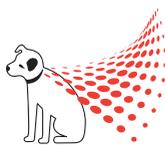
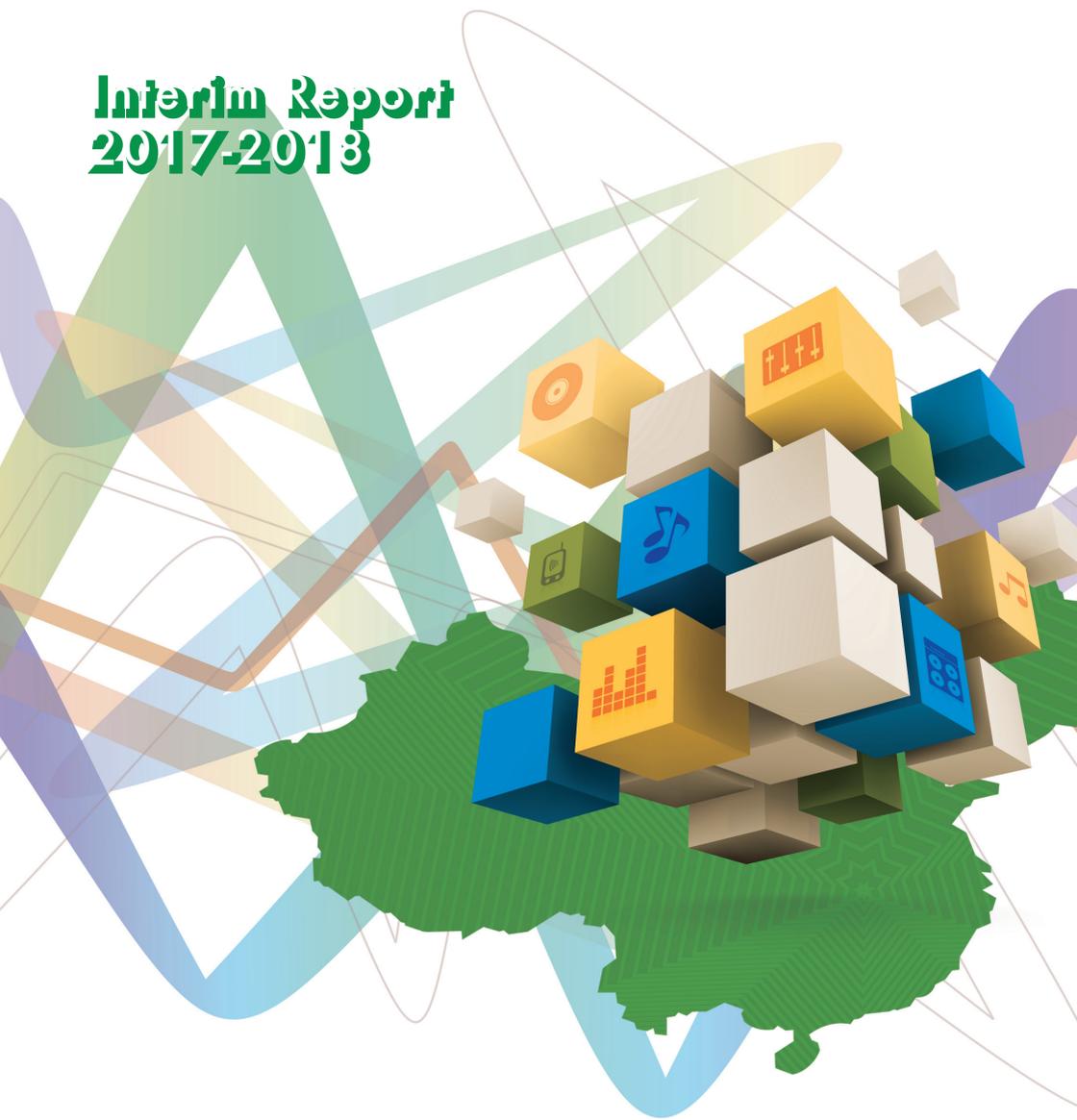


Interim Report 2017-2018



hmv 數碼中國集團
Digital China Group

HMV Digital China Group Limited

(Incorporated in Bermuda with limited liability)

(GEM Stock Code : 8078)

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the “Group”) reported a total revenue of approximately HK\$264.1 million for the six months ended 31 December 2017 (the “Six-month Period”), compared with approximately HK\$247.5 million for the corresponding period in 2016. For the Six-month Period, a loss attributable to owners of the Company of approximately HK\$15.8 million was recorded whilst in the corresponding period of last year, a profit attributable to owners of the Company of approximately HK\$30.4 million was recorded. Such loss is mainly due to the increase in the amortisation, administrative and other expenses and a decrease in revenue from the production and distribution of films as most of the film will be released in the second half of this financial year.

During the Six-month Period, artist management’s segment contributed a revenue of approximately HK\$95.8 million (2016: HK\$68.4 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$29.5 million (2016: HK\$68.7 million). The revenue from cinema operation segment was approximately HK\$18.4 million (2016: HK\$17.2 million). The revenue from the money lending business was approximately HK\$13.7 million (2016: HK\$6.4 million). The revenue from the HMV business was approximately HK\$106.7 million (2016: HK\$86.8 million).

