



hmv 數碼中國集團 Digital China Group

HMV Digital China Group Limited

(Incorporated in Bermuda with limited liability)
(GEM Stock Code : 8078)

FIRST QUARTERLY REPORT 2016-2017

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported a total revenue of approximately HK\$223.8 million for the three months ended 30 September 2016 (the “Three-month Period”), compared with approximately HK\$26.76 million for the corresponding period in 2015. For the Three-month Period, a profit attributable to owners of the Company of approximately HK\$19.9 million was recorded whilst in the corresponding period of last year, a loss attributable to owners of the Company of approximately HK\$14.2 million was recorded.

During the Three-month Period, artist management’s segment contributed a revenue of approximately HK\$39.21 million (2015: HK\$11.66 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$137.25 million (2015: HK\$7.45 million). The revenue from cinema operation segment was approximately HK\$10.43 million (2015: HK\$7 million). The revenue from the money lending business was approximately HK\$3 million (2015: HK\$0.65 million). The revenue from HMV business was approximately HK\$33.91 million (2015: HK\$Nil).

PROSPECTS

BUSINESS REVIEW

Share and Connected Transaction relating to acquisition of the Target Group announced on 29 July 2016

On 29 July 2016, Creative Projects Company Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), and Fugu Enterprises Inc. and Mr. Kwong Kwan Yin, Roy (the “Vendors”) entered into the Stock Purchase Agreement. The consideration for the acquisition is the sum of HK\$18,000,000, which shall be settled by the Purchaser by cash payable to the Vendors of HK\$8,000,000 and by issue of 11,494,252 consideration shares at the issue price of HK\$0.87 per consideration share of the Company.

Pursuant to the Stock Purchase Agreement, the Purchaser agreed to purchase and the Vendors agreed to sell the sale shares, representing 51% of the entire issued share capital of Celestial Talent International Limited (the “Target Company”). Upon completion, Target Company and its subsidiaries (the “Target Group”) will become the subsidiaries of the Company.

The Target Company is an investment holding company incorporated in BVI with limited liability and has no business activity. The Target Company is the sole beneficial owner of the issued share capital of (i) Access Max International Limited, (ii) Unison Associates International Limited, (iii) GZ Mania Management Limited and (iv) GME Casting Studio Limited. GZ Mania Management Limited and GME Casting Studio Limited are principally engaged in artiste management services and music production. Each of Access Max International Limited and Unison Associates International Limited is an investment holding company incorporated in BVI and has no business activities.

Fugu Enterprises Inc. interested in approximately 12% of the issued share capital of a subsidiary of the Company and Mr. Kwong Kwan Yin, Roy is a director of a subsidiary of the Company and has interested in approximately 8% of the issued share capital of a subsidiary of the Company.

The Vendors are regarded as connected persons of the Company under the GEM Listing Rules. The acquisition constitutes connected transaction of the Company.

Details of the Share and Connected Transaction relating to the acquisition of the Target Company were disclosed in the announcement dated 29 July 2016.

The acquisition of Panorama Group and involving the issue of consideration shares under specific mandate announced on 10 August 2016

On 10 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the “Purchaser”) and the Company entered into the Sale and Purchase Agreement with Well Charm International Development Limited (the “Vendor I”) and Mr. Fung Yu Hing Allan (the “Vendor II”) (collectively the “Vendors”), pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to purchase 140 ordinary shares of Panorama Entertainment Group Limited (“PEGL”), representing 70% of the issued share capital in PEGL (the “Sale Shares I”), and 70 ordinary shares of each of Parkway Management Limited (“PW”) and Panorama Corporation Limited (“PCL”), representing 70% of the issued share capital in each of PW and PCL (the “Sales Shares II”), at an aggregate consideration of HK\$35,000,000, which shall be satisfied by the issue and allotment of aggregate 48,275,862 consideration shares at an issue price of HK\$0.725 per consideration share at completion in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, PEGL and its subsidiaries, PW and PCL, (the “Panorama Group”) is indirectly owned subsidiaries of the Company. Upon Completion of the acquisition of Sale Shares I by the Purchaser, Vendor I still owns 30% of the issued share capital of PEGL, and after the acquisition of Sale Shares II by the Purchaser, Vendor II still owns 30% of the issued share capital of each of PW and PCL.

