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)

INTERIM REPORT 2016-2017

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.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

The Company and its subsidiaries (collectively referred to as the "Group") reported a total revenue of approximately HK$330.9 million for the six months ended 31 December 2016 (the "Six-month Period"), compared with approximately HK$80.9 million for the corresponding period in 2015. For the Six-month Period, a profit attributable to owners of the Company of approximately HK$31.2 million was recorded whilst in the corresponding period of last year, a loss attributable to owners of the Company of approximately HK$15.6 million was recorded. Such increase is mainly attributable to the outstanding performance of the distribution and production of films and television programmes during the Six-month Period.

During the Six-month Period, artist management's segment contributed a revenue of approximately HK$68.4 million (2015: HK$29.1 million). The revenue from the business segment of film and television programme production, distribution and licensing was approximately HK$152.1 million (2015: HK$33.5 million). The revenue from cinema operation segment was approximately HK$17.2 million (2015: HK$14.3 million). The revenue from the money lending business was approximately HK$6.4 million (2015: HK$4 million). The revenue from the HMV business was approximately HK$86.8 million (2015: HK$ nil).

BUSINESS REVIEW

After the completion of the acquisition of HMV M&E Limited in August 2016, the Board is of the view that Hong Kong shall remain as a major market to develop and revitalize the "HMV" brand, and a strategic bridgehead to tap into the Asia-Pacific market, especially The People's Republic of China (the "PRC"), in the foreseeable future. The Group is consolidating the market presence of "HMV" in Hong Kong and the PRC, which can further enhance the brand value of "HMV" and help to gain immediate access to the well-established retail network in Hong Kong, a market which the "HMV" brand has over twenty (20) years of operating history.

The Group intends to continue developing and streamlining its entertainment, movie production and distribution businesses. The Group would strengthen and continue its strategy in revitalizing the "HMV" brand into a lifestyle brand by enhancing the product mix and creating an integrated entertainment platform in order to establish an integrated online and offline business ecology in the entertainment and lifestyle sector.

In addition, the Company also plans to leverage on the widely recognized brand name of "HMV" to develop an over-the-top ("OTT") broadcasting channel. The Directors are of the view that the broadcasting market in Hong Kong is entering into a new era which the traditional free-licensed television broadcasting will soon be taken over by OTT broadcasting. The Company intends to develop the OTT broadcasting channel under the brand of "HMV", which customers will be offered with a wide varieties of films, pop songs and TV series, etc. over the Internet.

The Group is operating cinemas in Xiamen, Guangzhou, Jieshi and Chongqing in PRC, which has started generating incomes to the Group. In addition, the Company intends to continue expanding its cinema operation by (a) renting more space and acquiring more advance equipment etc. to expand the existing cinemas; and (b) setting up or acquiring additional cinemas in different provinces in PRC.

The Company is going to operate an additional cinema in Quanzhou in PRC. This movie theatre in Quanzhou is expected to have six film houses inside with an aggregate of about 850 seats. The relevant design and construction documents have been submitted to the landlord for the commencing of decoration. Hence, the operation of the cinema is expected to commence during the second quarter of 2017.

The Directors believe that it will provide an opportunity for the Company to be successful in cinema operation in PRC.

The Group will continue to develop its existing business such as artists and model management, entertainment and money lending. In addition, the Group will maintain a continuous production and launch of movies, and continue to acquire the movie distribution rights in the market. And to cope with the fast changing market, the Group will put more focus on the newly developed filmed entertainment and new media exploitations.

Share and Connected Transaction relating to acquisition of the Target Group announced on 29 July 2016

On 29 July 2016, Creative Projects Company Limited, a wholly-owned subsidiary of the Company (the “Purchaser”), Fugu Enterprises Inc. and Mr. Kwong Kwan Yin, Roy (the “Vendors”) entered into the Stock Purchase Agreement (the “SPA”). The consideration for the acquisition is the sum of HK$18,000,000, which shall be settled by the Purchaser by cash payable to the Vendors of HK$8,000,000 and by issue of 11,494,252 consideration shares at the issue price of HK$0.87 per consideration share (or 22,988,504 consideration shares at the issue price of HK$0.435 per consideration share after completion of bonus issue on 15 February 2017) of the Company.

Pursuant to the SPA, the Purchaser agreed to purchase and the Vendors agreed to sell the sale shares, representing 51% of the entire issued share capital of Celestial Talent International Limited (the “Target Company”). Upon completion, Target Company and its subsidiaries (the “Target Group”) will become the subsidiaries of the Company.

The Target Company is the sole beneficial owner of the issued share capital of (i) Access Max International Limited, (ii) Unison Associates International Limited, (iii) GZ Mania Management Limited and (iv) GME Casting Studio Limited. GZ Mania Management Limited and GME Casting Studio Limited are principally engaged in artiste management services and music production. Each of Access Max International Limited and Unison Associates International Limited is an investment holding company incorporated in BVI and has no business activities.

Fugu Enterprises Inc. interested in approximately 12% of the issued share capital of a subsidiary of the Company and Mr. Kwong Kwan Yin, Roy is a director of a subsidiary of the Company and has interested in approximately 8% of the issued share capital of a subsidiary of the Company.

Details of the share and connected transaction relating to the acquisition of the Target Company were disclosed in the announcement dated 29 July 2016.

