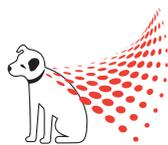


First Quarterly Report 2017-2018



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)

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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\$136.25 million for the three months ended 30 September 2017 (the “Three-month Period”), compared with approximately HK\$140.41 million (restated) for the corresponding period in 2016. For the Three-month Period, a profit attributable to owners of the Company of approximately HK\$1.85 million was recorded whilst in the corresponding period of last year, a profit attributable to owners of the Company of approximately HK\$19.1 million (restated) was recorded.

During the Three-month Period, artist management’s segment contributed a revenue of approximately HK\$42.56 million (2016: HK\$39.21 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK\$18.81 million (2016: HK\$53.86 million (restated)). The revenue from cinema operation segment was approximately HK\$9.44 million (2016: HK\$10.43 million). The revenue from the money lending business was approximately HK\$11.84 million (2016: HK\$3 million). The revenue from HMV business was approximately HK\$53.60 million (2016: HK\$33.91).

PROSPECTS

BUSINESS REVIEW

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. 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.

CAPITAL STRUCTURE

During the Three-months Period, there is no change of the capital structure of the Company:

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.



RESULTS

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three months ended 30 September 2017

		Three months ended 30 September	
	Notes	2017 (Unaudited) HK\$'000	2016 (Unaudited) (Restated) HK\$'000
Revenue	2	136,252	140,412
Cost of sales		(86,638)	(88,096)
Other income		1,998	2,499
Selling and distribution costs		(25,585)	(13,722)
Administrative expenses		(26,167)	(20,168)
Finance costs		(2,084)	(2,691)
Change in fair value of investments at fair value through profit or loss mandatorily measured at fair value		4,199	2,096
Share of results of associates		472	(295)
Share of results of a joint venture		–	1
Profit before taxation		2,447	20,036
Taxation	3	311	–
Profit for the period		2,758	20,036
Profit for the period attributable to:			
Owners of the Company		1,848	19,103
Non-controlling interests		910	933
		2,758	20,036
Other comprehensive (loss)/income for the period			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(440)	–
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of investments at fair value through other comprehensive income		(4,998)	(261)
Total other comprehensive loss for the period, net of tax		(5,438)	(261)
Total comprehensive (loss)/income for the period		(2,680)	19,775
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		(3,590)	18,842
Non-controlling interests		910	933
		(2,680)	19,775
Profit per share (2016: Restated)	4		
Basic and Diluted		HK0.01 cents	HK0.2 cents



NOTES:

1. Basis of Preparation and Significant Accounting Policies

The Group's unaudited quarterly financial statements have been prepared in accordance with the applicable disclosure requirement of Chapter 18 of the GEM Listing Rules. The amounts included in the unaudited consolidated results are computed based on all Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies adopted in preparing the unaudited consolidated financial statements for the three months ended 30 September 2017 are consistent with those followed in the annual report of the Company for the year ended 30 June 2017, except in relation to the new and revised standards, amendments and interpretations that affect the Company and its subsidiaries and are adopted for the first time for the preparation of current period's consolidated financial statements.

The condensed consolidated accounts have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

2. Revenue

	Three months ended 30 September	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) (Restated) HK\$'000
An analysis of the Group's revenue for the period is as follows:		
Artiste management services and music production	42,564	39,208
Film and television programme production, distribution and licensing – production of films and television programmes and licensing of the corresponding rights	18,813	53,860
Interest income – income from money lending	11,836	2,997
Cinema operation income	9,438	10,435
HMV Business – Sales of goods – Sales of food and beverage – Concession stores income	53,241 284 76	30,493 3,326 93
Total	136,252	140,412



NOTES: (Continued)

3. Taxation

No provision for Hong Kong Profits Tax is made in the three months ended 30 September 2017 as the Group either has no assessable profits or has a statutory tax loss brought forward from previous years.