Vendor I is an investment holding company incorporated in Hong Kong with a limited liability. Vendor II, is the founder of the Panorama Group, who set up the Panorama Group for an initial aim of distributing quality motion pictures in VHS and LD home video format in Hong Kong. Vendor II has been an experienced and famous film producer and businessman in Hong Kong and responsible for the Panorama Group’s overall strategic planning, formulation of corporate policies, overall management and acquisition of film rights.

PEGL is a company incorporated in BVI with limited liability and is wholly-owned by Vendor I. PEGL is the sole beneficial owner of the issued share capital of each of its subsidiaries, namely Panorama Distributions Company Limited (“PDL”) and Panorama Entertainment Company Limited (“PEC”). The principal activities of PDL is distribution of video products; and the principal activities of PEC is holding of film rights.

PW is a company incorporated in Hong Kong with limited liability and is wholly-owned by Vendor II. The principal activities of PW is holding of film rights. PCL is a company incorporated in Hong Kong with limited liability and is wholly owned by Vendor II. The principal activities of PCL is distribution of video products.

Details of the acquisition were disclosed in the announcement dated 10 August 2016.

The acquisition and involving the issue of consideration shares under specific mandate on 11 August 2016

On 11 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the “Purchaser”) and the Company entered into the Sale and Purchase Agreement with Mr. Fung Yu Hing Allan (the “Vendor I”), Mr. Wong Wing Kwong Kelvin (the “Vendor II”), Ingate International Company Limited, (the “Vendor III”), (Vendor I, Vendor II and Vendor III, collectively the “Vendors”), pursuant to which the Vendors agreed to sell and the Purchaser agreed to purchase in aggregate of 70,000 ordinary shares of Parkway Licensing Company Limited (“PLC”), of the issued share capital in PLC, representing approximately 70% in aggregate of the issued share capital of PLC. The considerations for the Acquisition is in the sum of HK\$7,000,000, which will be settled by the Purchaser by cash payable to the Vendors of HK\$1,000,000 and remaining HK\$6,000,000 by issue of an aggregate 8,275,861 consideration shares at the issue price of HK\$0.725 per consideration share of the Company in accordance with the terms and conditions of the Sale and Purchase Agreement.

Upon completion, PLC will become indirectly owned subsidiary of the Company. After completion of the acquisition, Vendor I still owns 15% of the issued share capital of PLC; Vendor II still owns 3% of the issued share capital of PLC and Vendor III still owns 12% of the issued share capital of PLC.

Vendor I is the founder of the Panorama Group, who set up the Panorama Group for an initial aim of distributing quality motion pictures in VHS and LD home video format in Hong Kong. Vendor I has been an experienced and famous film producer and businessman in Hong Kong and responsible for the Panorama Group’s overall strategic planning, formulation of corporate policies, overall management and acquisition of film rights.

Vendor II is the head of strategic development department and is responsible for overseeing the sales and marketing of the PLC. Vendor III is an investment holding company incorporated in Hong Kong with limited liability.

PLC is a company incorporated in Hong Kong with limited liability. The principal activities of PLC in general trading of movie and comics related toys and figures. Details of the acquisition were disclosed in the announcement dated 11 August 2016.

CAPITAL STRUCTURE

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

The acquisition of interests in HMV M&E Limited announced on 14 March 2016 and completed on 3 August 2016

On 14 March 2016, the Company entered into a sale and purchase agreement with Action Key Investments Limited (“Action Key”), one of the shareholders of HMV M&E Limited (“HMV M&E”), pursuant to which the Company acquired and Action Key disposed its shares, representing approximately 81.63% of the issued share capital of the HMV M&E at a consideration of HK\$408,150,000 which were satisfied by allotment and issue of 1,118,219,178 consideration shares to Action Key or its nominee at an issue price of HK\$0.365 per consideration share at completion (the “Acquisition I”).

