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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 HMV Digital China Group 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.

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**HMV DIGITAL CHINA GROUP LIMITED**

**HMV 數碼中國集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8078)**

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO  
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF  
TIME EDGE LIMITED;  
(2) PROPOSED ISSUE OF CONVERTIBLE BOND UNDER  
SPECIFIC MANDATE;  
AND  
(3) NOTICE OF SGM**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders in respect of the Acquisition  
F.E. Corporate Finance Advisory Limited**

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

A letter from the Independent Board Committee is set out on page 18 of this circular and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 42 of 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 Tuesday, 25 April 2017 is set out on pages 47 to 49 of this circular. A form of proxy for the SGM 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.

10 April 2017

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## CHARACTERISTICS OF GEM

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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 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.

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## DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
“AID Partners Technology”	AID Partners Technology Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM of the Stock Exchange (stock code: 8088)
“Announcement”	the announcement of the Company dated 13 December 2016 in respect of, among others, the Acquisition and proposed issue of Convertible Bonds under Specific Mandate
“Board”	the board of Directors
“Bondholder”	the person who is for the time being the holder of the Convertible Bond
“Bonus Issue”	means the issue of 5,471,099,035 Shares as disclosed in the Bonus Issue Announcement;
“Bonus Issue Announcement”	means the announcement of the Company dated 15 February 2017 in respect of the Bonus Issue;
“Business Day(s)”	a day (other than Saturday, Sunday and a public holiday) on which banks are open for business in Hong Kong
“Company”	HMV Digital China Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition and transactions contemplated under the Sale and Purchase Agreement in accordance with its terms
“Completion Date”	the fifth Business Day immediately after fulfilment (or waiver) of the conditions precedent set out in the Sale and Purchase Agreement, or such other date as the Parties may agree
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Consideration”	the consideration of HK\$50,000,000 payable by the Purchaser to the Vendor for the Sale Share under the Sale and Purchase Agreement

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## DEFINITIONS

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“Conversion Price”	means HK\$0.313 (subject to adjustment as set out in the Convertible Bond); if any of the adjustment events as described in the Convertible Bond takes place on or before the Completion Date, the Conversion Price shall be adjusted according to the terms of the Convertible Bond immediately before issue of the Convertible Bond
“Conversion Rights”	the rights to convert the principal amount (or any part thereof) of the Convertible Bond into Conversion Shares
“Conversion Shares”	the 159,744,408 Shares (subject to adjustment) to be issued by the Company upon exercise by the Bondholder of the Conversion Rights
“Convertible Bond”	the convertible bond in the principal amount of HK\$50,000,000 to be issued by the Company and to be subscribed by the Vendor (or its nominee which shall be a wholly-owned subsidiary or an associate of the Vendor) with the benefit of and subject to the provisions of the conditions set out in the instrument of the convertible bond
“Director(s)”	the director(s) of the Company
“Encumbrance(s)”	(a) any option, right to acquire, right of pre-emption, mortgage, charge, pledge, lien, hypothecation, title creation, right of set off, counterclaim, trust arrangement or other security interest or arrangement or restriction of any kind; (b) any arrangement whereby any rights are subordinated to any rights of any third party; and (c) the interest of a vendor or lessor under any conditional sale agreement, lease, hire purchase agreement or other title retention arrangement
“F. E. Corporate Finance” or “Independent Financial Adviser”	F. E. Corporate Finance Advisory Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GM Placing”	the placing of up to 748,800,000 Shares under general mandate granted to the Directors by the Shareholders as disclosed in the Placing Announcement
“Group”	the Company and its subsidiaries from time to time

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## DEFINITIONS

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“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Shareholders”	Shareholders other than (i) AID Partners Technology and its associates and (ii) those who are materially interested in the Sale and Purchase Agreement
“Interest Payment Shares”	the 31,948,881 Shares (subject to adjustment) to be issued by the Company upon Maturity Date for payment of interest accrued on the outstanding principal amount of the Convertible Bond
“Latest Practicable Date”	6 April 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Long Stop Date”	30 April 2017 (or such other date as the Parties may agree in writing)
“Mystery Apex”	Mystery Apex Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Target Company immediately prior to Completion
“Party(ies)”	the party(ies) to the Sale and Purchase Agreement
“Placing Announcement”	the announcement of the Company dated 3 March 2017 in respect of, inter alia, the GM Placing and the SM Placing
“Purchaser”	Sunny On Corporation Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 13 December 2016 (as supplemented and amended by the supplemental agreements dated 28 February 2017 and 23 March 2017) entered into between the Purchaser and the Vendor in relation to the Acquisition
“Sale Share”	1 ordinary share of the Target Company, representing 100% of its entire issued share capital immediately prior to Completion
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, approve the relevant matters mentioned in this circular

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## DEFINITIONS

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“Share(s)”	means the ordinary share(s) of HK\$0.01 each in the share capital of the Company existing on the date of the Convertible Bond and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith and all other (if any) shares or stock resulting from any sub-division, consolidation or re-classification thereof
“Shareholder(s)”	the holder(s) of the Shares
“SM Placing”	the placing of up to 2,995,200,000 Shares under specific mandate to allot and issue new Shares to be sought from the Shareholders at the special general meeting of the Company as disclosed in the Placing Announcement
“Soliton Alpha”	Soliton Alpha Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Target Company immediately prior to Completion
“Soliton Beta”	Soliton Beta Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Target Company immediately prior to Completion
“Soliton (HK)”	Soliton (HK) Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Target Company immediately prior to Completion
“Specific Mandate”	a specific mandate to be granted to the Directors by the Shareholders at the SGM to issue the Convertible Bonds
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	has the meaning ascribed to it under the GEM Listing Rules
“Target Company”	Time Edge Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Vendor
“Target Group”	the Target Company and its subsidiaries, namely Mystery Apex, Soliton (HK), Soliton Alpha and Soliton Beta
“Vendor”	Honour Best Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“%”	per cent

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## LETTER FROM THE BOARD

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**HMV DIGITAL CHINA GROUP LIMITED**

**HMV 數碼中國集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8078)**

*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

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Non-executive Director:*

Mr. Wu King Shiu, Kelvin

*Head office and principal place of  
business in Hong Kong:*

7th Floor

Zung Fu Industrial Building

1067 King's Road

Quarry Bay, Hong Kong

*Independent Non-executive Directors:*

Mr. Chan Chi Ho

Mr. Kam Tik Lun

Mr. Tam Kwok Ming, Banny

10 April 2017

*To the Shareholders,*

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO  
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF  
TIME EDGE LIMITED;  
(2) PROPOSED ISSUE OF CONVERTIBLE BOND UNDER  
SPECIFIC MANDATE;  
AND  
(3) NOTICE OF SGM**

### **INTRODUCTION**

Reference is made to the Announcement where the Company proposed to seek Shareholders' approval in respect of, among others, the Sale and Purchase Agreement and the transactions contemplated thereunder and the proposed issue of the Convertible Bond under the Specific Mandate.

The purpose of this circular is to provide Shareholders with, inter alia, (i) further details of the Sale and Purchase Agreement; (ii) further details of the Specific Mandate; and (iii) a notice convening the SGM.



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## LETTER FROM THE BOARD

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### THE SALE AND PURCHASE AGREEMENT

Principal terms of the Sale and Purchase Agreement are set out below:

**Date:** 13 December 2016 (after trading hours)

**Parties:**

- (1) Sunny On Corporation Limited, as the Purchaser;
- (2) Honour Best Holdings Limited, as the Vendor; and
- (3) HMV Digital China Group Limited, as the listed company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is a wholly-owned subsidiary of AID Partners Technology, which is interested in approximately 19.36% of the issued share capital of the Company as at the date of this circular and is a substantial shareholder of the Company. Accordingly, the Vendor is a connected person of the Company within the meaning of the GEM Listing Rules.

**Assets to be acquired**

The Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, representing 100% of the issued share capital of the Target Company, free from all Encumbrances, and together with all rights attached thereto and all dividends and distributions declared, paid or made in respect thereof on or after the Completion Date.

**Consideration**

The Consideration shall be HK\$50,000,000 which shall be satisfied by the issue of the Convertible Bond by the Company to the Vendor (or its nominee which shall be a wholly-owned subsidiary or an associate of the Vendor) upon Completion.

**The basis of the Consideration**

The Consideration was determined after arm's length negotiations between the Parties by reference to the historical business performance, the effort and capital spent by the Seller in improving the business of the Target Group, the future prospects of the Target Group as well as the market comparable of similar types of transactions.

When determining the Consideration, the Board took into account the improvement in the Target Group's historical business performance as demonstrated by significantly narrowing the losses for the three financial years ended 31 December 2016. It illustrates not only that the Target Group has a proven business model with stable and visible revenue stream, but also that the Target Group has a solid foundation for future growth on the back of the growing prevalence of digital music consumption.

