, aged 53, joined the Company in November 2011. Mr. Tam is the member of Audit Committee, Remuneration Committee and Nomination Committee. Mr. Tam is a practicing Certified Public Accountant in Hong Kong, an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Tam has over 19 years' professional experience in accounting and auditing field and has been working in various positions including partner and practicing director in various accounting firms. Currently, Mr. Tam is a partner of YATA Certified Public Accountants. Mr. Tam is also an independent non-executive director of Inner Mongolia Yitai Coal Company Limited (stock code: 3948 and 900948 SH), a company listed on the Main Board of the Stock Exchange and Shanghai Stock Exchange.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the head office and principal place of business of the Company at 7/F., Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong from the date of this circular up to and including the date of SGM:

1. the memorandum of association and bye-laws of the Company;

2. the material contracts;

3. the written consent referred to in the paragraph headed "Expert and Consent" in this Appendix;

4. the annual reports of the Company for the financial years ended 30 June 2013, 30 June 2014 and 30 June 2015;

5. the interim report of the Company for the six months ended 31 December 2015;

6. the accountants' report on the Target Company and its subsidiaries for the financial period from 11 December 2013 to 31 December 2014 and the year ended 31 December 2015;

7. the accountant's report on the Target Business for the financial years ended 26 April 2014, 25 April 2015 and 30 April 2016;

8. the report from ZHONGHUI ANDA CPA Limited relating to the unaudited pro forma financial information of the Enlarged Group, the text of which are set out in Appendix VI to this circular; and

9. a copy of this circular.

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)

NOTICE IS HEREBY GIVEN that a special general meeting ("**Meeting**") of China 3D Digital Entertainment Limited (the "**Company**") will be held at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong on at 4:00 p.m. on Wednesday, 20 July 2016 for the purpose of considering and, if thought fit, passing the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the terms and conditions of the sale and purchase agreement dated 14 March 2016 (the "**Sale and Purchase Agreement I**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) entered into between Action Key Investments Limited ("**Vendor I**"), Certain Best Limited (the "**Purchaser**"), and the Company in relation to the acquisition of 10,000 ordinary shares ("**Sale Shares I**") of HMV M&E Limited (the "**Target Company**"), representing approximately 81.63% of the issued share capital of the Target Company from Vendor I to the Purchaser, pursuant to which the Company shall issue the Consideration Shares I (as defined below) as part of the consideration for the Sale Shares I, be and are hereby approved, confirmed and ratified;

(b) the grant of specific mandate to the directors (the "**Directors**") of the Company to allot and issue 1,118,219,178 Consideration Shares I (as defined in the circular of the Company dated 24 June 2016) to the Vendor I pursuant to the Sale and Purchase Agreement I be and is hereby approved, confirmed and ratified;

(c) the allotment and issue 1,118,219,178 Consideration Shares I at an issue price of HK$0.365 per Consideration Share to the Vendor I in accordance with the Sale and Purchase Agreement I be and is hereby approved, confirmed and ratified; and

(d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Acquisition I, the Sale and Purchase Agreement I and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor I."

* *For identification purpose only*

2. “**THAT**:

(a) the terms and conditions of the sale and purchase agreement dated 1 April 2016 (the “**Sale and Purchase Agreement II**”, a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) entered into between WiL Fund I, L.P. (“**Vendor II**”), Certain Best Limited (the “**Purchaser**”), and the Company in relation to the acquisition of 2,250 ordinary shares (“**Sale Shares II**”) of the Target Company, representing approximately 18.37% of the issued share capital of the Target Company from Vendor II to the Purchaser, pursuant to which the Company shall issue the Consideration Shares II (as defined below) as part of the consideration for the Sale Shares I, be and are hereby approved, confirmed and ratified;

(b) the grant of specific mandate to the directors (the “**Directors**”) of the Company to allot and issue 251,643,835 Consideration Shares II (as defined in the circular of the Company dated 24 June 2016) to the Vendor II pursuant to the Sale and Purchase Agreement II respectively be and is hereby approved, confirmed and ratified;

(c) the allotment and issue 251,643,835 Consideration Shares II at an issue price of HK$0.365 per Consideration Share to Vendor II in accordance with the Sale and Purchase Agreement II respectively be and is hereby approved, confirmed and ratified; and

(d) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Acquisition II, Sale and Purchase Agreement II and the transactions contemplated thereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor II.”

SPECIAL RESOLUTION

3. "**THAT**:

subject to and conditional upon the approval of the Registrar of Companies in Bermuda, the English name of the Company be changed from "China 3D Digital Entertainment Limited" to "HMV Digital China Group Limited" and to adopt and register the Chinese name of "HMV數碼中國集團有限公司" as the secondary name of the Company to replace the existing Chinese name of "中國3D數碼娛樂有限公司" which was adopted for identification purposes only (the "**Change of Company Name**") with effect from the date of registration as set out in the certificate of incorporation on change of name issued by the Registrar of Companies in Bermuda, and THAT any one or more of the directors or the secretary of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents as he/she/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Change of Company Name and to attend to any necessary registration and/or filing for and on behalf of the Company."

On behalf of the Board
China 3D Digital Entertainment Limited
Shiu Stephen Junior
Chairman

Hong Kong, 24 June 2016

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of in Hong Kong:
7th Floor
Zung Fu Industrial Building
1067 King's Road
Quarry Bay, Hong Kong

Notes:

1. A form of proxy for use at the Meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorised.

3. Any shareholder of the Company entitled to attend and vote at the Meeting convened by the above notice shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding of the above Meeting or any adjournment thereof (as the case may be).

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting convened or at any adjourned meeting (as the case may be) and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the Meeting, whether in person or by proxy, the most senior shall alone be entitled to vote. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

7. As at the date of this notice, the directors of the Company are Mr. Shiu Stephen Junior (Chairman), Mr. Sun Lap Key, Christopher, Mr. Lee Wing Ho, Albert and Mr. Chau Sai Ho, Charles as executive directors of the Company; Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Tam Kwok Ming, Banny as independent non-executive directors of the Company.