On 1 April 2016, the Company entered into a sale and purchase agreement with WiL Fund I, L.P. ("WiL Fund"), the other shareholder of HMV M&E, pursuant to the Company acquired and WiL Fund disposed its shares, representing approximately 18.37% of the issued share capital of HMV M&E at a consideration of HK\$91,850,000 which were satisfied by allotment and issue of 251,643,835 consideration shares to WiL Fund at an issue price of HK\$0.365 per consideration share at completion (the "Acquisition I").

HMV M&E is the sole beneficial owner of the issued share capital of each of its subsidiaries, namely, HMV Marketing Limited ("HMV Marketing"), Simply Sino Limited ("Simply Sino"), Smiley Bee Limited ("Smiley Bee") and Linkenway Limited ("Linkenway") (the "Target Subsidiaries"). HMV M&E has no business activity other than being an investment holding company of its subsidiaries and injection of shareholder's loans to the target group ("including HMV M&E and Target Subsidiaries") (the "Target Group") for its business.

The Target Group is principally engaged in the entertainment and media business and other ancillary business including the operation of the retail stores under the brand "HMV".

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 trade marks 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 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\$3,000,000 to a third party independent from Action Key and its connected persons. Linkenway is an investment holding company and the holder of certain rights of an intellectual property. Details of the Acquisition I and II were disclosed in the announcements dated 14 March 2016, 1 April 2016 and the circular dated 24 June 2016 respectively.

The Acquisition I and Acquisition II were completed on 3 August 2016. 1,118,219,178 consideration shares were issued to the nominee of Action Key and 251,643,835 consideration shares were issued to WiL Fund on 3 August 2016 respectively.

The acquisition of approximately 4% of the issued share capital of Prime Focus World N.V. announced on 24 March 2016 and completed on 29 July 2016

On 24 March 2016, the Company entered into a sale and purchase agreement with AID Partners Visual Entertainment, L.P. ("AID"), the shareholder of Prime Focus World N.V. ("Prime Focus"), pursuant to which the Company acquired and AID disposed its shares, representing 4% of the issued share capital of Prime Focus at a consideration of US\$13,619,726, which were settled and discharged by the allotment and issue of 259,106,982 ordinary shares of the Company at the issue price of HK\$0.410 per ordinary share of the Company at completion.

Prime Focus is a subsidiary of Prime Focus Limited, a company incorporated in India and listed on the National Stock Exchange and Bombay Stock Exchange under the symbol PFOCUS and 532748. Prime Focus and its subsidiaries are the world's largest provider of value-added creative and technical services for 2D to 3D content conversion, visual effects ("VFX") and animation services to studios and production houses across the world. In addition to the highly successful 3D conversion business, Prime Focus also provides world-class VFX services to major studios. Details of the acquisition were disclosed in the announcement dated 24 March 2016 and the circular dated 29 June 2016.

The acquisition was completed on 29 July 2016 and 259,106,982 ordinary shares were issued to the nominee of AID on 29 July 2016.

EVENTS AFTER REPORTING PERIOD

The acquisition of the entire issued share capital of Anyplex Hong Kong Limited and involving the issue of consideration shares under specific mandate on 2 November 2016

On 2 November 2016, the Company entered into a Sale and Purchase Agreement (the “SPA”) with Anyplex Holding Limited (the “Vendor”), being the shareholder of Anyplex Hong Kong Limited (the “Target Company” and/or “Anyplex”), pursuant to which the Company intends to acquire and the Vendor intends to sell 100% of the issued share capital of the Target Company (the “Acquisition”). The total consideration of Acquisition is HK\$46,500,000, in which (i) HK\$5,500,000 shall be satisfied by payment of the refundable deposit; and (ii) HK\$41,000,000 payable by way of consideration shares to be allotted and issued by the Company, which shall be subject to the terms and conditions contained in the SPA.