BUSINESS REVIEW

Established in 2010, HMV Digital China Group Limited has been taking a leading position in the cultural and entertainment industry in Hong Kong and the Regions with vertically-integrated business chains, whose main businesses comprise up-stream business of movie production, mid-stream business of movie distribution, cinema operations, artiste management and down-stream new-retail-concept HMV stores. Each of the business chain operates well and provides strong synergy among the Group.

Firstly, our up-stream business, movie production, mainly acquires popular intellectual properties (IPs) to write the movie story lines. Nowadays, Hollywood large studios also acquire popular intellectual properties to make blockbuster movies, for example, Hunger Games, Harry Potter and so on.

As early as 2012, the Group produced Due West which is a popular online novel. The Group keeps identifying good IPs from past popular TV dramas (e.g. Return of the Cuckoo/The Menu), stage show (e.g. 29+1), online novels (e.g. Imprisoned) and past blockbuster movies (e.g. The Yuppie Fantasia 3). However, the Group is managed to control the IP cost within a low range of the total production cost in order to ensure the movie quality.

Secondly, our mid-stream business, movie distribution, mainly purchases distribution rights in Hong Kong or PRC from high-quality Hollywood studios, for example, the Nu Image, the Lions Gate Entertainment Corporation and other studios in the Regions. With the extensive industrial experience and marketing resources, the Group is able to build a good reputation in Hollywood and European countries following the success of “London has Fallen” in the financial year of 2017 as a reliable distribution partner in Hong Kong and The People Republic of China (“PRC”).

The success of both movie production and movie distribution relies on our extensive distribution channels in Hong Kong and PRC. The Group closely cooperates with one of the leading video operators in PRC, namely, iQiyi, in which nearly 6 billion hours spent on its service each month, and over 500 million monthly active users as per iQiyi company data.

Thirdly, cinema operations currently operate five cinemas in China locating in Quanzhou, Xiamen, Guangzhou and Chongqing. The cinema operations are intended to provide relatively stable income stream to the Group to diversify the business streams among the Group. Artiste management segment provides a good example of synergy among the Group as our artistes attended large-scale launch ceremonies in each cinema in PRC without spend high marketing expenses. That is why cinema operations are able to quickly gain attraction and notice from the cinema nearby residential areas. Cinema operations also provide the Group a better bargaining power with other cinema operators for our self-production movie scheduling.

Fourthly, our artiste management business is top 3 in Hong Kong in terms of the line up of the artistes and models. Our related companies GME Holdings Limited and Starz Holdings Limited, currently have more than 40 contracted artistes. Our artistes also support our movie production segment as actors and actresses. The artistes gain popularity after playing in our blockbuster movies, which also increase the artiste management revenue in Hong Kong and PRC.

Fifthly, the down-stream business, HMV brand is an almost 100-year-old brand founded in the United Kingdom. The Group currently runs 7 physical stores in Pearl City in Causeway Bay as flagship store, Telford Plaza and E-max pop-up store in Kowloon Bay, iSquare in Tsim Sha Tsui, Manning House in Central, The Forrest in Mongkok and D2 Place in Lai Chi Kok.

The traditional HMV stores have already been transformed to new-retail-concept HMV stores to leverage the new-retail evolution in Asia. Each HMV store is filled with lifestyle elements and the traditional DVD and CD sales places. Customers who visit our new-retail-concept HMV stores can experience music and cultural elements. With the support of big data analysis generated from HMVOD platforms, HMV retail is able to accurately target the customers and understand their behaviours.

Furthermore, the Group's OTT entertainment services - HMVOD (HMV Video on Demand) was launched in Hong Kong last year to serve as a diversified online entertainment platform, which brings the latest, most popular and exclusive videos to users in Hong Kong. Users can download the HMVOD iOS and Android APP and watch movies that they favours anytime and anywhere. The number of users has been increasing exponentially due to the marketing efforts and collaboration with local telecom service providers.

Acquisitions of Panorama Corporation Limited and Parkway Licensing Company Limited

The Panorama Acquisition

On 9 January 2017, the Company entered into the Sale and Purchase Agreement ("Panorama Agreement") with Mr. Fung Yu Hing Allan (the "Panorama Vendor") in relation to the acquisition of 70% of the issued share capital of Panorama Corporation Limited at a consideration of HK\$31,500,000, which shall be satisfied by the issue and allotment of 86,896,551 shares at the issue price of HK\$0.3625 by the Company to the Panorama Vendor.

The Parkway Acquisition

On 9 January 2017, the Company entered into the Sale and Purchase Agreement ("Parkway Agreement") with Mr. Fung Yu Hing Allan, Mr. Wong Wing Kwong Kelvin and Ingate International Company Limited (the "Parkway Vendors") in relation to the acquisition of 70% of the issued share capital of Parkway Licensing Limited at a consideration of HK\$7,000,000 which shall be satisfied by cash and issue and allotment of aggregate 16,551,723 shares by the Company to the Parkway Vendors.

Details of the acquisitions were disclosed in the announcement dated 9 January 2017 and 4 August 2017 respectively. The acquisitions were not yet completed.

