



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)

First Quarterly Report 2018-2019

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 small and mid-sized 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.

Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange 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\$70.41 million for the three months ended 30 September 2018 (the “Three-month Period”), compared with approximately HK\$136.25 million for the corresponding period in 2017. For the Three-month Period, a loss attributable to owners of the Company of approximately HK\$18.81 million was recorded whilst in the corresponding period of last year, a profit attributable to owners of the Company of approximately HK\$1.85 million was recorded.

During the Three-month Period, artist management’s segment contributed a revenue of approximately HK\$13.77 million (2017: HK\$42.56 million). The revenue from the business segment of distribution and production of films, television programmes and music production was approximately HK\$3.67 million (2017: HK\$18.81 million). The revenue from the operation of cinema segment was approximately HK\$11.55 million (2017: HK\$9.44 million). The revenue from the money lending business was approximately HK\$9.87 million (2017: HK\$11.84 million). The revenue from HMV business was approximately HK\$31.55 million (2017: HK\$53.60 million).

Such loss during the Three-month Period was mainly due to reasons as stated in the followings:

Firstly, there is a drastic slowdown in the cultural and entertainment industry in the PRC in the second half year in 2018. This was due to an unexpected change in government policies in the PRC. The artiste management segment of the Company was slowed down;

Secondly, the slowdown of retail and consumer markets in Hong Kong and the PRC has been notable due to worsening political ties within the US and China. And the retail industry further slowed down due to typhoon and the decrease in asset prices in Hong Kong, which affects consumer sentiment in Hong Kong.

Last but not the least, there are no major titles of movies which were distributed in Hong Kong and the PRC during the three months ended 30 September 2018.

In the near future, the financial and investment markets are expected to be volatile in the second half of 2018 and the first half of 2019, including but not limited to US-China political ties, rising interest rates in the US, tightening monetary policy in the US with ripple effects across the world. And policy risks by the PRC government in the cultural and entertainment industry remain to be acute and severe. This brings high uncertainty to the artiste management segment, distribution and production of films, television programmes and music production business segments of the Company. The HMV retail business segment is under siege from the high rental fees, weakening local consumer sentiments and the worldwide rise of e-commerce. The retail business has been remaining stuck in time.

Furthermore, it is expected that the Company will focus on its core strength in movie distribution and production and other promising business segments. And it may further trim down loss-making business segments in order to preserve core values of the Company.

The Company will take cautious and conservative approaches in managing its business segments with the aim to reduce market risks and achieve a better return to the Company and shareholders.



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 Company 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 announcements dated 9 January 2017, 4 August 2017 and 18 September 2018 and the circular dated 3 September 2018 respectively.

The resolutions for approval of the acquisitions of Panorama Corporation Limited and Parkway Licensing Company Limited were approved by the shareholders of the Company on 18 September 2018.



CAPITAL STRUCTURE

During the Three-month Period, there is no change of the capital structure of the Company.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 September 2018.

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 was settled by both parties at an agreed amount of HK\$12,800,000 in July 2018.



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 2017 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three months ended 30 September 2018

		Three months ended 30 September	
	Notes	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue	2	70,410	136,252
Cost of sales		(40,730)	(86,638)
Other income		7,873	1,998
Selling and distribution costs		(25,840)	(25,585)
Administrative expenses		(23,662)	(26,167)
Finance costs		(7,613)	(2,084)
Change in fair value of investments at fair value through profit or loss mandatorily measured at fair value		(222)	4,199
Share of results of associates		892	472
(Loss)/profit before taxation		(18,892)	2,447
Taxation	3	210	311
(Loss)/profit for the period		(18,682)	2,758
(Loss)/profit for the period attributable to:			
Owners of the Company		(18,806)	1,848
Non-controlling interests		124	910
		(18,682)	2,758
Other comprehensive loss for the period			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(818)	(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		(33,314)	(4,998)
Total other comprehensive loss for the period, net of tax		(34,132)	(5,438)
Total comprehensive (loss)/income for the period		(52,814)	(2,680)
Total comprehensive loss for the period attributable to:			
Owners of the Company		(52,938)	(3,590)
Non-controlling interests		124	910
		(52,814)	(2,680)
(Loss)/earnings per share	4		
Basic		HK(0.14) cent	HK0.01 cent
Diluted		HK(0.13) cent	HK0.01 cent

