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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)

**DISCLOSEABLE TRANSACTION
IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED
SHARE CAPITAL OF THE TARGET COMPANY**

THE DISPOSAL

The Board is pleased to announce that on 4 January 2019, the Vendor, the Purchaser and the Target Company entered into the Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire, the Sale Shares and the Group's Loans at the Consideration of RMB17,300,000 less the aggregate Liability of the Target Group shall be paid by the Purchaser to the Vendor or its nominee upon Completion.

Upon Completion, the Target Company will cease to be a subsidiary of the Company.

GEM LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios under Chapter 19 of the GEM Listing Rule in respect of the Disposal is more than 5% but all less than 25%, the Disposal constitutes a discloseable transaction for the Company and is therefore subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

WARNING NOTICE

As Completion is conditional upon fulfilment of the conditions precedent set out in the Agreement, the Disposal may or may not proceed. Shareholders and potential investors should exercise caution when dealing in securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 4 January 2019, the Vendor, the Purchaser and the Target Company entered into the Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire, the Sale Shares and the Group's Loans at the Consideration of RMB17,300,000 less the aggregate Liability of the Target Group shall be paid by the 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: 4 January 2019

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

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

Assets to be disposed

Pursuant to the Agreement, the Vendor has conditionally agree to sell and the Purchaser has conditionally agreed to purchase, (i) the Sale Shares, representing the entire issued share capital of the Target Company, and (ii) the Group's Loans.

As at the date of this announcement, the Vendor is the legal and beneficial owner of the Sale Shares.

Upon completion, the Target Company will be beneficially owned as to 100% by the Purchaser and the Target Group will cease to be the subsidiaries of the Company.

Consideration

The Consideration being an amount of RMB17,300,000 less the aggregate Liability of the Target Group as at the Cut-Off Date shall be paid by the Purchaser to the Vendor or its nominee.

The consideration amount of RMB17,300,000 was arrived based on normal commercial terms after arm's length negotiations between the Vendor and the Purchaser and the unaudited consolidated adjusted net liabilities of the Target Group (which was approximately HK\$1.6 million based on unaudited financial statements of the Target Group as at 31 October 2018). The Consideration paid by the Purchaser will be placed in the Target Group as the general working capital.

Conditions precedent

Completion is subject to the following conditions being fulfilled or waived (as the case may be):

- (i) the aggregate Liability having been agreed by the Vendor and the Purchaser;
- (ii) the board of directors and shareholders of the Vendor approving the Agreement and implementation of the transactions contemplated by the Agreement;
- (iii) the completion of the due diligence by the Purchaser and the resolution of the issues arising from the due diligence by the Vendor and the Company in manner satisfactory to the Purchaser, acting reasonably; and
- (iv) none of the warranties made by the Vendor under, and other provisions of the 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 conditions are solely for the Purchaser's benefit and the Purchaser may at its sole discretion waive any of the conditions at any time by notice in writing to the Vendor. The Vendor shall use best endeavours to procure the fulfilment of the Conditions as soon as possible after the date of the Agreement.

Completion

Completion shall take place on the Completion Date after all the conditions of the Agreement have been fulfilled or waived or such date as the Vendor and the Purchaser may agree in writing.

Upon Completion, the Target Group will cease to be the subsidiaries of the Company.

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 Hong Kong with limited liability, which is wholly-owned by the Vendor. The Target Company together with its subsidiaries are principally engaged in the cinema business in PRC.

Double Growth is a company incorporated in Hong Kong with limited liability, which is wholly-owned by the Target Company.

One Dollar Productions is a company incorporated in Hong Kong with limited liability, which wholly-owned by the Target Company and also is the legal and beneficial owner of the entire issued share capital of Ying Lian Cinema (Chong Qing) which is running cinema business in Chong Qing, PRC.

Ying Lian Cinema (Chong Qing) is the legal and beneficial owner of the entire issued share capital of the PRC Subsidiaries of the Group located at Guangzhou, Xiamen and Quanzhou, all are running the cinema business in PRC.

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

FINANCIAL INFORMATION OF THE TARGET GROUP

Set out 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 2018 and for the four months ended 31 October 2018:

| | For the year ended 30 June 2018 | For the four months ended 31 October 2018 |
|--------------------------|------------------------------------------------|------------------------------------------------------------------|
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 40,170 | 14,143 |
| Net loss before taxation | (31,644) | (37,729) |
| Net loss after taxation | (30,624) | (37,729) |

As at 31 October 2018, the unaudited consolidated net liabilities of the Target Group and the Group's Loans amounted to approximately HK\$152.1 million and HK\$150.5 million respectively. The unaudited consolidated adjusted net liabilities amounted to approximately HK\$1.6 million.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in Hong Kong with limited liability which is engaged in the business of investment holding.

REASONS FOR AND BENEFITS OF THE DISPOSAL

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, artists management, money lending activities and acquisitions of corporate bonds, preference shares as well as investment in securities.

Looking at the Group's historical performance of cinema operations in the PRC, the Board is of the view that the development of cinema operations in the PRC is not performing as expected and to continue cinema operations in the PRC is going to take up too much resources of the Group which can be put on other more promising and core sectors, namely but not limited to, movie production, distribution, distribution licensing and artists management. And the Group will be free of the uprising liabilities owned by the Target Group after the Disposal, which improves the financial positions of the Group.