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## LETTER FROM THE BOARD

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During the year 2016, the Vendor contributed approximately HK\$19,000,000 on business development and brand building by hosting various events and promotions to raise the brand awareness of the Target Group as well as enhancing the music contents by increasing the number of music labels partnering with and available in the Target Group. The Vendor has also launched an upgraded mobile application with better user experience and user interface for both iOS and android platforms, thereby providing the Target Group with the necessary capability and competitiveness to further develop its business. In addition to being one of the first music streaming platforms partnering with telecom companies, in 2016, the Target Group has repositioned itself to focus and expand its subscribers' base in the open market, which, in the opinion of the Directors, is one of the most important factors in the future success of music streaming platforms in Hong Kong and to lessen the reliance on telecom companies in expanding the number of subscribers. In this regard, the Directors believe that HMV, backed by its offline resources and brand heritage, is in a favorable position to compete with other music streaming platforms. Despite the slight decrease in the revenue of the Target Group in 2016 and the net liability of the Target Group of approximately HK\$1 million as at 31 December 2016 which were mainly contributed by the above factors which basically were the built up and revamp cost of the Target Group as well as the cost of repositioning of the Target Group, the Target Group is now well positioned to further develop and expand its business and operation.

From the industry perspective, the Board has considered the recent growth of three music streaming service providers globally, namely (i) Pandora reported a growth of subscription revenue from approximately US\$188.46 million in 2014 to approximately US\$220.57 million in 2015 according to its annual report for the year ended 31 December 2015; (ii) Spotify announced a growth in the number of paid subscribers from 20 million in late June 2015 to 30 million in March 2016 according to Billboard on 21 March 2016; and (iii) Tidal's revenue rose from approximately US\$36.2 million in 2014 to approximately US\$47 million in 2015 according to Billboard on 13 September 2016. With the global expansion in the online music streaming industry and the rising acceptance of music streaming by the public, the Company is confident in the potential and the future prospect of the industry, hence the Target Group. The Board also believes that the Target Group can benefit the Group by completing the digital front of its traditional music retail business as well as its other entertainment and media businesses, hence the Acquisition is in the interest of the Company and its shareholders as a whole.

In determining the Consideration, the Board took into account the best available information globally in the same industry, namely Pandora and Spotify, and it is believed that the range of the price to revenue was approximately 2.4 time to approximately 5.2 times according to their latest transaction information publicly available. Although there are no direct comparables in Hong Kong, the Board also made reference to a total of three companies which are principally engaged in the media and entertainment business, namely, Neway Group Holdings Limited (stock code: 0055), Mei Ah Entertainment Group Limited (stock code: 391) and A8 New Media Group Limited (stock code: 800), whose shares are listed on the Stock Exchange. To the best of the knowledge of the Board, such listed companies' main revenue is attributable to various entertainment activities and/or media distributions, of which the Board considered is the best comparable to that of the business of the Target Group available in Hong Kong. The Board noted that the range of price to revenue ratio of the aforementioned three companies was approximately 0.3 times to approximately 22.2 times. Based on the Consideration payable by the Group for the Acquisition of approximately HK\$50 million and the revenue of the Target Group of approximately HK\$11.35 million for the year ended 31 December 2015, the implied price to revenue ratio of the Target Group is therefore approximately 4.4 times and thus is lower than that of the three

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## LETTER FROM THE BOARD

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aforementioned companies. Given there are no other better matrix available for comparison purpose, the Board is of the view that price to revenue is the best available ratio that can be used to compare the Consideration to those similar companies in the industry. Although the size of the Target Group is smaller than those companies that are used as comparison, the Board considers that it is fair and reasonable to use such information for comparison and for illustration purpose given the non-traditional nature of the industry the Target Group is involved in and that taking into accounts these factors, the Board is of the view that the Consideration is fair and reasonable and that the Acquisition is in the interest of the Company and its shareholders as a whole.

The initial acquisition cost of the Target Company by the Vendor was HK\$2,928,294. As at 31 December 2016, the Vendor has provided approximately HK\$19 million to the Target Group for purpose of business development of the Target Group. Also, on or before Completion, the Target Company will capitalise an amount of approximately HK\$29 million due to the Vendor by way of capitalisation. Taking into account of the above, the Directors are of the view that the Consideration of HK\$50 million is fair and reasonable for the Company.

### **Conditions precedent**

Completion shall be subject to and conditional upon the fulfilment (or waiver) of the following conditions:

- (1) the completion of the due diligence by the Purchaser to the reasonable satisfaction of the Purchaser;
- (2) the passing of the resolution by the Shareholders at the SGM approving the Sale and Purchase Agreement and the transactions contemplated hereunder;
- (3) the listing committee of the Stock Exchange granting the listing of, and permission to deal in the Conversion Shares and the Interest Payment Shares; and
- (4) none of the warranties made by the Vendor under and other provisions of the Sale and Purchase Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or (in respect of any of the aforesaid warranties) is misleading or untrue in any material respect.

As at the date of this circular, none of the conditions have been fulfilled.

The Purchaser may waive the conditions precedent (1) and (4) above at any time by notice in writing to the Vendor.

In the event that the above conditions precedent shall not be fulfilled or waived by the Long Stop Date, then the Vendor and the Purchaser shall not be bound to proceed with the transactions contemplated under the Sale and Purchase Agreement. The Sale and Purchase Agreement shall cease to be of any effect (save as the confidentiality and other general provisions contained therein and any claims arising out of any antecedent breach thereof).

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## LETTER FROM THE BOARD

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### Completion

Upon fulfilment (or if applicable, the waiver) of the conditions precedent above and subject to the terms contained in the Sale and Purchase Agreement, Completion shall take place on the Completion Date.

Immediately after Completion, the Group will own the entire issued share capital of the Target Company and the financial results of the Target Company will be consolidated into the consolidated financial statements of the Group in accordance with the Group's accounting policies.

### PRINCIPAL TERMS OF THE CONVERTIBLE BOND

Principal amount:	HK\$50,000,000.00
Interest:	5% per annum coupon rate of the principal amount of the Convertible Bond from time to time outstanding.
Interest period:	The interest shall be accrued and payable on the maturity date or the date on which all of the Convertible Bond are being converted, whichever is earlier. The Company is entitled to pay the interest by way of issue of the Interest Payment Shares to the Bondholder at the Conversion Price (subject to adjustment), which the Board will determine after taking into account of the financial position and cash flow status of the Group.
Conversion price:	HK\$0.313 per Share (subject to adjustment)
Maturity date:	The fourth anniversary of the date of issue of the Convertible Bond
Transferability:	If the Convertible Bond (or any part thereof) is to be assigned or transferred to a connected person of the Company (save and except the subsidiary, associate or holding company of the Bondholder) such assignment and/or transfer of the Convertible Bond shall be made subject to the GEM Listing Rules and all applicable laws and regulations; and the approval of the Shareholders in a general meeting if so required and in compliance with the GEM Listing Rules if such assignment and/or transfer is proposed to be made to a connected person of the Company.
Default payment:	If the Company defaults in the payment of any sum due and payable under the Convertible Bond, the Company shall pay interest on such sum to the Bondholder from the due date to the date of actual payment in full calculated at the rate of 8% per annum.

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## LETTER FROM THE BOARD

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- Redemption: The Company shall redeem the Convertible Bond or the then outstanding balance thereof on the maturity date.
- Conversion: Provided that the conversion shall not cause the percentage of issued Shares held by the public to fall below the percentage permitted under the GEM Listing Rules, the Bondholder shall have the right during the conversion period, to require the Company to convert the whole or any part (in authorized denominations) of the principal amount outstanding under the Convertible Bond into Shares at the Conversion Price subject to adjustment in the following manner:
- (i) In respect of Tranche 1 Conversion Period, the Bondholder shall have the right to convert the whole or any part of the outstanding principal amount of HK\$25,000,000 of the Convertible Bond;
  - (ii) In respect of Tranche 2 Conversion Period, the Bondholder shall have the right to convert the whole or any part of the outstanding principal amount of HK\$37,500,000 of the Convertible Bond; and
  - (iii) In respect of Tranche 3 Conversion Period, the Bondholder shall have the right to convert the remaining of the outstanding principal amount of the Convertible Bond
- Conversion period:
- (i) Tranche 1 Conversion Period: 24 months after the issue date of the Convertible Bond up to 4:00 p.m. (Hong Kong time) on the Business Day immediately preceding the maturity date;
  - (ii) Tranche 2 Conversion Period: 30 months after the issue date of the Convertible Bond up to 4:00 p.m. (Hong Kong time) on the Business Day immediately preceding the maturity date; and
  - (iii) Tranche 3 Conversion Period: 36 months after the issue date of the Convertible Bond up to 4:00 p.m. (Hong Kong time) on the Business Day immediately preceding the maturity date.
- Conversion shares: The Shares to be issued by the Company upon exercise by the Bondholder of the rights to convert the principal amount (or any part thereof) of the Convertible Bond into Shares.

