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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)

**CLARIFICATION AND SUPPLEMENTAL ANNOUNCEMENT –
DISCLOSEABLE TRANSACTION
IN RELATION TO THE DISPOSAL OF
THE ENTIRE ISSUED SHARE CAPITAL OF
THE TARGET COMPANY**

Reference is made to the announcement of the Company dated 25 March 2019 (the “**Announcement**”). Unless otherwise provided, capitalized terms used herein shall have the same meanings as defined in the Announcement.

INTRODUCTION

On 25 March 2019, the Vendor, the Company and the New Purchaser entered into the Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the New Purchaser has conditionally agreed to acquire, the Sale Shares, at the Consideration of HK\$33,000,000 shall be paid in cash by the New Purchaser to the Vendor or its nominee upon Completion. The Sale Shares represents 100% of the issued share capital of the Target Company.

THE AGREEMENT

Date: 25 March 2019

Parties: (i) the Vendor;
(ii) the New Purchaser; and
(iii) the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the New Purchaser and its ultimate beneficial owners are third parties independent of each of the Company and their respective connected persons.

The Company would like to supplement as below:

Consideration

The Consideration of HK\$33,000,000 shall be paid by cash by the New Purchaser to the Vendor or its nominee as following manners:

- (a) at Completion, the sum of Hong Kong Dollars Twenty One Million Five Hundred Thousand (HK\$21,500,000) ("**Initial Consideration**"); and
- (b) on the Second Payment Date, the sum of Hong Kong Dollars Eleven Million Five Hundred Thousand (HK\$11,500,000) provided that the New Purchaser shall have an option at its absolute discretion to procure the transfer of Settlement Shares to the Vendor (or as the Vendor may direct) in full and final settlement of the sum payable on the Second Payment Date.

The arrangement can provide extra security to the Company if the New Purchaser does not make the payment on the Second Payment Date, the Company can still get back the Settlement Shares. The Directors believe that the arrangement is in the best interest of the Company and to avoid the transaction lapsed in future.

The Consideration was arrived based on normal commercial terms after arm's length negotiations between the Vendor and the New Purchaser. The Company has been looking for few potential investors which have interest to acquire the Target Company, however after several meetings with different potential purchasers, the Company chose the New Purchaser which was willing to pay the most favourable consideration terms and reached a transaction in the earliest manner when it is compared to the others. The Company believes that it is reasonable and fair in the interests of the Company and Shareholders.

INFORMATION ON THE VENDOR AND THE TARGET GROUP

The Vendor is a company incorporated in British Virgin Islands with limited liability and is an investment holding company.

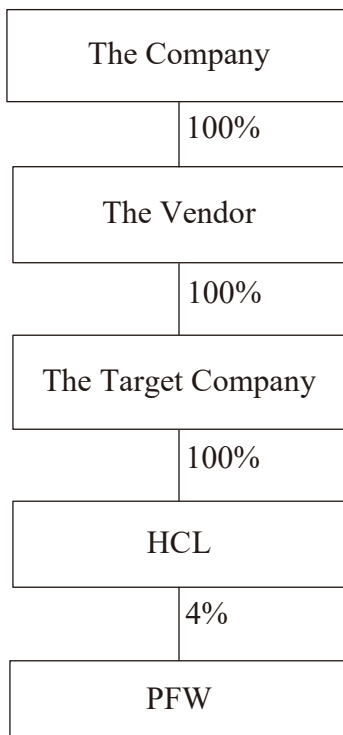
The Target Company is a company incorporated in British Virgin Islands with limited liability, which is wholly-owned by the Vendor. The Target Company does not engaged in any other business.

HCL, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Target Company, holding of minority stake in PFW as investment.