Acquisition of Vantage Metro Limited

On 16 June 2017, the Company, Brilliant Fullway Limited, a wholly-owned subsidiary of the Company (the "Purchaser"), Redsox Investment Co., Ltd., an independent third party, beneficially interested in 2,258,270 shares in Vantage Metro Limited (the "Target Company") representing approximately 32.26% of the entire issued share capital of the Target Company (the "Vendor A"); and Wealth Synergy Limited, an independent third party, beneficially interested in 1,835,097 shares in the Target Company, representing approximately 26.21% of the entire issued share capital of the Target Company (the "Vendor B"); (collectively the "Vendors") entered into the share purchase agreement, pursuant to which the Vendors have agreed to sell (and to procure 27 other shareholders (the "Minority Shareholders") of the Target Company holding in aggregate 2,906,633 shares in the Target Company, representing approximately 41.53% of the entire issued share capital of the Target Company to sell) and the Purchaser has agreed to purchase 100% interest in the Target Company (the "Sale Shares"), representing the entire issued share capital of the Target Company ("Acquisition").

The aggregate consideration of the Acquisition may be up to approximately HK\$713,418,220 (equivalent to USD91,699,000) subject to the cap of the aggregate of the consideration shares (the "Consideration Shares") to be issued and allotted by the Company in connection with the Acquisition, being 15% of the enlarged issued share capital of the Company.

The Consideration Shares to be issued and allotted by the Company to the Vendors and Minority Shareholders for the Acquisition at the issue price of HK\$0.30 per share upon completion.

Details of the Acquisition was disclosed in the announcement dated 16 June 2017. The Acquisition was not yet completed.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, total borrowing of the Group (excluding payables) amounted to approximately HK\$448.5 million (30 June 2017: HK\$180.4 million). During the Six-month Period, the Group's gearing ratio (expressed as a percentage of total borrowing over total assets) was 12.86% (30 June 2017: 5.91%).

In addition to its share capital and reserves, the Group also made use of cash flow generated from operations, fund raising and the borrowings (mainly including other borrowings, convertible bonds, promissory note payable and finance lease payables), to finance its operation. The promissory note payable is denominated in Hong Kong dollars, unsecured, interest-free and has a fixed repayment term.

Other than disclosed above, the Group has no other external borrowings. The Group's bank and cash held on hand were mainly denominated in Hong Kong dollars. The Group managed its foreign exchange risk by closely monitoring the movement of the foreign currency rates. The management conducted periodical review of foreign currency exposure and would take appropriate measures to mitigate the risk should the need arise. The Group experienced no significant exposure to foreign exchange rate fluctuation during the Six-month Period.

CAPITAL STRUCTURE

For the six months ended 31 December 2017, there is no change of the capital structure of the Company.

COMMITMENTS

Total commitments of the Group as at 31 December 2017 was approximately HK\$675.3 million (30 June 2017: HK\$724.8 million).

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 31 December 2017 was 375 (31 December 2016: 390), including full time and part time employees. Employees' remuneration was determined in accordance with individual responsibility, performance and experience. To provide incentives or rewards to the employees, the Company has adopted a new share option scheme in July 2014. No option was granted during the Six-month Period.

CONTINGENT LIABILITIES

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

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

LITIGATION

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

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

Green Giant claims the principal amount of the Note of HK\$14,160,000, interest thereon from the time of presentment for payment until payment in full at the rate of 10% per annum pursuant to the terms of the Note, incurred expenses and costs. The claim is disputed and the action is being defended.

EVENTS AFTER THE REPORTING PERIOD

On 17 November 2017, the Company and Wan Tai Investments Limited (the "Subscriber") entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, (i) the convertible bonds in the aggregate principal amount of HK\$150,000,000 ("Convertible Bonds") and (ii) the notes in the aggregate principal amount of HK\$150,000,000 ("Notes"). The net proceeds from the Convertible Bond and the Notes will be used for the purposes of providing general working capital for the business of the Group; and/or funding investments by the Group into potential business opportunities.

Upon full conversion of the Convertible Bond at the conversion price of HK\$0.273 per conversion share, a total of 549,450,549 conversion shares will be allotted and issued.

The issue of the Convertible Bond and Note 1 (partial of the Notes) have been completed on 2 January 2018. The net proceeds arising from the issue of the Convertible Bond and Note 1, after deducting expenses, is approximately HK\$250.5 million.

Details of the issue of Convertible Bonds and Notes were disclosed in the announcement dated 17 November 2017 and 2 January 2018 respectively.

Conversion of Convertible Bond

On 9 January 2018, Mr. Stephen Chau, the bondholder has exercised its conversion rights of the Convertible Bond to convert balance of principal amount of HK\$3,500,000 at the conversion price of HK\$0.181 per share. A total of 19,337,017 shares has been issued. The number of shares in issue has been increased to 13,495,120,697 shares.

RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the Three-month and Six-month Period ended 31 December 2017 together with the comparative unaudited figures for the corresponding period in 2016 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended		For the six months ended	
		31 December		31 December	
		2017	2016	2017	2016
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(restated)		(restated)
Revenue	2 & 3	127,892	107,123	264,144	247,535
Other income		2,269	7,212	4,267	9,711
Cost of sales	3	(97,813)	(68,113)	(184,451)	(156,209)
Selling and distribution costs		(28,360)	(21,749)	(53,945)	(35,471)
Administrative expenses		(27,370)	(13,118)	(53,537)	(33,286)
Change in fair value of investments at fair value through profit or loss		9,750	(380)	13,949	1,716
Change in fair value of investment properties		(332)	–	(332)	–
Finance costs		(3,004)	(102)	(5,088)	(2,793)
Share of results of associates		207	590	679	295
Share of results of a joint venture		–	–	–	1
(Loss)/profit before taxation	4	(16,761)	11,463	(14,314)	31,499
Income tax credit	5	210	210	521	210
(Loss)/profit for the period		(16,551)	11,673	(13,793)	31,709
(Loss)/profit for the period attributable to:					
Owners of the Company		(17,660)	11,334	(15,812)	30,437
Non-controlling interests		1,109	339	2,019	1,272
		(16,551)	11,673	(13,793)	31,709

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the three months and six months ended 31 December 2017

	Notes	For the three months ended 31 December		For the six months ended 31 December	
		2017 HK\$'000	2016 HK\$'000 (restated)	2017 HK\$'000	2016 HK\$'000 (restated)
Other comprehensive loss					
Exchange differences on translating foreign operation		(1,874)	(1,144)	(2,314)	(1,144)
Change in fair value of investments at fair value through other comprehensive income		(10,008)	(1,044)	(15,006)	(1,305)
Total other comprehensive loss for the period, net of tax		(11,882)	(2,188)	(17,320)	(2,449)
Total comprehensive (loss)/income for the period		(28,433)	9,485	(31,113)	29,260
Total comprehensive (loss)/income for the period attributable to:					
Owners of the Company		(29,542)	9,146	(33,132)	27,988
Non-controlling interests		1,109	339	2,019	1,272
		(28,433)	9,485	(31,113)	29,260
(Loss)/profit per share	6				
(2016: restated)					
Basic & diluted		(HK0.13 cents)	HK0.11 cents	(HK0.12 cents)	HK0.29 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	31 December 2017 (Unaudited) HK\$'000	30 June 2017 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	7	101,172	91,076
Investment property	8	275,000	–
Intangible assets	9	263,233	263,969
Interest in associates	10	16,934	16,255
Goodwill	15	1,072,986	1,072,986
Interest in a joint venture		109	109
Investments at fair value through other comprehensive income	12	394,806	358,497
Prepayments, deposits and other receivables	13	290,850	265,368
Film rights and films production in progress	7	201,104	209,434
Loans receivables	14	17,654	51,489
Deferred tax assets		16,650	16,650
		2,650,498	2,345,833
Current assets			
Inventories	16	32,445	28,629
Loans receivables	14	121,372	59,906
Trade receivables	17	117,591	123,557
Prepayments, deposits and other receivables	13	515,347	314,063
Investments at fair value through profit or loss	18	23,876	21,184
Pledged bank deposits		11,810	15,070
Bank and cash balances		16,071	147,078
		838,512	709,487
Current liabilities			
Trade payables		94,006	62,589
Accruals, deposits received and other payables		325,295	170,286
Other borrowings	20	352,278	84,251
Convertible bonds		5,717	5,311
Promissory note payable		14,160	14,160
Finance lease payables		114	104
Provision for asset retirement		1,081	983
Derivative financial instruments		2,550	2,319
		795,201	340,003

	Notes	31 December 2017 (Unaudited) HK\$'000	30 June 2017 (Audited) HK\$'000
Net current assets		43,311	369,484
Total assets less current liabilities		2,693,809	2,715,317
Non-current liabilities			
Accruals, deposits received and other payables		29,846	17,568
Finance lease payables		1,899	1,825
Provision for asset retirement		11,273	12,613
Convertible bonds		40,002	40,408
Derivative financial instruments		31,826	32,057
Deferred tax liabilities		28,907	29,677
		143,753	134,148
NET ASSETS		2,550,056	2,581,169
Capital and reserves			
Share capital		134,758	134,758
Reserves		2,413,352	2,446,484
Equity attributable to owners of the Company		2,548,110	2,581,242
Non-controlling interests		1,946	(73)
TOTAL EQUITY		2,550,056	2,581,169

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the six months ended 31 December 2017*

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 July 2016, as restated	38,328	342,305	(59,863)	(1,833)	(29,307)	289,630	1,762	291,392
Total comprehensive income for the period, as restated	-	-	(1,305)	(1,144)	30,437	27,988	1,272	29,260
Issue of shares upon acquisition	16,289	1,612,680	-	-	-	1,628,969	-	1,628,969
Transaction cost attributable to issues of shares	-	(566)	-	-	-	(566)	-	(566)
At 31 December 2016	54,617	1,954,419	(61,168)	(2,977)	1,130	1,946,021	3,034	1,949,055
At 1 July 2017	134,758	2,518,619	(60,668)	(2,012)	(9,455)	2,581,242	(73)	2,581,169
Total comprehensive income/(loss) for the period	-	-	(15,006)	(2,314)	(15,812)	(33,132)	2,019	(31,113)
At 31 December 2017	134,758	2,518,619	(75,674)	(4,326)	(25,267)	2,548,110	1,946	2,550,056

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Net cash used in operating activities	(52,319)	(55,404)
Net cash (used in) generated from investing activities	(168,975)	1,339
Net cash generated from financing activities	90,111	46,661
Net decrease in cash and cash equivalents	(131,183)	(7,404)
Effect of foreign exchanges rate changes	(3,084)	(1,144)
Cash and cash equivalents at beginning of the period	162,148	54,178
Cash and cash equivalents at end of the period	27,881	45,630
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	27,881	45,630

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

In the current period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the current period. The application of the above new or revised HKFRSs has had no material effect on the Group's financial statements.