The Target Company is one of the pioneer OTT (over-the-top) VOD operators in Greater China providing legitimate content as early as 2009 and is based in Hong Kong. The Target Company is serving the global Chinese community through partnership with leading Telco and mobile carriers in Hong Kong and Taiwan. It licensed up-to-date and all-time-hits movies from leading studios in Hollywood. Customers can register an Anyplex account and enjoy their personal theater anytime anywhere via multiple devices including smart phones, tablets, personal computers and smart TVs.

Details of the Acquisition were disclosed in the announcement dated 2 November 2016.

CONTINGENT LIABILITIES

On 20 October 2015, a new tenancy agreement was jointly entered into by Mark Glory International Enterprise Limited (“Mark Glory”), an indirectly wholly-owned subsidiary of the Company and Top Euro Limited (“Top Euro”), an indirect wholly-owned subsidiary of Easy Repay Finance & Investment Limited (stock code: 8079) with Wit Way Enterprises Limited in relation to the lease of the premises. The duration of the tenancy agreements is for two years commencing from 1 November 2015 to 31 October 2017 with a monthly rental of HK\$325,000 inclusive of management charges (equivalent to HK\$3,900,000 per annum), but exclusive of government rates and all other outgoings. The rent, government rates and all outgoings of the premises shall be paid by Mark Glory and Top Euro in equal shares.

If either party fails to fulfill their leasing obligations under the agreement, the other party will obligate to pay the other party's outstanding contingent rental liability amounting to HK\$1,950,000 per annum. The taking up of the contingent rental liability constitutes a provision of financial assistance under the GEM Listing Rules.

LITIGATION

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

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

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

Green Giant claims the principal amount of the Note of HK\$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The court has made an order in terms of the plaintiff's application is granted and final judgement is granted to the plaintiff as per its summons on 21 January 2016. The Company submitted the documents to commence the appeal and won the appeal on 13 July 2016. Green Giant and the Company be arranged to re-fix the hearing in future.

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

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

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

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

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

RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the Three-month Period together with the comparative unaudited figures for the corresponding period in 2015 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three months ended 30 September 2016

	Notes	Three months ended 30 September	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue	2	223,803	26,758
Cost of sales		(170,667)	(23,836)
Other income		2,499	402
Selling and distribution costs		(13,722)	(2,678)
Administrative expenses		(20,199)	(13,977)
Finance costs		(2,691)	(2,039)
Change in fair value of investments at fair value through profit or loss mandatorily measured at fair value		2,096	623
Share of results of associates		(295)	95
Share of results of a joint venture		1	5
Profit/(loss) before taxation		20,825	(14,647)
Taxation	3	-	-
Profit/(loss) for the period		20,825	(14,647)
Profit/(loss) for the period attributable to:			
Owners of the Company		19,892	(14,200)
Non-controlling interests		933	(447)
		20,825	(14,647)
Other comprehensive (loss)/income for the period			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		-	92
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of investments at fair value through other comprehensive income		(261)	(4,253)
Total other comprehensive loss for the period, net of tax		(261)	(4,161)
Total comprehensive income/(loss) for the period		20,564	(18,808)
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		19,631	(18,361)
Non-controlling interests		933	(447)
		20,564	(18,808)
Profit/(loss) per share (2015: Restated)	4		
Basic and Diluted		HK0.41 cents	HK(1.13) cents

NOTES:

1. Basis of Preparation and Significant Accounting Policies

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

The accounting policies adopted in preparing the unaudited consolidated financial statements for the three months ended 30 September 2016 are consistent with those followed in the annual report of the Company for the year ended 30 June 2016, except in relation to the new and revised standards, amendments and interpretations that affect the Company and its subsidiaries and are adopted for the first time for the preparation of current period's consolidated financial statements.

The condensed consolidated accounts have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

2. Revenue

	Three months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
An analysis of the Group's revenue for the period is as follows:		
Artiste management services and music production	39,208	11,662
Film and television programme production, distribution and licensing		
– production of films and television programmes and licensing of the corresponding rights	137,251	7,446
Interest income		
– income from money lending	2,997	646
Cinema operation income	10,435	7,004
HMV Business		
– Sales of goods	30,493	–
– Sales of food and beverage	3,326	–
– Concession stores income	93	–
Total	223,803	26,758

NOTES: (Continued)

3. Taxation

No provision for Hong Kong Profits Tax is made in the three months ended 30 September 2016 as the Group either has no assessable profits or has a statutory tax loss brought forward from previous years.