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 2018 are consistent with those followed in the annual report of the Company for the year ended 30 June 2018, 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	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
An analysis of the Group's revenue for the period is as follows:		
Artiste management services and music production	13,768	42,564
Film and television programme production, distribution and licensing – production of films and television programmes and licensing of the corresponding rights	3,673	18,813
Interest income – income from money lending	9,867	11,836
Cinema operation income	11,553	9,438
HMV Business	31,549	53,601
Total	70,410	136,252

NOTES: (Continued)

3. Taxation

No provision for Hong Kong Profits Tax is made in the three months ended 30 September 2018 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. Loss/Earnings per Share

The calculation of the basic loss per share is based on the loss for the Three-month Period attributable to owners of the Company of approximately HK\$18,806,000 (2017: profit of approximately HK\$1,848,000) and the weighted average number of 13,495,120,697 ordinary shares of the Company in issue during the Three-month Period (2017: 13,475,783,680).

The calculation of the diluted loss per share for the Three-month Period is based on the profit attributable to owners of the Company of approximately HK\$18,806,000 (2017: profit of approximately HK\$1,848,000) and the weighted average number of 14,208,505,673 ordinary shares for the purpose of diluted profit per share during the Three-month Period (2017: 13,659,055,123).

5. Consolidated statement of change in equity

For the period ended 30 September 2018

	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 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	-	-	(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
At 1 July 2018	134,951	2,523,239	(173,836)	(2,644)	(3,083)	2,478,627	(382)	2,478,245
Total comprehensive income (loss) for the period	-	-	(33,314)	(818)	(18,806)	(52,938)	124	(52,814)
At 30 September 2018	134,951	2,523,239	(207,150)	(3,462)	(21,889)	2,425,689	(258)	2,425,431

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 (2017: Nil).

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

As at 30 September 2018, 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 (<i>note 1</i>)	Beneficial owner	1,114,883,840	8.26%
Ms. Li Mau (<i>note 2</i>)	Family interest	518,213,964	3.84%
Mr. Cheung Hung Lui	Beneficial owner	40,000	0%

Note:

- Mr. Shiu Stephen Junior is the Chairman and executive Director of the Company. 1,110,000,000 shares were pledged to Wan Tai Investments Limited, a subsidiary of CCB International Group Holdings Limited on 2 January 2018.
- Ms. Li Mau ("Ms. Li") is the executive Director of the Company. AID Partners Urban Development Company Limited ("AID Partners") indirectly holds 518,213,964 shares. 60% of the issued share capital of AID Partners are held by Mr. Wu King Shiu, Keivin ("Mr. Wu"). Accordingly, Mr. Wu is deemed to be interested in the shares held by AID Partners. 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 2018, 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 2018, 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	21.31%

Note:

AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Life Science Holdings Limited, a listed company on GEM (stock code: 8088).



(ii) Interests in the Convertible Bonds

Name	Conversion Price HK\$	No. of Underlying Shares	Percentage
AID Treasure Investment Ltd <i>(Note 1)</i>	0.305	163,934,426	1.21%
Wan Tai Investments Limited <i>(Note 2)</i>	0.273	549,450,549	4.07%

Notes:

1. AID Treasure Investment Ltd is an indirect wholly-owned subsidiary of AID Life Science Holdings Limited, a listed company on GEM (stock code: 8088). The conversion price was adjusted with effect from 12 June 2017.
2. Wan Tai Investments Limited is a limited liability business company incorporated under the laws of the British Virgin Islands and an indirectly wholly-owned special purpose vehicle of CCB International (Holdings) Limited. CCB International (Holdings) Limited is an investment services flagship which is wholly-owned by China Construction Bank Corporation, a joint stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939).



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 Ms. Yang Yusi.

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 2018 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, 12 November 2018

As at the date hereof, the Board comprises:

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