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## LETTER FROM THE BOARD

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- Ranking: The Conversion Shares issued upon exercise of conversion rights shall be fully paid, free from any liens, charges, encumbrances, pre-emptive rights or other third party rights, and rank pari passu in all respects with all other existing Shares existing on the date of conversion.
- Adjustments: The Conversion Price of the Convertible Bond is subject to adjustments in following events:
- (a) If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount;
  - (b) If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund) (e.g. bonus issue of shares by the Company);
  - (c) If and whenever the Company shall make any capital distribution (except where, and to the extent that the Conversion Price falls to be adjusted under paragraph (b) above) to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries;
  - (d) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than 95% of the market price at the date of the announcement of the terms of the offer or grant;
  - (e) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 95% of the market price at the date of the announcement of the terms of issue of such securities;

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## LETTER FROM THE BOARD

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- (f) If and whenever the rights of conversion or exchange or subscription attached to any such securities as mentioned in sub-paragraph (e) are modified so that the total effective consideration per Share initially receivable for such securities shall be less than 95% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription;
- (g) If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 95% of the market price at the date of the announcement of the terms of such issue;
- (h) If and whenever the Company shall issue Shares for the acquisition of any asset at a total effective consideration per Share which is less than 95% of the market price at the date of the announcement of the terms of such issue;
- (i) If the Company or the Bondholder determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances (whether or not referred to in sub-paragraphs (a) to (g) above) (even if the relevant event or circumstance is specifically excluded in the Conditions from the operation of sub-paragraphs (a) to (g) above), or that an adjustment should be made in a manner other than in accordance with sub-paragraphs (a) to (g) above, or that an adjustment should not be made (even if the relevant event or circumstance is specifically provided for in sub-paragraphs (a) to (g) above), or that the effective date for the relevant adjustment should be a date other than that mentioned in sub-paragraphs (a) to (g) above.

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## LETTER FROM THE BOARD

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Reference is made to the announcement of the Company dated 3 March 2017 in relation to the GM Placing and SM Placing and the announcement of the Company dated 21 March 2017 in relation to the completion of the GM Placing. On 23 March 2017, the Purchaser and the Vendor have entered into a supplemental agreement, pursuant to which the parties agreed that if any of the adjustment events as described in the Convertible Bond take place on or before the Completion Date, the Conversion Price shall be adjusted according to the terms of the Convertible Bond immediately before the issue of the Convertible Bond. Accordingly, the Conversion Price as of the Latest Practicable Date, being HK\$0.313, has taken into account adjustments required upon completion of the Bonus Issue and the GM Placing. Conversion Price (after taking into account the completion of the Bonus Issue and the GM Placing) represents:

- a discount of approximately 18.70% to the closing price of HK\$0.385 per Share as adjusted to take into account the Bonus Issue and as quoted on the Stock Exchange as at the date of the Sale and Purchase Agreement;
- a premium of approximately 2.29% to the average closing price of HK\$0.306 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the Latest Practicable Date; and
- a discount of approximately 0.95% to the average closing price of HK\$0.316 per Share as quoted on the Stock Exchange for the last ten trading days immediately preceding the Latest Practicable Date.

The Board is of the view that the terms of the Convertible Bonds were determined under normal commercial terms and that the Conversion Price as of the Latest Practicable Date is fair and reasonable under the current market conditions and the historical trading price of the Shares.

Upon completion of the SM Placing, the Conversion Price will be further adjusted pursuant to the terms of the Convertible Bond. Further announcement will be made in this respect as and when appropriate.

Assuming the maximum number of SM Placing Shares is placed, it is likely that the Conversion Price would be further adjusted to HK\$0.249 (after taking into account the completion of the Bonus Issue, the GM Placing and the expected SM Placing), which will represent:

- a discount of approximately 35.32% to the closing price of HK\$0.385 per Share as adjusted to take into account the Bonus Issue and as quoted on the Stock Exchange as at the date of the Sale and Purchase Agreement;
- a discount of approximately 18.36% to the closing price of HK\$0.305 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a discount of approximately 18.63% to the average closing price of HK\$0.306 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the Latest Practicable Date; and
- a discount of approximately 21.20% to the average closing price of HK\$0.316 per Share as quoted on the Stock Exchange for the last ten trading days immediately preceding the Latest Practicable Date.

The Board is of the view that the further adjusted Conversion Price (after taking into account the completion of the Bonus Issue, the GM Placing and the expected SM Placing) is fair and reasonable under the current market conditions and the historical trading price of the Shares.



## LETTER FROM THE BOARD

### EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company (i) as at the date of this circular (ii) immediately after Completion and conversion of the Convertible Bond:

Shareholders	As at the date of this circular		Immediately after Completion and conversion of the Convertible Bond		Immediately after Completion and conversion of the Convertible Bond and issue of the Interest Payment Shares		Assuming the maximum number of SM Placing Shares is placed, immediately after Completion and conversion of the Convertible Bond		Assuming the maximum number of SM Placing Shares is placed, immediately after Completion and conversion of the Convertible Bond and issue of the Interest Payment Shares	
	No. of Shares	Shareholding	No. of Shares	Shareholding	No. of Shares	Shareholding	No. of Shares	Shareholding	No. of Shares	Shareholding
		(Approx. %)		(Approx. %)		(Approx. %)		(Approx. %)		(Approx. %)
Vendor	-	-	159,744,408	1.36	191,693,289	1.63	200,803,212	1.36	240,963,854	1.63
Shiu Stephen Junior (note 1)	283,840	-	283,840	-	283,840	-	283,840	-	283,840	-
AID Partners Urban Development Company Limited (note 2)	518,213,964	4.49	518,213,964	4.43	518,213,964	4.41	518,213,964	3.51	518,213,964	3.51
AID Treasure Investment Limited (note 3)	2,236,438,356	19.36	2,236,438,356	19.10	2,236,438,356	19.05	2,236,438,356	15.17	2,236,438,356	15.12
Other public Shareholders	8,795,447,520	76.15	8,795,447,520	75.11	8,795,447,520	74.91	11,790,647,520	79.96	11,790,647,520	79.74
	<b>11,550,383,680</b>	<b>100</b>	<b>11,710,128,088</b>	<b>100</b>	<b>11,742,076,969</b>	<b>100</b>	<b>14,746,386,892</b>	<b>100.00</b>	<b>14,786,547,534</b>	<b>100.00</b>

Note:

- Mr. Shiu Stephen Junior is the Chairman and executive Director of the Company.
- AID Partners Urban Development Company Limited, a company that is owned as to 60% by Mr. Wu King Shiu, Kelvin, who is a non-executive Director of the Company.
- AID Treasure Investment Limited, a wholly-owned subsidiary of AID Partners Technology.

### INFORMATION OF THE PARTIES

The Company is a company incorporated in Bermuda with limited liability, and 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, artiste management, money lending activities and acquisitions of corporate bonds, preference shares as well as investment in securities.

The Vendor is a company incorporated in the British Virgin Islands with limited liability, and is an investment holding company. The Target Company is a company incorporated in the British Virgin Islands with limited liability, and the Target Group is principally engaged in the provision of online music streaming service to public through mobile apps.

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## LETTER FROM THE BOARD

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As at 31 December 2016, the Target Group has a net liability of approximately HK\$1 million of which approximately HK\$21.9 million (which comprise of HK\$19 million contributions made by the Vendor and HK\$2.9 million acquisition costs) was the amount due to the Vendor. As the Target Group will capitalise all amounts due to the Vendor before Completion. Also, Vendor will provide sufficient working capital for the Target Group as at Completion, it is expected that the book value of the Target Group as at Completion will be no less than HK\$30 million (which will comprise of further capital contribution to be made by the Vendor to ensure the Target Group has sufficient working capital). Set out below is the combined financial information of the Target Group prepared as if the Target Company had been the holding company of the Target Group as at 1 January 2014:

	For the year ended 31 December 2014 <i>(unaudited)</i> <i>(HK\$'000)</i>	For the year ended 31 December 2015 <i>(unaudited)</i> <i>(HK\$'000)</i>	For the year ended 31 December 2016 <i>(unaudited)</i> <i>(HK\$'000)</i>
Revenue	9,009	11,347	9,246
Net loss before tax	16,881	8,826	3,244
Net loss after tax	16,881	8,826	3,244

### REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target Group is principally engaged in online music streaming. The Acquisition will broaden the Group's scope of business in the entertainment industry by covering online music streaming and entertainment in platforms including mobile phones. The Group can also take advantage of the various licences already granted to members of the Target Group from major music labels. The Target Group is operating iOS and Android platforms and mobile application called "HMV Play" which in total have approximately 16,000 users as at 31 December 2016.

The Directors are of the view that the Acquisition is conducted on normal commercial terms and are in the ordinary and usual course of business, and 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.

### LISTING RULES IMPLICATIONS

The Vendor is a wholly-owned subsidiary of AID Partners Technology, which is interested in approximately 19.36% of the issued share capital of the Company as at the date of this circular and is a substantial shareholder of the Company. Accordingly, the Vendor is a connected person of the Company within the meaning of the GEM Listing Rules, and the Sale and Purchase Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As all the applicable ratios exceed 5% but are below 25% and the total consideration is not less than HK\$10,000,000, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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## LETTER FROM THE BOARD

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As all the applicable ratios under Chapter 19 of the GEM Listing Rules exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules and is subject to notification and announcement requirements but exempt from the circular, Shareholders' approval and accountant's report requirements under the GEM Listing Rules.

Mr. Ho Gilbert Chi Hang, an executive Director, and Mr. Wu King Shiu, Kelvin, a non-executive Director, are also directors of AID Partners Technology, and are required to abstain from voting on the board resolution approving the Acquisition. Ms. Li Mau, an executive Director and Co-chairman of the Company, is the wife of Mr. Wu King Shiu, Kelvin, is also required to abstain from voting on the board resolution approving the Acquisition. Save as disclosed above, none of the Directors have a material interest in the Acquisition and accordingly, are not required to abstain from voting on the board resolution approving the Acquisition.