No provision for income tax in respect of operations in overseas has been made as the Group has either no assessable profits or has a statutory tax loss brought forward from previous years in the respective jurisdictions for both periods.

4. Profit/(loss) per Share

The calculation of the basic profit/(loss) per share is based on the profit for the Three-month Period attributable to owners of the Company of approximately HK\$19,892,000 (2015: loss of approximately HK\$14,200,000) and the weighted average number of 4,891,505,665 ordinary shares of the Company in issue during the Three-month Period (2015: 1,260,149,528 (restated)).

The calculation of the diluted profit/(loss) per share for the Three-month Period is based on the profit attributable to owners of the Company of approximately HK\$19,892,000 (2015: loss of approximately HK\$14,200,000) and the weighted average number of 4,910,247,298 ordinary shares for the purpose of diluted profit per share during the Three-month Period (2015: 1,260,149,528 (restated)).

5. Consolidated statement of change in equity

For the period ended 30 September 2016

	Attributable to owners of the Company							Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000		
At 1 July 2015	1,582	184,209	(69,433)	261,837	55	(100,233)	278,017	(614)	277,403
Total comprehensive loss for the period	-	-	(4,253)	-	92	(14,200)	(18,361)	(447)	(18,808)
Issue of share upon placing	8,000	192,000	-	-	-	-	200,000	-	200,000
Transaction cost attributable to issues of shares	-	(5,158)	-	-	-	-	(5,158)	-	(5,158)
At 30 September 2015	9,582	371,051	(73,686)	261,837	147	(114,433)	454,498	(1,061)	453,437
At 1 July 2016	38,328	342,305	(59,863)	-	(1,833)	(30,098)	288,839	1,762	290,601
Total comprehensive income for the period	-	-	(261)	-	-	19,892	19,631	933	20,564
Issue of share	16,289	1,708,572	-	-	-	-	1,724,861	-	1,724,861
Transaction cost attributable to issues of shares	-	(566)	-	-	-	-	(566)	-	(566)
At 30 September 2016	54,617	2,050,311	(60,124)	-	(1,833)	(10,206)	2,032,765	2,695	2,035,460

6. Comparative figures

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

DIVIDEND

The Board did not recommend the payment of dividend for the Three-month Period (2015: Nil).

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

As at 30 September 2016, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Mr. Shiu Stephen Junior	Beneficial owner	141,920	0%
Mr. Wu King Shiu, Kelvin (<i>note 1</i>)	Beneficiary owner	259,106,982	4.74%
Ms. Li Mau (<i>note 1</i>)	Family interest	259,106,982	4.74%

Note:

- AID Partners Urban Development Company Limited ("AID Partners") owns 259,106,982 shares. 60% of the issued share capital of AID Partners are held by Mr. Wu. Accordingly, Mr. Wu is deemed to be interested in the shares held by AID Partners. Ms. Li is the spouse of Mr. Wu, Ms. Li is also deemed to be interested in the shares held by AID Partners.

Save as disclosed above, as at 30 September 2016, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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

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

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

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

Save as disclosed below, so far as known to the Directors, as at 30 September 2016, the Directors were not aware of any other person (other than the Directors and chief executive of the Company as disclosed above) who had any interests or short position in the shares or underlying shares or debentures of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Name	No. of shares	Percentage
AID Treasure Investment Ltd (<i>Note</i>)	1,118,219,178 shares	20.47%

Note:

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

COMPETING INTERESTS

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

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

REVIEW OF FIRST QUARTERLY RESULTS

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

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

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

AUDIT COMMITTEE

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

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

CORPORATE GOVERNANCE

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

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2016 annual report of the Company.

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

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

Hong Kong, 10 November 2016

As at the date hereof, the Board comprises:

Executive Directors:

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

Non-executive Director:

Mr. Wu King Shiu, Kelvin

Independent Non-executive Directors:

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