The accounting policies used in the preparation of the unaudited condensed consolidated financial statements have been consistently applied by the Group and are consistent with those used in preparing the Company's annual audited financial statements for the year ended 30 June 2017.

The unaudited condensed consolidated financial statements for the six months ended 31 December 2017 have not been audited or reviewed by the Company's auditors, but have been reviewed by the audit committee of the Company.

2. REVENUE

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Artiste management services fee income is recognised when the services are provided.
- (b) Income from film production and licensing of corresponding rights is recognised when the production is completed and released and the amount can be measured reliably.
- (c) Income from the distribution of films is recognised when the Group's entitlement to such payments has been established which is upon the delivery of the master copy or materials to the customers or when the notice of delivery is served to the customers.
- (d) Income from box office takings is recognised when the services have been rendered to the buyers.
- (e) Interest income from a financial asset (including money lending) is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.
- (f) Rental income is recognised on a straight-line basis over the term of the lease.
- (g) Revenue from sales of goods is recognised, net of discounts and returns, on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customers.
- (h) Revenue from sales of food and beverage is recognised, net of discounts, in profit or loss at the point of sale to customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**2. REVENUE (Continued)**

	Three months ended		Six months ended	
	31 December		31 December	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
An analysis of the Group's revenue for the period is as follows:				
Artiste management services	53,260	29,164	95,824	68,372
Distribution and production of films, television programmes and music production	10,769	14,837	29,582	68,697
Money lending				
– Loan interest income	1,866	3,433	13,702	6,430
Operation of cinemas	8,920	6,768	18,358	17,203
HMV Business				
– Sales of goods	52,815	49,930	106,056	80,423
– Sales of food and beverage	233	2,873	517	6,199
– Concession stores income	29	118	105	211
	127,892	107,123	264,144	247,535

3. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has identified operating segments based on similar products and service provided. The operating segments are identified by senior management who is designated as "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance.

The Group has six reportable segments, (i) artiste management services, (ii) distribution and production of films, television programmes and music production, (iii) money lending, (iv) securities and bonds investment, (v) operation of cinemas, and (vi) HMV Business. The segmentation is based on the information about the operations of the Group that Chief Operating Decision Maker uses to make decisions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenues and results by reportable segment for the current and prior years:

	Artiste management services		Distribution and production of programmes and music production films, television		Money lending		Securities and bonds investment		Operation of cinemas		HMV Business		Total		
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		
	31 December		31 December		31 December		31 December		31 December		31 December		31 December		
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Segment revenue															
Revenue from external customers	95,824	68,372	29,582	68,697	13,702	6,430	-	-	18,358	17,203	106,678	86,833	264,144	247,535	
Segment results	4,367	3,038	(4,785)	32,835	11,616	6,430	13,949	1,716	(10,757)	5,813	(8,432)	8,536	5,958	58,368	
Bank interest income													131	108	
Unallocated corporate expenses, net													(15,994)	(24,480)	
Finance costs													(5,088)	(2,793)	
Shares of results of associates													679	295	
Share of results of a joint venture													-	1	
(Loss)/profit before taxation													(14,314)	31,499	
Income tax credit													521	210	
(Loss)/profit for the period													(13,793)	31,709	

The accounting policies on segment reporting are the same as the Group's accounting policies. Segment results represent the profit earned by or loss incurred from each segment without allocation of central administration costs, bank interest income, finance costs, shares of results of associates, share of results of a joint venture and taxation. This is the measure reported to the Chief Operating Decision Maker for the purpose of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**4. (LOSS)/PROFIT BEFORE TAXATION**

	Three months ended 31 December		Six months ended 31 December	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
(Loss)/profit before taxation has been arrived at after charging/(crediting):				
Staff costs, including directors' remuneration				
– Basic salaries and allowances	14,169	9,329	28,259	21,911
– Retirement benefits scheme contributions	666	657	1,308	1,212
Total staff costs	14,835	9,986	29,567	23,123
Depreciation of property, plant and equipment	2,690	2,103	5,302	6,568
Minimum lease payments under operating leases:				
– Land and buildings	16,208	5,174	31,627	13,083
Exchange loss/(gain)	1,148	398	(876)	1,310

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the Six-month Period as the Group has statutory tax loss brought forward from prior years (six months ended 31 December 2016: Nil).

No provision for income tax in respect of operations in overseas has been made as the Group has no assessable profits in the respective jurisdictions for both periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**6. (LOSS)/PROFIT PER SHARE**

The calculation of the basic (loss)/profit per share is based on the loss for the Six-month Period attributable to owners of the Company of approximately HK\$15,812,000 (2016: profit of approximately HK\$30,437,000) and the weighted average number of 13,475,783,680 ordinary shares of the Company in issue during the Six-month Period (2016: 10,353,233,884 (restated)).