The Independent Board Committee has been established to advise the Independent Shareholders and F. E. Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, save for AID Partners Technology, AID Partners Urban Development Company Limited and AID Treasure Investment Limited, no Shareholders or any of their respective associates have any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and the issue of Convertible Bond under Special Mandate. As such, save for AID Partners Technology, AID Partners Urban Development Company Limited and AID Treasure Investment Limited, no Shareholders would be required to abstain from voting in favour of the resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder and the issue of Convertible Bond under Special Mandate.

### ISSUE OF THE CONVERTIBLE BOND

The Convertible Bond will be issued under the Specific Mandate to be sought at the SGM. Applications will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Conversion Shares and the Interest Payment Shares.

### SGM

The SGM will be held at 7/F, Zung Fu Industrial Building, 1067 King's Road, Quarry Bay, Hong Kong at 4:00 p.m. on Tuesday, 25 April 2017 for the purpose of considering and, if thought fit, approving the ordinary resolutions in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder and the issue of the Convertible Bond under the Specific Mandate.

The notice convening the SGM is set out on pages 47 to 49 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.

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## LETTER FROM THE BOARD

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.

### RECOMMENDATION

The Board (including the independent non-executive Directors), having taken into account the advice of Independent Financial Adviser, considers that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond under the Specific Mandate, are fair and reasonable so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed for approving the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond under the Specific Mandate, at the SGM.

The Independent Board Committee comprising the independent non-executive Directors, namely, Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Tam Kwok Ming, Banny has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Convertible Bond under the Specific Mandate.

Your attention is drawn to the letter of advice of the Independent Board Committee set out on page 18 of this circular.

Your attention is also drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 19 to 42 of this circular.

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

Yours faithfully,  
By Order of the Board  
**HMV DIGITAL CHINA GROUP LIMITED**  
**Shiu Stephen Junior**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**HMV DIGITAL CHINA GROUP LIMITED**

**HMV 數碼中國集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8078)**

10 April 2017

*To the Independent Shareholders*

Dear Sirs or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO  
THE ACQUISITION OF TIME EDGE LIMITED  
AND PROPOSED ISSUE OF CONVERTIBLE BOND UNDER  
SPECIFIC MANDATE**

We refer to the circular dated 10 April 2017 issued by the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the “Letter from the Board” in the Circular.

We wish to draw your attention to the “Letter from the Board”, as set out on pages 5 to 17 of the Circular, and the letter of advice from F. E. Corporate Finance to the Independent Board Committee and the Independent Shareholders, as set out on pages 19 to 42 of the Circular. Having considered the terms of the Acquisition, and the advice from F. E. Corporate Finance and the principal factors and reasons taken into consideration by F. E. Corporate Finance in arriving at its advice, we are of the opinion that the terms of the Sale and Purchase Agreement (including the Consideration and the issue of Convertible Bond) and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition.

Yours faithfully  
For and on behalf of  
Independent Board Committee

**Mr. Kam Tik Lun**  
*Independent non-executive  
Director*

**Mr. Chan Chi Ho**  
*Independent non-executive  
Director*

**Mr. Tam Kwok Ming, Banny**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from F.E. Corporate Finance Advisory Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, for the purpose of inclusion in this circular, to the Independent Board Committee and the Independent Shareholders regarding the Acquisition.*

10 April 2017

*To: the Independent Board Committee and the Independent Shareholders*

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO  
THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF  
TIME EDGE LIMITED; AND  
(2) PROPOSED ISSUE OF CONVERTIBLE BOND  
UNDER SPECIFIC MANDATE**

Dear Sir/Madam,

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the acquisition of the entire issued share capital of Time Edge Limited involving the issue of Convertible Bond under Specific Mandate, details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 10 April 2017 (the “**Circular**”) issued to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 13 December 2016 (after trading hours), the Board announced that the Purchaser (a wholly-owned subsidiary of the Company), the Vendor and the Company entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share, representing 100% of the issued share capital of the Target Company, at the total consideration of HK\$50,000,000, which shall be satisfied by the issue of the Convertible Bond by the Company to the Vendor (or its nominee which shall be a wholly-owned subsidiary or an associate of the Vendor) upon Completion, subject to the terms and conditions contained in the Sale and Purchase Agreement.

The Vendor is a wholly-owned subsidiary of AID Partners Technology, which is interested in approximately 19.36% of the issued share capital of the Company as at the Latest Practicable Date and is a substantial shareholder of the Company. Accordingly, the Vendor is a connected person of the Company within the meaning of the GEM Listing Rules, and the Sale and Purchase Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As all the applicable ratios exceed 5% but are below 25% and the total consideration is not less than HK\$10,000,000, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As all the applicable ratios under Chapter 19 of the GEM Listing Rules exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules and is subject to the notification and announcement requirements but exempt from the circular, Shareholders' approval and accountant's report requirements under the GEM Listing Rules.

Mr. Ho Gilbert Chi Hang, an executive Director, and Mr. Wu King Shiu, Kelvin, a non-executive Director, are also directors of AID Partners Technology, and are required to abstain from voting on the board resolution approving the Acquisition. Ms. Li Mau, an executive Director and co-chairman of the Company, is the wife of Mr. Wu King Shiu, Kelvin, is also required to abstain from voting on the board resolution approving the Acquisition. Save as disclosed above, none of the Directors have a material interest in the Acquisition and accordingly, are not required to abstain from voting on the board resolution approving the Acquisition.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, save for AID Partners Technology, AID Partners Urban Development Company Limited and AID Treasure Investment Limited, no Shareholders or any of their respective associates have any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and the issue of Convertible Bond under Specific Mandate. As such, save for AID Partners Technology, AID Partners Urban Development Company Limited and AID Treasure Investment Limited, no Shareholders would be required to abstain from voting in favour of the resolution approving the Sale and Purchase Agreement and the transactions contemplated thereunder and the issue of Convertible Bond under Specific Mandate.

The Independent Board Committee, comprising Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Tam Kwok Ming, Banny, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Group; (iii) fair and reasonable as far as the Independent Shareholders are concerned; and (iv) in the interests of the Company and the Shareholders as a whole; and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

### **BASIS OF OUR ADVICE**

In formulating our opinion, advice and recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided by the Directors and the management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made and up to the date of this letter. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and considered that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided, and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification on the information supplied.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that there are no other facts the omission of which would make any statement in the Circular misleading.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and advice in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

#### I. Background of and reasons for the Acquisition

##### (a) *Business overview of the Group*

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

Set out below is the financial information of the Group for the three years ended 30 June 2016 (“FY2016”), details of which are set out in the annual reports of Company for FY2016.

	For the year ended 30 June		
	2016	2015	2014
	HK\$'000	HK\$'000	HK\$'000
	(Audited)	(Audited)	(Audited)
<b>Revenue</b>	228,228	111,176	199,717
<b>Loss before tax</b>	(184,270)	(96,594)	(15,672)
<b>Loss after tax</b>	(181,139)	(96,630)	(15,672)

The Group recorded a total revenue of approximately HK\$228.2 million for FY2016, compared with approximately HK\$111.2 million for the year ended 30 June 2015. For FY2016, the Group recorded a loss before tax of approximately HK\$184.3 million, while the Group recorded a loss before tax of approximately HK\$96.6 million for the year ended 30 June 2015. As disclosed in the annual report of the Company for FY2016, the loss was mainly attributable to impairment loss on film rights and administrative expenses for FY2016.

References are made to the announcements of the Company dated 14 March 2016, 1 April 2016, 7 April 2016, 28 April 2016, 20 May 2016 and 20 July 2016, and the circular of the Company dated 24 June 2016 in relation to, among others, a major transaction in relation to acquisition of interests in HMV M&E Limited (“**HMV M&E**”) from Action Key Investments Limited and a major transaction in relation to the acquisition of interests in HMV M&E from WiL Fund I, L.P. HMV M&E is the sole beneficial owner of the issued share capital of HMV Marketing Limited, which 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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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for the purpose of conducting businesses in the PRC, Hong Kong and Singapore. According to the management of the Company, as part of the expansion of the Group's business in the music industry, since the completion of acquisition of HMV M&E in August 2016, the Group has been capitalising on the "HMV" brand and continues to build an integrated online and offline business ecology in the entertainment and lifestyle sectors. We are of the view that the Acquisition is consistent with such strategy and represents an important building block for the Group to further develop and streamline its entertainment business.

We understand from the Company that the Acquisition will further consolidate the market presence of "HMV" in Hong Kong and the PRC, which will be able to generate a synergistic effect with its existing lines of business, together with the addition of the Target Group's business. Reference is made to Placing Announcement dated 3 March 2017 in relation to the GM Placing and the SM Placing. It was stated that after the completion of such fund raising activities, part of the net proceeds from the SM Placing of approximately HK\$60 million would be applied towards the construction of HMV shopping malls in the PRC. Taking into consideration the above business plan, we consider that the Acquisition together with the Group's retail network may further enhance the brand value of "HMV". We also understand that the Company plans to leverage on the high quality streaming services of the Target Group to compete against other market participants. The provision of lossless music streaming service may enable the Group to provide even more lively and energetic music content to subscribers.