Meanwhile, the visibilities of the cinema operations industry in China remain to be uncertain and under market consolidation in the near future. It is expected that large-scale chain cinema operations companies would acquire the small-scale companies with regulatory policies and economy of scale favouring the large-scale companies. The small-scale companies would face difficulties in operation in the coming years.

The entire cultural and entertainment industry in China has been under hardship since 2018 due to adverse regulatory policies and macro economic environment. The Group expects this business sector in the PRC continue to be severe and strenuous in the rest of 2019. As such, the Board considers that by disposing the Target Group, the Group can re-focus its resources to other more profitable and promising business sectors of the Group.

The Directors consider that the terms of the Agreement (including the Consideration) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole based on the unaudited net liabilities of the Target Group.

FINANCIAL EFFECT OF THE DISPOSAL

Immediately after completion of the Disposal, the Target Group will cease to be the subsidiaries of the Company and the financial results of the Target Group will no longer be consolidated into the Group's financial statements.

Based on the unaudited adjusted net liabilities of the Target Group of approximately HK\$1.6 million as at 31 October 2018, the Group currently expects to record a gain arising from the Disposal of approximately HK\$1.6 million upon completion of the Disposal. Subject to audit, the actual amount of gain or loss on Disposal to be recognized by the Group will be based on the actual net liabilities of the Target Group as at Completion and therefore may vary from the amount mentioned above.

GEM LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios under Chapter 19 of the GEM Listing Rule in respect of the Disposal is more than 5% but all less than 25%, the Disposal constitutes a discloseable transaction for the Company and is therefore subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

WARNING NOTICE

As Completion is conditional upon fulfilment of the conditions precedent set out in the Agreement, the Disposal may or may not proceed. Shareholders and potential investors should exercise caution when dealing in securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

| | |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| “Accounts” | the unaudited consolidated financial statements of the Target Group made up to the Accounts Date |
| “Accounts Date” | 31 October 2018 |
| “Agreement” | the sale and purchase agreement dated 4 January 2019 entered into among the Vendor, the Purchaser and the Issuer in relation to the Disposal |

| | |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| “Associates” | has the same meaning ascribed thereto under the GEM Listing Rules |
| “Board” | the board of Directors |
| “Business Day(s)” | a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours |
| “Company” | HMV Digital China Group Limited, a company incorporated in the Bermuda with limited liability, whose shares are listed on GEM |
| “Completion” | completion of the Disposal in accordance with the terms and conditions of the Agreement |
| “Completion Date” | 30 days after the Cut-off Date or such other date as agreed by the parties |
| “Connected person(s)” | has the meaning ascribed thereto under the GEM Listing Rules |
| “Consideration” | the consideration for the Sale Shares and the Group’s Loans, being RMB17,300,000 less the aggregate Liability as at the Cut-Off Date |
| “Cut-off Date” | 20 December 2018 |
| “Director(s)” | the director(s) of the Company |
| “Disposal” | the proposed disposal of entire issued share capital of the Target Company pursuant to the terms and conditions of the Agreement |
| “Double Growth” | Double Growth Limited, a company incorporated in Hong Kong with limited liability |
| “GEM” | the GEM of the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries |

| | |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Group’s Loans” | an amount of approximately HK\$150.5 million, being all indebtedness owned by the Target Company to the Group immediately prior to Completion |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Third Party(ies)” | third party(ies) independent of and not connected with the Company and any of its connected persons (having the meaning ascribed to it under the GEM Listing Rules) |
| “Liability” | any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether claimed or unclaimed, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for tax payable by the Target Group, which shall not exceed the amount equivalent to the Consideration |
| “Listing Committee” | has the meaning ascribed to it under the GEM Listing Rules |
| “One Dollar Productions” | One Dollar Productions Limited, a company incorporated in Hong Kong with limited liability |
| “PRC” | the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “PRC Subsidiaries” | Ying Lian Cinema (Chong Qing) Company Limited, Guangzhou Branch, Ying Lian Cinema (Chong Qing) Company Limited, Xiamen Branch and Ying Lian Cinema (Chong Qing) Company Limited, Quanzhou Branch |
| “Purchaser” | Crown King Corporation Limited, a limited company incorporated under the laws of Hong Kong |
| “RMB” | Renminbi, the lawful currency of PRC |
| “Sale Shares” | 100 ordinary share of the Target Company, representing 100% of the issued share capital of the Target Company |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the capital of the Company |

| | |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Shareholders” | holders of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target Company” | Cineunited Circuits Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Vendor immediately prior to Completion |
| “Target Group” | the Target Company, Double Growth, One Dollar Productions, Ying Lian Cinema (Chong Qing) and PRC Subsidiaries |
| “Vendor” | Peak Lion Group Limited, a company incorporated in British Virgin Islands with limited liability, a wholly-owned subsidiary of the Company |
| “Ying Lian Cinema (Chong Qing)” | Ying Lian Cinema (Chong Qing) Company Limited, a wholly foreign owned enterprise established in PRC |
| “%” | per cent |

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

Hong Kong, 4 January 2019

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