The calculation of the diluted (loss)/profit per share for the Six-month Period is based on the profit attributable to owners of the Company of approximately HK\$15,812,000 (2016: profit of approximately HK\$30,437,000) and the weighted average number of 13,659,055,123 ordinary shares for the purpose of diluted profit per share during the Three-month Period (2016: 10,371,975,518 (restated)).

7. PROPERTY, PLANT AND EQUIPMENT AND FILM RIGHTS

An analysis of movements of the assets of the Group for the Six-month Period is as follows:

	Property, plant and equipment (Unaudited) HK\$'000	Film rights (Unaudited) HK\$'000	Film production in progress (Unaudited) HK\$'000
CARRYING AMOUNTS			
At 1 July 2017	91,076	53,022	156,412
Exchange realignment	505	–	–
Additions	14,893	6,995	6,444
Disposal	–	(6,306)	(6,723)
Transfer to film rights	–	23,432	(23,432)
Depreciation and amortisation	(5,302)	(8,740)	–
At 31 December 2017	101,172	68,403	132,701

FILM RIGHTS AND FILMS PRODUCTION IN PROGRESS

In light of the circumstances of film industry, the Group regularly reviewed its library of film rights to assess the marketability of respective film rights and the corresponding recoverable amounts for the periods under review. The recoverable amount of the relevant assets had been determined on the basis of the present value of expected future revenue net of the relevant expenses arising from distribution and licensing of distribution rights of each of the films, by reference to the recent market information of the film industry. No impairment loss has been recognised for the period under review.

Films production in progress represents films under production. During the period ended 31 December 2017, the Directors of the Company assessed of which no impairment loss is necessary in respect of the films production in progress (six months ended 31 December 2016: Nil). The estimated recoverable amount was determined based on the best estimation of the management on expected future revenue less the relevant costs arising from the distribution and sub-licensing of the film products.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**8. INVESTMENT PROPERTY**

	2017 HK\$'000
At 1 July	
Additions on acquisition of subsidiaries (note 21)	275,332
Fair value change	(332)
At 31 December 2017	275,000

Investment properties were revalued at 31 December 2017 on market basis and the direct comparison method is adopted where comparison based on prices realised on actual sales of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of value by Ian Ng – International Valuation Limited, an independent party of Registered Professional Surveyor.

At 31 December 2017, the carrying amount of investment properties pledged as security for the Group's other borrowings amounted to approximately HK\$213,000,000.

9. INTANGIBLE ASSETS

	Online music Streaming application HK\$'000 Note (a)	Trademarks HK\$'000 Note (b)	Club membership HK\$'000 Note (c)	Management contract HK\$'000	Total HK\$'000
Cost:					
At 1 July 2017 and 31 December 2017	24,500	236,500	2,930	731	264,661
Accumulated amortization and impairment:					
At 1 July 2017	408	-	-	284	692
Charged for the year	613	-	-	123	736
At 31 December 2017	1,021	-	-	407	1,428
Carrying amounts:					
At 31 December 2017	23,479	236,500	2,930	324	263,233
At 30 June 2017	24,092	236,500	2,930	447	263,969

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

Notes:

- (a) Online music streaming application (the "APP") arose from the acquisition of Time Edge Limited on 25 April 2017. The APP represents the mobile application for providing online music streaming services. The average remaining amortisation period of the APP is 10 years.

The Group carried out reviews of the recoverable amount of the APP in 2017. The APP is used in the Group's distribution and production of films, television programmes and music production. The recoverable amount of the APP has been determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The discount rate used was 15.2%.

- (b) Trademarks arose from the acquisition of HMV Business on 3 August 2016. Trademarks represent the rights to use the name "HMV", the various HMV trademarks and trade mark applications, and the HMV domain names for the purposes of conducting the retail business of "HMV" operating through retail stores selling music, movies and television series related contents and products located in Hong Kong and any other business to be conducted in the PRC, Hong Kong and Singapore. The average remaining amortisation period of the patents and trademarks has indefinite useful life.

The recoverable amounts of the trademarks are determined on the basis of fair value less costs of disposal using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development. The discount rate used was 16%.

- (c) The Group's club membership of approximately HK\$2,930,000 (30 June 2017: HK\$2,930,000) at 31 December 2017 is assessed as having indefinite useful life because there is no time limit that the Group can enjoy the services provided by that club.

The recoverable amounts of the club membership is determined on the basis of fair value less costs of disposal by reference to market price as at 31 December 2017 and 30 June 2017 (level 3 fair value measurements).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**10. INTERESTS IN ASSOCIATES**

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Unlisted investments		
Share of net assets	6,401	5,722
Goodwill	10,533	10,533
	16,934	16,255

Particulars of the associates as at 31 December 2017 are as follows:

Name of associates	Principal place of business	Proportion of ownership interest	Principal activities
Vision Lion Limited	Hong Kong	25%	Holding of a cruiser
HMV East Magic Holding Group Company Limited	Hong Kong	49%	Investment Holding
Starz Holdings Limited	Hong Kong	25%	Model management

The summarised financial information of the Group's associates extracted from their management accounts is as follows:

	For the six months ended 31 December 2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	27,192	17,884
Profit for the period	2,717	614
The Group's share of profit of associates	679	295

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**11. COMMITMENTS***(a) Operating lease commitments*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at	
	31 December 2017 (Unaudited) HK\$'000	30 June 2017 (Audited) HK\$'000
In respect of:		
Rented premises		
Within one year	65,381	59,836
In the second to fifth year, inclusive	154,196	144,396
Over fifth year	190,263	203,425
Total	409,840	407,657

The Group is the lessee in respect of a number of office premises in Hong Kong and cinemas in the PRC held under operating leases. The leases typically run for one to twenty years.