Upon our enquiry, the Target Group commenced its business cooperation with major telecommunication service providers since July in 2012. For the year ended 31 December 2015, the Target Group derived approximately 96% of its revenue from its collaboration with certain major telecommunication service providers. We consider that with the extensive marketing and sales network of those major telecommunication service providers, such one of the first cooperation will help enhance the Group's exposure and market recognition in the entertainment business.

Upon our discussion with the management of the Company, the Directors consider the Acquisition is necessary for the integration of the online and offline entertainment platforms. We are of the view that the Acquisition offers the Group a cost-effective and efficient way to tap into the online music streaming industry without spending considerable amount of time and costs to sign up entertainers, to build up a catalogue of tracks and to launch marketing campaigns to set up a sizeable entertainment group. In addition, without capitalising on the brand value of "HMV" of the Target Group, the Company may experience difficulties in establishing cooperation relationships with various music labels and telecommunication service providers. We understand from the Company that the Group can take advantage of the various licences already granted to the Target Group from major music labels and quickly develop the online music streaming business.

Based on the abovementioned, we concur with the Directors' view that the entering into of the Sale and Purchase Agreement is fair and reasonable as (i) a synergy effect will be created and the Acquisition allows the Group to further develop its entertainment business; (ii) the Acquisition allows the Group to capitalise on the "HMV" brand and strengthen its own brand management strategies; and (iii) the strategic investment in the Target Group is in line with the principal business activities of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**(b) *Business prospects of the Target Group***

With reference to the statistics of the cultural and creative industries in Hong Kong published by the Census and Statistics Department, Hong Kong in June 2016, the value added of the cultural and creative industries in Hong Kong was approximately HK\$109.7 billion in 2014, increasing at an average annual growth rate of 8.6% in nominal terms from 2005.

As stated in the annual report of the Company for FY2016, the Group would strengthen and continue its strategy in revitalizing the “HMV” brand into a lifestyle brand by enhancing the product mix and creating an integrated entertainment platform in order to establish an integrated online and offline business ecology in the entertainment and lifestyle sector. Upon our enquiry, following the Completion, the Target Group may require further capital for the initial development. We understand from the Company that with the established cooperation relationships with various music labels and the subsequent development of the Target Group, the investment cost and the development cost of the Target Group will be substantially reduced. The Company will continue to monitor the business development of the Target Group, and subject to the financial performance of the Target Group, the Company intends to devote resources to the Target Group to cater for its business growth, which may increase the service capacity of the Target Group, which in turn may increase the overall profits of the Target Group.

As at the Latest Practicable Date, there were 33 entertainers under the Group and its associate companies. We understand from Company that following the Completion, the established online music streaming platform of the Target Group will offer its entertainers an easier way onto the service and thereby creating a synergy effect for the Group’s online music streaming business and its artiste management service. We consider that the Acquisition would further enhance the exposure and popularity of its entertainers and promote the market recognition of the Group.

In conclusion of the above, we understand that the Group is well set to capture the growth in online music streaming industry in Hong Kong and the PRC. We consider that the Group is generally optimistic about the long-term development of the Group’s music and entertainment business.

**(c) *Information on the Target Group***

The Target Company is a company incorporated in the British Virgin Islands with limited liability, and the Target Group is principally engaged in the provision of online music streaming service to public through mobile apps.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is the combined financial information of the Target Group prepared as if the Target Company had been the holding company of the Target Group as at 1 January 2014:

	For the year ended 31 December		
	2016	2015	2014
	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)
<b>Revenue</b>	9,246	11,347	9,009
<b>Net loss before taxation</b>	3,244	8,826	16,881
<b>Net loss after taxation</b>	3,244	8,826	16,881

We understand from the Company that upon Completion, the Company intends to allocate additional resources to the Target Group to strengthen business operations under the “HVM” brand of the Group as a whole. Based on the above, we are of the view that the Acquisition will provide a more favourable business environment and further growth potential to the Target Group.

## II. Principal terms of the Sale and Purchase Agreement

The following is our analysis and view on the major terms of the Sale and Purchase Agreement:

### (a) *Consideration*

The Consideration shall be HK\$50,000,000 which shall be satisfied by the issue of the Convertible Bond by the Company to the Vendor (or its nominee which shall be a wholly-owned subsidiary or an associate of the Vendor) upon Completion.

The Consideration was determined after arm’s length negotiations between the Parties by reference to the historical business performance and future prospects of the Target Group as well as market comparable of similar types of transactions.

In assessing whether the Consideration is fair and reasonable, we have considered the factors as set out below:

### *The ratio of the subscription revenue to the paid subscribers of existing music streaming service providers*

As the Consideration has been arrived at after considering, among other things, market comparable of similar types of transactions, we compared the valuation of the Target Company with those of the similar companies engaging in online music streaming service in order to assess the fairness and reasonableness of the Consideration. We note that the financial information of these service providers are not readily available to the public. Nevertheless, based on the public information available in the market, we have identified, to the best of our knowledge and effort and as far as we are aware of, 3 existing music streaming service providers (“**Comparable Service Providers**”) for comparison.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Target Group mainly generates its revenue from the subscription fee of online music streaming service paid by subscribers. The ratio of subscription revenue to paid subscribers is the amount of subscription revenue generated on a per paid-subscriber basis. It provides a general idea on the respective relative value of each paid subscriber after factoring into the different scales of the music streaming business of the Target Group and the Comparable Service Providers. Accordingly, we consider that such ratio is a relevant and applicable metric to measure the contribution of each of their paid subscriber to their subscription revenue. We have also taken into account various factors that will affect the music streaming business of the Target Group and the Comparable Service Providers. Despite the difference in the scale of music streaming business conducted between the Target Group and the Comparable Service Providers, we consider that their business performance are generally affected by similar general market trend, and the development of digital music and entertainment industry, thus we consider the comparison is relevant, fair and representative.

We have divided the subscription revenue by the number of paid subscribers to arrive at the respective subscription revenue to paid subscribers ratio of the Target Group and the Comparable Service Providers, and have taken into consideration the exchange rate implication by standardising the performance in terms of HK\$ as at 13 December 2016. The table below summaries our relevant findings:

<b>Comparable Service Providers</b>	<b>Subscription revenue for the financial year of 2015 (approximately) HK\$'000,000</b>	<b>Number of paid subscribers (approximately) '000</b>	<b>Subscription revenue to paid subscribers ratio (approximately)</b>
Spotify	14,340 <sup>1,5</sup>	30,000 <sup>1</sup>	478.00
Pandora	1,711 <sup>2,6</sup>	3,900 <sup>2</sup>	438.72
Tidal	340 <sup>3,7</sup>	3,000 <sup>3</sup>	113.33
<b>Maximum</b>			<b>478.00</b>
<b>Minimum</b>			<b>113.33</b>
<b>Average</b>			<b>343.35</b>
<b>Target Group</b>	<b>11</b>	<b>25<sup>4</sup></b>	<b>440.00</b>

*Notes:*

1. Spotify reported a subscription revenue of approximately EUR1.74 billion and approximately 30 million paid subscribers according to Wall Street Journal article on 23 May 2016.
2. Pandora reported a subscription revenue of approximately US\$220,571 thousand and approximately 3.9 million paid subscribers according to its annual report for the year ended 31 December 2015.
3. Tidal reported a revenue of SEK402 million according to Billboard article on 13 September 2016, and approximately 3 million paid subscribers according to Billboard article on 29 March 2016.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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4. Upon our enquiry, the number of paid subscribers of the Target Group was 24,865 as at 31 December 2015.
5. The conversions of EUR into HK\$ are based on the exchange rate of EUR1 to HK\$8.2415 as displayed on Bloomberg on 13 December 2016 for the purpose of illustration only.
6. The conversions of USD into HK\$ are based on the exchange rate of USD1 to HK\$7.7559 as displayed on Bloomberg on 13 December 2016 for the purpose of illustration only.
7. The conversions of SEK into HK\$ are based on the exchange rate of SEK1 to HK\$0.8462 as displayed on Bloomberg on 13 December 2016 for the purpose of illustration only.

As illustrated in the above table, the average subscription revenue to paid subscribers ratio of the Comparable Service Providers was approximately 343.35 times and with a range of 113.33 times to 478.00 times. The subscription revenue to paid subscribers ratio of the Target Group was approximately 440.00 times, which is at the higher end of the range of the subscription revenue to the paid subscribers ratio of the Comparable Service Providers. After considering and balancing, among other things, (i) the ratio of the subscription revenue to the paid subscribers; (ii) the established cooperation relationships with various music labels and telecommunication service providers; and (iii) substantially the same business model with a global reach, we consider the Consideration to be overall fair and reasonable.

### *Price to revenue ratio of listed issuers in Hong Kong which engage in the media and entertainment business*

We have also conducted research on Bloomberg on a best efforts basis in respect of listed companies engaging in entertainment service. To the best of our knowledge and effort and as far as we are aware of, we have identified a total of 18 comparable companies (“**Comparable Issuers**”) to assess the fairness and reasonableness of the Consideration, which are principally engaged in the media and entertainment business. The Comparable Issuers have been identified based on the following criteria: (i) under the category of “Entertainment Content” as classified by the Bloomberg Industry Classification System; and (ii) listed on the exchange in Hong Kong. We note that the scope of services conducted by these Comparable Issuers and the services provided by the Target Group are not completely identical. Nevertheless, we are of the view that the traditional entertainment services and the new emerged entertainment service share and/or compete in the largely identical market and a similar group of customers in the market. Accordingly, we consider the Comparable Issuers are fair and representative samples.