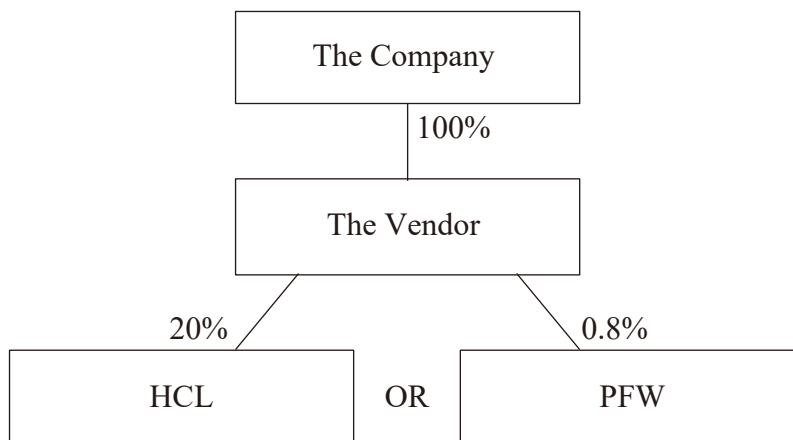
PFW, a private limited company established in the Netherlands and is a subsidiary of Prime Focus Limited, a company incorporated in India and listed on the National Stock Exchange and Bombay Stock Exchange under the symbol PFOCUS and 532748, respectively. PFW provides visual effects, animation, and 2D to 3D conversion services to media and entertainment companies.

The Target Group has no assets or liabilities (whether actual, contingent or otherwise) other than its holding of minority stake in PFW.

Set out below is the shareholding chart of the Target Group before the completion of the Disposal:



Set out below is the shareholding chart of the Target Group if the New Purchaser procures the transfer of Settlement Shares to the Vendor (or as the Vendor may direct) in full and final settlement of the sum payable on the Second Payment Date:



FINANCIAL INFORMATION OF THE TARGET GROUP

The Company would like to clarify that the below is a summary of the key financial data of the Target Group extracted from its unaudited consolidated financial statements for the year ended 30 June 2017 and 30 June 2018:

	For the year ended 30 June 2018 (unaudited) HK\$'000	For the year ended 30 June 2017 (unaudited) HK\$'000
Turnover	–	–
Net loss before taxation	(2)	(3)
Net loss after taxation	(2)	(3)

According to the unaudited consolidated financial statements of the Target Group for the six months ended 31 December 2018, the Target Group recorded the net assets of approximately HK\$168 million.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Reference is made to the announcements of the Company dated 13 July 2018 and 11 September 2018 in relation to the signing of the Previous Agreement between the Vendor and Previous Purchaser pursuant to which the Vendor agreed to dispose and the Previous Purchaser agreed to acquire the entire issued share capital of the Target Company at consideration of US\$34,820,000, which comprises of the cash portion of US\$13,800,000 and the non-cash portion of US\$21,020,000 (being 81% of the IP Right upon completion of the assignment of the IP right pursuant to the Assignment Deed and Transfer Documents).

Due to (i) certain conditions precedent to the Previous Agreement had not been fulfilled as at the Announcement; and (ii) the consideration yet to be received from the Previous Purchaser as at the Announcement, the disposal has not yet been completed. As the Previous Purchaser failed to complete the transactions by make payments on time and therefore the Previous Agreement is officially lapsed. The Company has kept chasing the Previous Purchaser to complete the transactions by different communications such as emails, legal letters and phone calls. The Company have already paid relentless efforts to the Previous Purchaser for the completion, but in vain. The Company decided to lapse the Previous Agreement and resell the Target Company to the New Purchaser without any condition.

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

Hong Kong, 20 May 2019

As at the date of this announcement, the Board comprises Mr. Shiu Stephen Junior (Chairman), Mr. Sun Lap Key, Christopher and Mr. Lee Wing Ho, Albert as executive Directors; Mr. Kam Tik Lun, Ms. Yang Yusi and Mr. Lee Wing Lun as independent non-executive Directors.

This announcement, 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 announcement 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 announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for seven days from the day of its posting and on the website of the Company at www.china3d8078.com.