Rentals are fixed over the lease term and no arrangement has been entered into for contingent rental payments.

(b) Other commitments

	As at	
	31 December 2017 (Unaudited) HK\$'000	30 June 2017 (Audited) HK\$'000
Amounts contracted for but not provided in the consolidated financial statements in respect of:		
Film production costs	82,069	244,687
Guaranteed sum to be paid under distributors agreements	182,582	68,507
Others	844	3,950
	265,495	317,144

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**12. INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	Notes	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Listed securities			
– Equity securities listed in Hong Kong, at fair value	(a)	108,840	94,208
Unlisted securities, at fair value	(b)	285,966	264,289
		394,806	358,497

Notes:

- (a) These investments are designated as at fair value through other comprehensive income in order to avoid volatility to the profit or loss arising from the changes in fair values of the investments.
- (b) For the year ended 30 June 2017, Horizon Coast Limited (“Horizon Coast”), a wholly-owned subsidiary of the Company, acquired 4% interests in Prime Focus World N.V. (“Prime Focus”) at a share consideration of 259,106,982 shares of the Group. The fair value of 259,106,982 shares of the Group on the date of acquisition was approximately HK\$264,289,000.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Prepayments (<i>note</i>)	410,327	247,776
Deposits and other receivables	395,870	331,655
	806,197	579,431

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)**

The amount of prepayments, deposits and other receivables is analysed for reporting purpose as follows:

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
– Non-current portion		
Prepayments	200,070	236,522
Deposits	89,556	27,793
Other receivables	1,224	1,053
	290,850	265,368
– Current portion		
Prepayments	210,257	11,387
Deposits	232,937	241,163
Other receivables	72,153	61,513
	515,347	314,063
	806,197	579,431

Note:

Prepayments, deposits and other receivables mainly represent upfront payments for film productions, distribution rights and prepaid administrative expenses. As at 31 December 2017, the amount of prepayments, deposits and other receivables that were expected to be settled within twelve months from the end of the reporting period was classified as current assets. The remaining balances were classified as non-current assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14. LOAN RECEIVABLES

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Loan receivables	139,026	111,395
Less: Impairment loss	–	–
	139,026	111,395
Analysed as :		
Non-current assets	17,654	51,489
Current assets	121,372	59,906
	139,026	111,395

As at 31 December 2017, all loan receivables are denominated in Hong Kong dollars, secured by customers' pledged properties, carried at fixed interest rate ranging from 5% to 24% (30 June 2017: 5% to 33%) per annum with the payment term ranging from 30 days to 4 years (30 June 2017: 30 days to 4 years).

The following is an aged analysis for the loan receivables at the end of the Six-month Period:

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
0 – 30 days	518	29,572
31 – 90 days	18,027	3,468
91 – 180 days	43,670	12,653
181 – 365 days	69,287	21,416
Over 365 days	7,524	44,286
	139,026	111,395

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**15. GOODWILL****Group**

HK\$'000

Cost:

At 1 July 2017 and 31 December 2017

1,072,986

Impairment:

At 1 July 2017

–

Impairment during the year

–

At 31 December 2017

–

Net carrying amount:

At 31 December 2017

1,072,986

At 30 June 2017

1,072,986

16. INVENTORIES

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Finished goods	32,445	28,629

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**17. TRADE RECEIVABLES**

The Group allows credit periods of up to 60 days to its trade debtors. Based on the repayment pattern of the debtors of the Group, trade receivables which are past due but not impaired are eventually recoverable. The management of the Group closely monitors the credit quality of debtors and considers the trade receivables that are neither past due nor impaired to be of a good credit quality with reference to their repayment history. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables net of impairment loss based on the due date at the end of the Six-month Period:

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Current	117,591	123,557

18. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Equity securities listed in Hong Kong, at fair value	23,876	21,184

The fair value of all the financial assets are based on their current bid prices.

19. MATERIAL RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with its related parties during the period.

	As at 31 December 2017 (Unaudited) HK\$'000	As at 31 December 2016 (Unaudited) HK\$'000
Film production cost paid to directors (note (i))	40	–

Notes:

- (i) The amount represents final payment for film productions paid to the director of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**20. OTHER BORROWINGS**

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Secured	296,914	53,592
Unsecured	55,364	30,659
	352,278	84,251

Other borrowings of HK\$296,914,000 (30 June 2017: HK\$53,592,000) are secured by the followings:

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
Personal guaranteed by a director	10,000	10,000
Personal guaranteed by a Director and post dated cheque	30,000	30,000
Pledged property	213,000	–
Equity securities listed in HK	43,914	13,592
	296,914	53,592

Interest rate of other borrowings are as follows:

	As at 31 December 2017 (Unaudited) HK\$'000	As at 30 June 2017 (Audited) HK\$'000
5% per annum	27,391	26,761
7.75% per annum	173,000	–
8% per annum	43,914	13,592
9% per annum	3,000	3,000
10% per annum	30,000	30,000
12% per annum	34,973	10,898
15% per annum	40,000	–
	352,278	84,251

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)**21. ACQUISITION OF A SUBSIDIARY**

During the period ended 31 December 2017, the Company, acquired 100% interests in Ocean Bridge Investments Limited ("Ocean Bridge") at a consideration of HK\$100,609,000 from independent third parties.