Having considered that (i) the Target Company is an apps-based service company; (ii) its business performance is less dependent on its tangible assets; and (iii) the Target Company was in a loss making position for the year ended 31 December 2016, we are of the view that the price to revenue ratio instead of the price to book ratio or price to earnings ratio is applicable for assessing the fairness and reasonableness of the Consideration. We have compared the price to revenue ratio of the Comparable Issuers with that of the Target Group. Set out below is the price to revenue ratio of those Comparable Issuers as at the Latest Practicable Date.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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<b>Company Name</b>	<b>Stock Code</b>	<b>Principal business</b>	<b>Market capitalisation as at the Latest Practicable Date</b> <i>(approximately)</i> <i>HK\$'000</i>	<b>Revenue for the latest financial year extracted from the latest published annual results</b> <i>(approximately)</i> <i>HK\$'000</i>	<b>Price to revenue ratio</b> <i>(approximately)</i>
Nine Express Limited	9	Film distribution and licensing, film processing, rental of property, property and hotel development, and investment in centralised heat supply	864,907	23,047	37.53
See Corporation Limited	491	Film and TV programme production and investment, cinema operation, event production and investment, music production and others (including artiste and model management), Investment in securities	964,002	87,772	10.98

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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<b>Company Name</b>	<b>Stock Code</b>	<b>Principal business</b>	<b>Market capitalisation as at the Latest Practicable Date</b> <i>(approximately)</i> <i>HK\$'000</i>	<b>Revenue for the latest financial year extracted from the latest published annual results</b> <i>(approximately)</i> <i>HK\$'000</i>	<b>Price to revenue ratio</b> <i>(approximately)</i>
Nan Hai Corporation Limited	680	Culture and media services, property development corporate IT application services, new media and innovative business	19,220,750	8,915,579	2.16
Universe International Financial Holdings Limited	1046	securities brokerage and margin financing, money lending, leasing of investment properties, securities investment, video distribution, film distribution and exhibition, licensing and sub-licensing of film rights, provision of training and coaching services, trading, wholesaling and retailing of optical, watches and jewellery products in Hong Kong and the PRC	1,083,694	161,462	6.71

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Company Name	Stock Code	Principal business	Market capitalisation as at the Latest Practicable Date <i>(approximately)</i> <i>HK\$'000</i>	Revenue for the latest financial year extracted from the latest published annual results <i>(approximately)</i> <i>HK\$'000</i>	Price to revenue ratio <i>(approximately)</i>
Alibaba Pictures Group Limited	1060	Operation of an internet-powered platform which spans entertainment content promotion and distribution, serving consumers, studios, and cinema operators	35,328,386	1,016,569 <sup>1</sup>	34.75
i-CABLE Communications Limited	1097	Provision of Pay-TV program services, Internet services and interactive multimedia services	1,146,562	1,406,368	0.82
Hong Kong Television Network Limited	1137	Provision of multimedia business, including but not limited to the online shopping mall operation, multimedia and drama production and other related services	1,164,984	187,071	6.23
HKBN Limited	1310	Provision of fixed telecommunications network services and international telecommunications services	8,719,130	2,784,007	3.13



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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Company Name	Stock Code	Principal business	Market capitalisation as at the Latest Practicable Date <i>(approximately)</i> <i>HK\$'000</i>	Revenue for the latest financial year extracted from the latest published annual results <i>(approximately)</i> <i>HK\$'000</i>	Price to revenue ratio <i>(approximately)</i>
Pegasus Entertainment Holdings Limited	1326	Film and television series production, distribution and licensing of film rights, film exhibition, postproduction, and advertising, marketing and publication	609,969	446,381	1.37
China Animation Characters Company Limited	1566	Trading of animation derivative products, licensing of animation characters, establishment and operation of indoor theme park and multimedia animation entertainment	2,953,399	544,880	5.42

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Company Name	Stock Code	Principal business	Market capitalisation as at the Latest Practicable Date <i>(approximately)</i> <i>HK\$'000</i>	Revenue for the latest financial year extracted from the latest published annual results <i>(approximately)</i> <i>HK\$'000</i>	Price to revenue ratio <i>(approximately)</i>
SMI Culture & Travel Group Holdings Limited	2366	Provision of cross-media services including investment in the production and distribution of films and television programmes and related services	745,279	548,429	1.36
Media Asia Group Holdings Limited	8075	Film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects	672,858	520,443	1.29

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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<b>Company Name</b>	<b>Stock Code</b>	<b>Principal business</b>	<b>Market capitalisation as at the Latest Practicable Date</b> <i>(approximately)</i> <i>HK\$'000</i>	<b>Revenue for the latest financial year extracted from the latest published annual results</b> <i>(approximately)</i> <i>HK\$'000</i>	<b>Price to revenue ratio</b> <i>(approximately)</i>
HMV Digital China Group Limited	8078	Artiste management services and music production, distribution and production of films and television programmes, money lending, operation of cinemas, securities and bonds investment	3,522,867	228,228	15.44
Neo Telemedia Limited	8167	Provision of transmedia advertising services, sale of telecommunication products and services and operation of peer-to-peer lending platform business	3,144,519	2,513,845	1.25
National Arts Entertainment and Culture Group Limited	8228	Film production and distribution, the provision of management services to artistes, event coordination and operations of film studio and hotel, and provision of travel related products	763,692	57,827	13.21

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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Company Name	Stock Code	Principal business	Market capitalisation as at the Latest Practicable Date <i>(approximately)</i> <i>HK\$'000</i>	Revenue for the latest financial year extracted from the latest published annual results <i>(approximately)</i> <i>HK\$'000</i>	Price to revenue ratio <i>(approximately)</i>
Global Digital Creations Holdings Limited	8271	Computer graphic creation and production, films and television programme production, computer graphic training courses and property development	554,163	146,759	3.78
China Digital Video Holdings Limited	8280	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical services in the PRC	911,400	732,691 <sup>1</sup>	1.24
Creative China Holdings Limited	8368	Provision of program production services, event organisation services, mobile live broadcasting services and entertainment contents on demand system services in the PRC	297,514	88,145 <sup>1</sup>	3.38
<b>Maximum</b>					<b>37.53</b>
<b>Minimum</b>					<b>0.82</b>
<b>Average</b>					<b>8.34</b>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company Name	Stock Code	Principal business	Market capitalisation as at the Latest Practicable Date <i>(approximately)</i> <i>HK\$'000</i>	Revenue for the latest financial year extracted from the latest published annual results <i>(approximately)</i> <i>HK\$'000</i>	Price to revenue ratio <i>(approximately)</i>
<b>Target Group</b>			<b>50,000<sup>2</sup></b>	<b>9,246</b>	<b>5.41</b>

*Source: the website of the Stock Exchange and the annual reports/annual results of the respective companies*

*Notes:*

1. The conversions of RMB into HK\$ are based on the exchange rate of RMB1 to HK\$1.1238 as displayed on Bloomberg on 13 December 2016 for the purpose of illustration only.
2. The Consideration in the amount of HK\$50,000,000 is regarded as the market capitalisation of the Target Group.

We noted from the above table that the average price to revenue ratio as represented by the Comparable Issuers was approximately 8.34 times and with a range of 0.82 times to 37.53 times. Based on the Consideration of approximately HK\$50 million, the implied price to revenue ratio of the Target Group is approximately 5.41 times, and is lower than the average of that of the Comparable Issuers.

In view of the limitation of the abovementioned analysis, we have conducted further research on companies listed in Hong Kong and have identified A8 New Media Group Limited which was involved in the provision of digital entertainment services and property investment in the PRC. We consider that such services to be similar in nature to the online music streaming service provided by the Target Group.

Based on our research, its market capitalisation was approximately HK\$1,494,176,019 as at the Latest Practicable Date, and its revenue was approximately HK\$165,518,883 after the translation of RMB into HK\$ at an exchange rate of RMB1 to HK\$1.1238 as displayed on Bloomberg on 13 December 2016. We note that its price to revenue ratio is approximately 9.03 times and is higher than that of the Target Group.

A lower price to revenue ratio indicates that an investor is effectively paying less for each unit of the revenue generated by a company. We consider that the relatively low implied price to revenue ratio of the Target Group represents a good investment opportunity for the Company to tap into the online music streaming industry.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Business performance of the Target Group*

We have reviewed the unaudited monthly sale figures of the Target Group for the period from July 2015 to December 2016 provided by the Company. We note that the conversion rate of the free subscribers to paid subscribers has been steadily increasing since May in 2016 at an average growth rate of approximately 58% per month. As disclosed in the “Letter from the Board” in the Circular, the Target Group was in a loss making position in each of the three years ended 31 December 2016. We understand from the Company that due to fact that the music streaming business of the Target Group was in an initial development stage, considerable amount of capital was invested in the development of the user interface and the mobile application as well as music label licensing fees, and thus the Target Group incurred a loss during such period. Nevertheless, we noted a continued improvement in the Target Group’s historical business performance. Despite a drop in the revenue of the Target Group in 2016, based on the management accounts of the Target Group provided by the Company, the net loss of the Target Group for the three years ended 31 December 2016 improved gradually. In light of the improvement in its loss-making position in past financial years, we consider that the Target Group demonstrated a business model with improving bottom line performance. Details of the financial figures are set out under section headed “Principal factors and reasons considered – I. Background of and reasons for the Acquisition – Information on the Target Group”.