No provision for income tax in respect of operations in overseas has been made as the Group has either no assessable profits or has a statutory tax loss brought forward from previous years in the respective jurisdictions for both periods.

4. Profit per Share

The calculation of the basic profit per share is based on the profit for the Three-month Period attributable to owners of the Company of approximately HK\$1,848,000 (2016 (restated): profit of approximately HK\$19,103,000) and the weighted average number of 13,475,783,680 ordinary shares of the Company in issue during the Three-month Period (2016 (restated): 9,783,011,331).

The calculation of the diluted profit per share for the Three-month Period is based on the profit attributable to owners of the Company of approximately HK\$1,848,000 (2016 (restated): profit of approximately HK\$19,103,000) and the weighted average number of 13,485,154,497 ordinary shares for the purpose of diluted profit per share during the Three-month Period (2016 (restated): 9,783,011,331).

5. Consolidated statement of change in equity

For the period ended 30 September 2017

	Attributable to owners of the Company							
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) 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	-	-	(261)	-	19,103	18,842	933	19,775
Issue of share	16,289	1,708,572	-	-	-	1,724,861	-	1,724,861
Transaction cost attributable to issues of shares	-	(566)	-	-	-	(566)	-	(566)
At 30 September 2016, as restated	54,617	2,050,311	(60,124)	(1,833)	(10,204)	2,032,767	2,695	2,035,462
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 for the period	-	-	(4,998)	(440)	1,848	(3,590)	910	(2,680)
At 30 September 2017	134,758	2,518,619	(65,666)	(2,452)	(7,607)	2,577,652	837	2,578,489

6. Comparative figures

Certain comparative figures have been re-classified to conform with the presentation of current period.



DIVIDEND

The Board did not recommend the payment of dividend for the Three-month Period (2016: Nil).

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

As at 30 September 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	Beneficial owner	283,840	0%
Ms. Li Mau (note 1)	Family interest	518,213,964	3.85%
Mr. Cheung Hung Lui	Beneficial owner	40,000	0%

Note:

- 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, Kevin ("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 30 September 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, DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

The Company had not granted any option under the new share option scheme during the Three-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 30 September 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>)	2,236,438,356 shares	16.60%

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). AID Treasure has acquired 640,000,000 shares on 13 October 2017. AID Treasure was interested in an aggregate of 2,876,438,356 shares, representing approximately 21.34% of the entire issued share capital of the Company as at 13 October 2017.

(ii) Interests in the Convertible Bonds

Name	Conversion Price HK\$ (<i>Note 1</i>)	No. of Underlying Shares	Percentage
Mr. Stephen Chau	0.181	19,337,017	0.14%
AID Treasure Investment Ltd (<i>Note 2</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.
- 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 business of ODMP may constitute competition with the business of the Group.

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

REVIEW OF FIRST QUARTERLY RESULTS

The unaudited consolidated results of the Group for the Three-month Period had not been audited nor reviewed by the Company’s auditor, ZHONGHUI ANDA CPA Limited, but had been reviewed by the Audit Committee of the Company, who was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

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

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

AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the “Audit Committee”) in 2004 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review the Company’s annual reports and financial statements, interim reports and quarterly reports and discuss with the management over issues relating to auditing, internal control and financial reporting. 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, Benny.

The Group’s unaudited results for the Three-month Period were reviewed by the Audit Committee, which was of the opinion that the preparation of such results had complied with the applicable accounting standards and requirements and that adequate disclosures had been made.



CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices and procedures with an aim to maximizing the shareholders' interests as well as to enhancing the stakeholders' transparency and accountability. In this respect, the Company had complied with all of the code provisions set out in the Code on Corporate Governance ("Code") contained in Appendix 15 of the GEM Listing Rules during the Three-month Period.

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2017 annual report of the Company.

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.

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.



MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less 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 confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Three-month Period.

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

Hong Kong, 14 November 2017

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

