

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.*



**SUPPLEMENTAL ANNOUNCEMENT**  
**ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR**  
**ENDED 30 JUNE 2018**

Reference is made to the announcement (the “**Announcement**”) of HMV Digital China Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 28 September 2018 in relation to the annual results of the Group for the year ended 30 June 2018 and the annual report of the Company published on 28 September 2018 (the “**Annual Report**”). Terms used herein shall have the same meanings as defined in the Announcement unless the context requires otherwise.

The Company would like to provide the following supplementary information in relation to the Announcement and the Annual Report:

**QUALIFIED OPINIONS**

**Nature of the qualified receivables**

*(a) Trade receivables*

The trade receivables in the amount of HK\$75.6 million (the “**Trade Receivables**”) were generated by various marketing agreements and distribution agreements made between the Group and its long-term customers (which are all third parties independent of and not connected with the Company and its connected persons as defined under the GEM Listing Rules) in 2016 and 2017 respectively.

*(b) Loan receivables*

The loan receivables (including interests accrued thereon) in the amount of HK\$10.2 million (the “**Loan Receivables**”) were made based on loan agreements and/or arrangements between the Group and the same batch of customers as mentioned above in 2017.

**(c) Other receivables**

The other receivables in the amount of HK\$63.5 million (the “**Other Receivables**”) were mainly payments-on-behalf and/or deposits made to the same batch of customers as mentioned above for their purposes of acquiring movie pictures and film rights.

**Reasons for the qualified opinion being issued on the Receivables**

As at 30 June 2018, the Board had been actively negotiating with these customers and borrower(s) in relation to the repayment of the Trade Receivables, the Loan Receivables and the Other Receivables (collectively the “**Receivables**”) and had successfully executed extension letter(s) and/or settlement agreements to obtain collateral and personal guarantee to secure the Trade Receivables, the Loan Receivables and the Other Receivables.

During the course of the audit concerning the Receivables of the Group, the auditors, namely ZHONGHUI ANDA CPA Limited, (the “**Auditors**”) has requested for (a) the marketing agreements; (b) the distribution agreements; (c) the loan agreement; (d) the trade receivables extension letters; (e) the settlement agreements; and (f) the invoices and receipts in relation to the Trade Receivables and/or the Loan Receivables and/or the Other Receivables. The Group has provided the aforesaid documents and evidence to the Auditors.

The Board was advised by its Auditors that the Trade Receivables, the Loan Receivables and the Other Receivables were all due almost or over a year under the relevant agreements and/or arrangements and despite repeated invoices and demand notes issued to these customers, the Group was unable to recover the full amount of the Trade Receivables, the Loan Receivables or the Other Receivables since 30 June 2018. Further, the collaterals obtained under those settlement agreements would be insufficient to cover the aggregate amount of the Trade Receivables, the Loan Receivables and the Other Receivables. Thus, the Auditors considered that they were unable to obtain appropriate audit evidence to support the full recoverability of the Trade Receivables, the Loan Receivables and the Other Receivables.

**Nature of the payments and receipts of HK\$63.6 million made subsequent**

In or about August / September 2018, the Company intended to enter into various purchase agreements, as its usual and ordinary course of business, with its customers to purchase movie pictures in the aggregate amount of HK\$63.6 million. The Company approved these draft agreements and payments in advance for payment purpose upon those agreements would be executed by all the relevant parties. However, due to administrative mistake, these payments were delivered to the opposing parties before the agreements were executed. Thereafter and immediately upon learning the administrative mistake, the Company requested for refund from these customers and issued relevant demand notes subsequently and the Company was eventually able to recover the entire amount of HK\$63.6 million.

During the course of the audit concerning the payments and receipts of HK\$63.6 million of the Group, the Auditors had requested for (a) agreements in support of the payment of the aggregate amount of HK\$63.6 million; (b) demand notes and receipts in support of the refund of the same amount. However, as those agreements were drafts only and had not been executed, following that the nature of refund could not be ascertained, the Auditors considered that they were unable to obtain appropriate audit evidence to ascertain the nature of the payment and receipt of this HK\$63.6 million.

## **PROPOSED PLAN TO ADDRESS THE QUALIFIED OPINIONS**

### **In relation to the Receivables**

The Board considered the Group had maintained a long-term business relationship with these customers and they played a significant role in the core business of the Group. Therefore, to achieve a win-win situation, the Board had recently entered into settlement agreements with these customers in relation to the repayment schedule of the Trade Receivables, the Loan Receivables and the Other Receivables. Details of which are summarized below:

	<b>Aggregate outstanding amount (approximate figures)</b>	<b>No. of monthly instalments</b>	<b>Interest rate per annum</b>	<b>Repayment amount per month (approximate figures)</b>
Customer A	HK\$83,000,000	24	2%	HK\$3,500,000
Customer B	HK\$14,000,000	12	2%	HK\$1,100,000
Customer C	HK\$52,000,000	24	2%	HK\$2,200,000

The Board was advised by the Auditors that if these customers are able to follow the repayment schedule without delay, subject to the audit process, there would be large possibility that the relevant qualified opinions could be removed in the forthcoming financial statements.

### **In relation to the payments and receipts of HK\$63.6 million**

The Board understood that the incident was a singleton event and would not reoccur. The Board was advised by the Auditors that if the Auditors are able to obtain the signed demand notes and conduct interviews with and obtain confirmations from the payees and payers of the payments and receipts of HK\$63.6 million in respect of the nature of the payments and receipts of HK\$63.6 million, there would be large possibility that the relevant qualified opinion could be removed in the forthcoming financial statements.

## **Remedial actions taken**

The Company had stated in the Annual Report that “No significant areas of concern that might affect shareholders were identified. Accordingly, the Company considered that the risk management and internal control systems of the Group are effective and adequate”. The Board would like to clarify that having considered the relevant qualified opinions, they revealed that there are deficiencies in the sales policy and financial policy of the Company in particular on current client credit assessment and payment delivery. Thus, the Board was of the view that there is room for improvement in the existing internal control system of the Group and the Company has engaged Zhong Pu CPA Limited as its internal control consultant to conduct a review of the internal control systems and procedures of the Group, and to make recommendations accordingly.

Further, to enhance the internal control function of the Group and to prevent similar audit qualification in the future, the Company has appointed, as an interim measure, additional staffs to review the procedures approval and delivery of payment. Zhong Pu CPA Limited is expected to complete the internal control review on or before January 2019.

## **GENERAL**

The additional information set out above does not affect other information contained in the Announcement and the Annual Report and the contents of the Announcement and the Annual Report remain unchanged.

Yours faithfully,  
By Order of the Board  
**HMV Digital China Group Limited**  
**Shiu Stephen Junior**  
*Chairman*

Hong Kong, 7 December 2018

As at the date hereof, the Board comprise:

*Executive Directors:*

Mr. Shiu Stephen Junior (*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  
Ms. Yang Yusi

*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](http://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](http://www.china3d8078.com).*