As at 13 December 2016, the Target Group has a net liability of approximately HK\$1 million, which based on our enquiry, was mainly attributable to the shareholders’ loans used for the purpose of initial development of its business. Upon our enquiry, we understand from the Company that the Vendor had invested a sum of approximately HK\$19 million on business development and brand building during the year 2016. The Vendor has also launched an upgraded mobile application with better user experience and user interface for both iOS and android platforms. Based on our understanding with the Company, such investments mainly involved music label license cost and settlement of the accounts payable which were not capitalised in the management accounts of the Target Group. Nevertheless, these items are essential and are the building blocks of a complete online music streaming platform. We also understand from the Company that a portion of these investments are non-recurring and as a result of the development of the online music streaming platform, the performance of the Target Company has shown a significant improvement in 2016.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Further, upon our enquiry, we understand from the Company that the Vendor will invest a sum of approximately HK\$9 million into the Target Group as general working capital upon Completion. We consider that the above investment can strengthen the capital base of the Target Group to cater for future development.

We are of the view that upon Completion, based on the strategic plans to be implemented by the Company and additional resources to be allocated to the development of the businesses related to the “HVM” brand by the Company, the growth potential in the Target Group may be further exerted and a more favourable business environment may be created for the enlarged Group as a whole.

Taking into account (i) the continuously improving business performance of the Target Group for the last three years in terms of loss reduction; and (ii) the prospects of the business of the Target Group, we concur with the view of the Directors that the Consideration under the Acquisition is fair and reasonable.

**(b) *Principal terms of the Convertible Bond***

Set forth below are our analysis and view on the principal terms of the Convertible Bond:

***Conversion Price***

Pursuant to the Sale and Purchase Agreement dated 13 December 2016 and the terms of the Acquisition, the original conversion price of the Convertible Bond was HK\$0.653 per conversion share. On 23 March 2017, the Purchaser and the Vendor entered into a supplemental sale and purchase agreement, pursuant to which the Conversion Price was amended to HK\$0.313 per Conversion Share. Immediately before the issue of the Convertible Bond, the Conversion Price shall be subject to adjustment if any adjustment events contained in the bond instrument of the Convertible Bonds take place on or before the Completion Date. The Conversion Price of HK\$0.313 represents:

- (i) a discount of approximately 18.70% to the closing price of HK\$0.385 per Share (after adjustment as per bonus issue) as quoted on the Stock Exchange as at the date of the Sale and Purchase Agreement;
- (ii) a premium of approximately 2.29% to the average closing price of HK\$0.306 per Share as quote on the Stock Exchange for the last five trading days immediately preceding the Latest Practicable Date;
- (iii) a discount of approximately 0.95% to the average closing price of HK\$0.316 per Share as quote on the Stock Exchange for the last ten trading days immediately preceding the Latest Practicable Date;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the “Letter from the Board” in the Circular, upon completion of the SM Placing, the Conversion Price will be further adjusted pursuant to the terms of the Convertible Bond.

To assess the fairness and reasonableness of the Conversion Price, we have compared the Conversion Price with the historical trading price of the Shares in the past 12 months prior to the entering into of the Sales and Purchase Agreement. The chart below shows the daily closing price of the Shares as quoted on the Stock Exchange versus the Conversion Price for the period commencing from 14 December 2015 up to and including 12 December 2016 (the “**Review Period**”), being the 12-month period prior to the date of the Sale and Purchase Agreement:



*Source: the website of the Stock Exchange*

During the Review Period, the closing price ranged from a minimum of HK\$0.165 to a maximum of HK\$0.535 per Share, with an average of approximately HK\$0.3548 per Share. Accordingly, the Conversion Price represents a discount of approximately 11.78% to the average closing price for the Review Period.

We have also identified, to the best of our knowledge and as far as we are aware of, 11 issue of convertible bonds/notes by listed issuers in Hong Kong as consideration for acquisition to independent third parties/connected persons, which are exhaustive samples from 14 December 2015 to 13 December 2016 (the “**CB Comparables**”), being the recent twelve months period prior to and including the date of Sale and Purchase Agreement. We note that the business, operation and prospects of the Group are not the same as the CB Comparables. However, based on the above criteria and as far as we are aware of in our research, the CB Comparables have been selected exhaustively, and we consider the CB Comparables to be a general reference of the recent market trends and terms of the acquisitions involving issue of convertible bonds as consideration. Accordingly, we consider that the CB Comparables are fair and representative samples.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The table below summarises our relevant findings:

Date of announcement	Company name	Stock code	Interest Rate  (% p.a.)	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to/on the date of announcement/ agreement  (Approximate %)	Conversion terms  (Number of years)	Dilution effect upon full conversion of the convertible bonds  (Approximate %)
14 December 2015	China 3D Digital Entertainment Limited <sup>1</sup>	8078	0	(11.07)	1.2 <sup>2</sup>	0.49
18 December 2015	HC INTERNATIONAL, INC.	2280	0	112.77	2.0 <sup>3</sup>	0.7
21 December 2015	China Public Procurement Limited	1094	0	0.00	3.0	Excluded <sup>5</sup>
23 December 2015	Great Harvest Maeta Group Holdings Limited	3683	0	(5.52)	5.0	6.69
27 January 2016	China Success Finance Group Holdings Limited	3623	3	40.79	2.5	Excluded <sup>5</sup>
25 February 2016	Chinese Strategic Holdings Limited	8089	0	(45.65)	3.5	18.24
17 March 2016	Sheen Tai Holdings Group Company Limited	1335	0	(19.10)	2.0	14.04
31 March 2016	Beijing Development (Hong Kong) Limited <sup>4</sup>	154	0	(33.53)	5.0	8,245
11 October 2016	China E-Learning Group Limited	8055	N/A	(19.32)	N/A	10.15
26 October 2016	Prosperity International Holdings (H.K.) Limited	803	5	5.63	3.0	Excluded <sup>5</sup>
28 November 2016	China Soft Power Technology Holdings Limited	139	0	0.00	2.0	4.07

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Date of announcement	Company name	Stock code	Interest Rate (% p.a.)	Premium/(Discount) of the conversion price over/(to) closing price per share on the last trading day prior to/on the date of announcement/ agreement (Approximate %)	Conversion terms (Number of years)	Dilution effect upon full conversion of the convertible bonds (Approximate %)
Maximum			5.0	112.77	5.0	18.24
Minimum			0.0	(45.65)	1.2	0.49
Average			0.8	2.27	2.92	7.83
The Company			5.0	(18.70)	4.0	1.04

*Notes:*

1. The English name of the Company has been changed from “China 3D Digital Entertainment Limited” to “HMV Digital China Group Limited”.
2. The conversion term of 1.2 years is the approximate average of the tranche 1 conversion period and the tranche 2 conversion period.
3. The conversion term of 2 years is the average of the conversions terms of the convertible bonds to be issued.
4. The English name of the company has been changed from “Beijing Development (Hong Kong) Limited” to “Beijing Enterprises Environment Group Limited”.
5. The CB Comparables involving issue of consideration shares and convertible bonds are excluded to avoid misleading presentation. The remaining CB Comparables (the “**Applicable CB Comparables**”) are applicable for the analysis.

With reference to the above table, the conversion prices of the CB Comparables ranged from a discount of approximately 45.65% to a premium of approximately 112.77% with an average premium of approximately 2.27% over the respective closing price per share on the last trading day prior to/on the date of the announcement/agreement in relation to the respective issue. As such, the discount of the Conversion Price to closing price per Share on the date of Sale and Purchase Agreement of 18.70% is at the lower end of the aforementioned market range of the CB Comparables. Having considered the comparison among the conversion prices and the historical daily closing prices of the shares as set out above, we are of the view that the Conversion Price is fair and reasonable so far as the Independent Shareholders are concerned.

According to the “Letter from the Board”, assuming the maximum number of SM Placing Shares is placed, it is likely that the Conversion Price would be further adjusted to HK\$0.249 (after taking into account the completion of the Bonus Issue, the GM Placing and the expected SM Placing), which will represent:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (i) a discount of approximately 35.32% to the closing price of HK\$0.385 per Share as adjusted to take into account the Bonus Issue and as quoted on the Stock Exchange as at the date of the Sale and Purchase Agreement;
- (ii) a discount of approximately 18.36% to the closing price of HK\$0.305 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (iii) a discount of approximately 18.63% to the average closing price of HK\$0.306 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the Latest Practicable Date; and
- (iv) a discount of approximately 21.20% to the average closing price of HK\$0.316 per Share as quoted on the Stock Exchange for the last ten trading days immediately preceding the Latest Practicable Date.