The acquisition of Ocean Bridge is not a business combination.

The value of the identifiable assets and liabilities of Ocean Bridge at the date of acquisition is allocated as follows:

	HK\$'000
Net assets acquired:	
Investment properties	275,332
Prepayment	53
Bank and Cash balances	1
Other payables	(1,777)
Other borrowings	(173,000)
	<hr/> 100,609
Consideration, satisfied by:	
Cash	50,000
Loans receivables	50,609
	<hr/> 100,609
Net cash outflow arising on acquisition:	
Cash consideration paid	50,000
Cash and cash equivalents acquired	(1)
	<hr/> 49,999

22. COMPARATIVE FIGURES

Certain comparative figures have been re-stated to conform with the current period presentation to align with the financial statements presentation of the Group.

DIVIDEND

The Board did not recommend the payment of an interim dividend for the Six-month Period (31 December 2016: Nil).

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of Director	Capacity/ Nature of Interests	Number of ordinary/ underlying shares held	Approximate percentage holding
Mr. Shiu Stephen Junior (note 1)	Beneficial owner	1,114,883,840	8.27%
Ms. Li Mau (note 2)	Family interest	518,213,964	3.85%
Mr. Cheung Hung Lui	Beneficial owner	40,000	0%

Note:

- 1,110,000,000 shares were pledged to Wan Tai Investments Limited, a subsidiary of CCB International Group Holdings Limited on 2 January 2018.
- 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"), the former non-executive director of the Company. 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 31 December 2017, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

Save as disclosed below, so far as known to the Directors, as at 31 December 2017, the Directors were not aware of any other person (other than the Directors and chief executive of the Company as disclosed above) who had any interests or short position in the shares or underlying shares or debentures of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(i) Interests in the Shares

Name	No. of shares	Percentage
AID Treasure Investment Ltd (<i>Note</i>)	2,876,438,356 shares	21.34%

Note:

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

(ii) Interests in the Convertible Bonds

Name	Conversion Price HK\$ (<i>Note 1</i>)	No. of Underlying Shares	Percentage
Mr. Stephen Chau (<i>Note 2</i>)	0.181	19,337,017	0.14%
AID Treasure Investment Ltd (<i>Note 3</i>)	0.305	163,934,426	1.22%

Notes:

- The conversion price was adjusted for the specific mandate placing and with effect from 12 June 2017.
- The convertible bonds has been converted to 19,337,017 shares at HK\$0.181 per share on 9 January 2018.
- AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Partners Technology Holdings Limited, a listed company on GEM (Stock code: 8088)

COMPETING INTERESTS

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

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 19 to the financial statements, no other contracts of significance in relation to the Group business to which the Company, any of the subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at Six-month Period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Required Standard of Dealings throughout the six months ended 31 December 2017.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 31 December 2017, the Company has complied with the code provisions ("Code") set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules, except for the following deviation of Code A.2.1.

Code A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

CORPORATE GOVERNANCE

The Board has adopted various policies to ensure compliance with the code provisions of the Code. During the Six-month Period, the Board is pleased to confirm that the Company has complied fully with the Code except with the deviation from Code A.2.1 which requires the role of chairman and chief executive officer be separate and not be performed by the same individual. Currently, Mr. Shiu Stephen Junior holds the offices of Chairman and CEO of the Company. The Board considers that the current structure of vesting the roles of Chairman and CEO in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that the current structure provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants.

The audit committee (the "Audit Committee") comprises three Independent Non-executive Directors, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny. Mr. Kam Tik Lun is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review the Company's annual report and accounts, half-year reports, quarterly reports and monthly reports and to provide advice and comments thereon to the board of Directors. The Audit Committee is also responsible for reviewing and monitoring the Company's internal control procedures. The Group's unaudited results for the six months ended 31 December 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results has complied with applicable accounting standards and requirements and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REVIEW OF INTERIM RESULTS

The unaudited consolidated results of the Group for the Six-month Period have not been audited nor reviewed by the Company's auditor, ZHONGHUI ANDA CPA Limited, but have been reviewed by the Audit Committee of the Company, who is of the opinion that the preparation of such results has complied with the applicable accounting standards and requirements and that adequate disclosures have been made. As at the date hereof, the Audit Committee comprises the three Independent Non-executive Directors of the Company, namely Mr. Kam Tik Lun, Mr. Chan Chi Ho and Mr. Tam Kwok Ming, Banny.

COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the six months ended 31 December 2017.

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

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

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

Hong Kong, 9 February 2018

As at the date hereof, the Board comprises:

Executive Directors:

Mr. Shiu Stephen Junior (*Chairman*)
Ms. Li Mau (*Co-Chairman*)
Mr. Sun Lap Key, Christopher
Mr. Lee Wing Ho, Albert
Mr. Cheung Hung Lui

Independent Non-executive Directors:

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