Assuming the maximum number of SM Placing Shares is placed, the discount of the conversion price of HK\$0.249 (after taking into account the completion of the Bonus Issue, the GM Placing and the expected SM Placing) (the “**Adjusted Conversion Price**”) to closing price per share on the Latest Practicable Date of 18.36% is similar to the discount of the Conversion Price to closing price per Share on the date of Sale and Purchase Agreement of 18.70%. Both of the Conversion Price and the Adjusted Conversion Price are within the aforementioned market range of the CB Comparables. In addition, the dilution effect on the shareholding of 1.04% (as detailed in the section headed “III. Possible dilution effect on the shareholding interests of the public Shareholders”) is not significant compared to the average dilution effect on the shareholding of the Applicable CB Comparables, being approximately 7.83% and such dilution effect is less than the majority of those of the Applicable CB Comparables. Accordingly, we are of the view that such conversion price is fair and reasonable. As at the Latest Practicable Date, the completion of the SM Placing has not yet taken place.

### ***Interest rate***

The interest rates of the CB Comparables range from nil to 5.0% per annum, with an average of approximately 0.8% per annum. The Convertible Bonds bears interest of 5.0% per annum, which is at the higher end of the range of the interest rates of the CB Comparables. After considering and balancing, among other things, (i) the interest rate; (ii) the discount of the Conversion Price to the market price which is within the range of that of the CB Comparables; and (iii) the Company’s flexibility to settle the interest of the Convertible Bond by way of issue of the Interest Payment Shares to reduce cash outflow of the Company, we consider the interest terms of the Convertible Bond to be overall fair and reasonable.

### ***Conversion term***

The terms to maturity of the CB Comparables range from approximately 1.2 years to 5.0 years. We note that the maturity term of the Convertible Bonds of 4 years is within the range of that of the CB Comparables.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(c) *Conditions precedent*

Pursuant to the Sale and Purchase Agreement, Completion shall be subject to and conditional upon:

- (1) the completion of the due diligence by the Purchaser to the reasonable satisfaction of the Purchaser;
- (2) the passing of the resolution by the Shareholders at the SGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (3) the listing committee of the Stock Exchange granting the listing of, and permission to deal in the Conversion Shares and the Interest Payment Shares;
- (4) none of the warranties made by the Vendor under and other provisions of the Sale and Purchase Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or (in respect of any of the aforesaid warranties) is misleading or untrue in any material respect.

The Purchaser may waive the conditions precedent (1) and (4) above at any time by notice in writing to the Vendor.

In the event that the above conditions precedent shall not be fulfilled or waived by the Long Stop Date, then the Vendor and the Purchaser shall not be bound to proceed with the transactions contemplated under the Sale and Purchase Agreement and the Sale and Purchase Agreement shall cease to be of any effect (save for the confidentiality and other general provisions contained therein and any claims arising out of any antecedent breach thereof).

As the conditions precedent to the Sale and Purchase Agreement are similar to those in the market, we consider the conditions precedent to the Sale and Purchase Agreement are in line with market terms.

### **III. Possible dilution effect on the shareholding interests of the public Shareholders**

With reference to the table as set out under the section headed “Effect of the Acquisition on the Shareholding Structure of the Company” in the “Letter from the Board”, the shareholding interests of the public Shareholders in the Company would be diluted by (i) approximately 1.04% as a result of the allotment and issue of the Conversion Shares upon full exercise of conversion rights attaching to the Convertible Bond at the Conversion Price of HK\$0.313 per Conversion Share; and (ii) approximately 1.24% as a result of the allotment and issue of the Conversion Share upon full exercise of conversion rights attaching to the Convertible Bond at the Conversion Price of HK\$0.313 per Conversion Share and the issue of Interest Payment Shares at the Conversion Price of HK\$0.313 per Interest Payment Share. In this regard, taking into account (i) the reasons for and possible benefits of the Acquisition; (ii) the terms of the Sale and Purchase Agreement being fair and reasonable; (iii) the issue of the Convertible Bond

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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and/or the Interest Payment Shares to settle Consideration and/or the interest accrued would enable the Group to preserve its internal resources for future business development; and (iv) the dilution effect on the shareholding being not significant, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders is acceptable.

### RECOMMENDATION

Having taken into account the principal factors and reasons referred to above, we are of the opinion that the Acquisition is (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Group; (iii) fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iv) in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend that the Independent Shareholders and the Independent Board Committee advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the upcoming SGM to approve the Acquisition and the transactions contemplated under the Sale and Purchase Agreement.

Yours faithfully,  
For and on behalf of  
**F.E. Corporate Finance Advisory Limited**  
**Ginny Ho**  
*Responsible Officer*

## 1. RESPONSIBILITY STATEMENTS

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 herein or this document misleading.

## 2. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2016, the date to which the latest published audited accounts of the Company were made up.

## 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or terminable by the employer within 1 year without payment of any compensation (other than statutory compensation)).

## 4. DISCLOSURE OF INTERESTS

### (a) Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

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

#### Long positions in shares of the Company

Name of Director	Capacity/Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Mr. Shiu Stephen Junior	Beneficial owner	283,840	0%
Mr. Wu King Shiu, Kelvin (note 1)	Beneficial owner	518,213,964	4.49%
Ms. Li Mau (note 1)	Family interest	518,213,964	4.49%

*Note:*

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

Save as disclosed above, as at the Latest Practicable Date, 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).

**(b) 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 six months ended 31 December 2016.

**(c) 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 the Latest Practicable Date, 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	Approximate percentage holding
AID Treasure Investment Ltd ( <i>Note</i> )	2,236,438,356	19.36%

*Note:*

AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Partners Technology.

**5. GENERAL**

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 30 June 2016, (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries;
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group;
- (c) 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.
- (d) **POTENTIAL COMPETITION FROM HMV HONG KONG LIMITED**

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

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



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

Save as disclosed above 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.

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.

## 6. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinions or advices which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
F. E. Corporate Finance Advisory Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any asset which had been, since 30 June 2016, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, the above expert was not interested in any Share or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

**7. 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:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Sale and Purchase Agreement;
- (c) the annual report of the Company for the financial year ended 30 June 2016;
- (d) the first quarterly report of the Company for the three months ended 30 September 2016;
- (e) the interim report of the Company for the six months ended 31 December 2016;
- (f) the letter from the Independent Financial Adviser; and
- (g) this circular.

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## NOTICE OF SGM

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### HMV DIGITAL CHINA GROUP LIMITED

### HMV 數碼中國集團有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8078)**

NOTICE IS HEREBY GIVEN that a special general meeting (“**Meeting**”) of HMV Digital China Group Limited (the “**Company**”) will be held at 7/F, Zung Fu Industrial Building, 1067 King’s Road, Quarry Bay, Hong Kong at 4:00 p.m. on Tuesday, 25 April 2017 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 13 December 2016 (the “**Sale and Purchase Agreement**”) entered into between Sunny On Corporation Limited (the “**Purchaser**”), Honour Best Holdings Limited (the “**Vendor**”) and the Company in relation to the acquisition of 1 ordinary share (the “**Sales Share**”) of Time Edge Limited (the “**Target Company**”), representing its entire issued share capital, at the total consideration of HK\$50,000,000 (the “**Consideration**”) (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), from the Vendor to the Purchaser, pursuant to which the Consideration shall be satisfied by the issue of the Convertible Bond (as defined below) by the Company to the Vendor (or its nominee which shall be a wholly-owned subsidiary or an associate of the Vendor), be and are hereby approved, confirmed and ratified;
- (b) the terms and conditions of the instrument of the convertible bond (the “**Convertible Bond Instrument**”) to be entered into between the Company and the Vendor in relation to the Convertible Bond in the principal amount of HK\$50,000,000 to be issued by the Company (the “**Convertible Bond**”) under the Specific Mandate (as defined below), 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, pursuant to which the Company has conditionally agreed to issue and the Vendor has conditionally agreed to subscribe for the Convertible Bond which is convertible into shares of the Company (the “**Conversion Shares**”) at the conversion price of HK\$0.313 per share (subject to adjustment) be and are hereby approved, confirmed and ratified;

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## NOTICE OF SGM

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- (c) the grant of specific mandate (“**Specific Mandate**”) granted to the directors (the “**Directors**”) of the Company to issue the Convertible Bond and to issue and allot the Conversion Shares and the Interest Payment Shares (as defined in the circular of the Company dated 10 April 2017) to the Vendor pursuant to the Sale and Purchase Agreement and the Convertible Bond Instrument be and is hereby approved, confirmed and ratified. The Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
- (d) any one Director be and is/are hereby authorised for and on behalf of the Company to do all such acts and things and execute all such documents which he/she in his/her absolute discretion consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bond to the Vendor.”

On behalf of the Board  
**HMV DIGITAL CHINA GROUP LIMITED**  
**Shiu Stephen Junior**  
*Chairman*

Hong Kong, 10 April 2017

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

*Head office and principal place of business  
in Hong Kong:*  
7/F, 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.

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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), Ms. Li Mau (Co-Chairman), Mr. Sun Lap Key, Christopher, Mr. Lee Wing Ho, Albert, and Mr. Ho Gilbert Chi Hang as executive Directors; Mr. Wu King Shiu, Kelvin as non-executive director; Mr. Chan Chi Ho, Mr. Kam Tik Lun and Mr. Tam Kwok Ming, Banny as independent non-executive Directors.