The acquisition of Panorama Group and involving the issue of consideration shares under specific mandate announced on 10 August 2016

On 10 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the "Purchaser") and the Company entered into the Sale and Purchase Agreement with Well Charm International Development Limited (the "Vendor I") and Mr. Fung Yu Hing Allan (the "Vendor II") (collectively the "Vendors"), pursuant to which the Vendors have agreed to sell and the Purchaser has agreed to purchase 140 ordinary shares of Panorama Entertainment Group Limited ("PEGL"), representing 70% of the issued share capital in PEGL (the "Sale Shares I"), and 70 ordinary shares of each of Parkway Management Limited ("PW") and Panorama Corporation Limited ("PCL"), representing 70% of the issued share capital in each of PW and PCL (the "Sales Shares II"), at an aggregate consideration of HK$35,000,000, which shall be satisfied by the issue and allotment of aggregate 48,275,862 consideration shares at an issue price of HK$0.725 per consideration share at completion in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, PEGL and its subsidiaries, PW and PCL, (the "Panorama Group") is indirectly owned subsidiaries of the Company. Upon Completion of the acquisition of Sale Shares I by the Purchaser, Vendor I still owns 30% of the issued share capital of PEGL, and after the acquisition of Sale Shares II by the Purchaser, Vendor II still owns 30% of the issued share capital of each of PW and PCL.

Details of the acquisition were disclosed in the announcement dated 10 August 2016.

The acquisition of PEGL, PW and PCL has been terminated by all parties by entered into a termination deed on 16 December 2016.

Details of the termination were disclosed in the announcement dated 16 December 2016.

The acquisition of Parkway Licensing Company Limited and involving the issue of consideration shares under specific mandate on 11 August 2016

On 11 August 2016, Bright Jumbo Limited, a wholly-owned subsidiary of the Company (the "Purchaser") and the Company entered into the Sale and Purchase Agreement with Mr. Fung Yu Hing Allan (the "Vendor I"), Mr. Wong Wing Kwong Kelvin (the "Vendor II"), Ingate International Company Limited, (the "Vendor III"), (Vendor I, Vendor II and Vendor III, collectively the "Vendors"), pursuant to which the Vendors agreed to sell and the Purchaser agreed to purchase in aggregate of 70,000 ordinary shares of Parkway Licensing Company Limited ("PLC"), of the issued share capital in PLC, representing approximately 70% in aggregate of the issued share capital of PLC. The considerations for the Acquisition is in the sum of HK$7,000,000, which will be settled by the Purchaser by cash payable to the Vendors of HK$1,000,000 and remaining HK$6,000,000 by issue of an aggregate 8,275,861 consideration shares at the issue price of HK$0.725 per consideration share of the Company in accordance with the terms and conditions of the Sale and Purchase Agreement.

Upon completion, PLC will become indirectly owned subsidiary of the Company. After completion of the acquisition, Vendor I still owns 15% of the issued share capital of PLC; Vendor II still owns 3% of the issued share capital of PLC and Vendor III still owns 12% of the issued share capital of PLC.

Details of the acquisition were disclosed in the announcement dated 11 August 2016.

The acquisition of PLC has been terminated by all parties by entered into a termination deed on 16 December 2016.

Details of the termination were disclosed in the announcement dated 16 December 2016.

The acquisition of the entire issued share capital of Anyplex Hong Kong Limited and involving the issue of consideration shares under specific mandate on 2 November 2016 and circular dated 23 January 2017

On 2 November 2016, the Company entered into a Sale and Purchase Agreement (the "SPA") with Anyplex Holding Limited (the "Vendor"), being the shareholder of Anyplex Hong Kong Limited (the "Target Company" and/or "Anyplex"), pursuant to which the Company intends to acquire and the Vendor intends to sell 100% of the issued share capital of the Target Company (the "Acquisition"). The total consideration of Acquisition is HK$46,500,000, in which (i) HK$5,500,000 shall be satisfied by payment of the refundable deposit; and (ii) HK$41,000,000 payable by way of consideration shares to be allotted and issued by the Company, which shall be subject to the terms and conditions contained in the SPA.

The Target Company is one of the pioneer OTT (over-the-top) VOD operators in Greater China providing legitimate content as early as 2009 and is based in Hong Kong. The Target Company is serving the global Chinese community through partnership with leading Telco and mobile carriers in Hong Kong and Taiwan. It licensed up-to-date and all-time-hits movies from leading studios in Hollywood. Customers can register an Anyplex account and enjoy their personal theater anytime anywhere via multiple devices including smart phones, tablets, personal computers and smart TVs.

Details of the acquisition were disclosed in the announcement dated 2 November 2016 and circular dated 23 January 2017.

Memorandum of Understanding

Strategic Cooperation Framework Agreement announced on 7 December 2016

On 1 December 2016, the Company entered into a strategic cooperation framework agreement (the "Framework Agreement") with Nextainment Pictures (Tianjin) Co., Limited (the "Investor"), setting out the major terms of cooperation between the parties for the proposed joint investment in the distribution of movies (collectively, "Movies" and each a "Movie") which are expected to be distributed in the People's Republic of China ("PRC").

Pursuant to the Framework Agreement, the Company will be responsible for, amongst other things, obtaining the film rights from overseas movie production studios; the necessary approvals from respective authorities; the intellectual property rights and the distribution right of each of the Movie in PRC; while the Investor will be responsible for, amongst other things, for the promotion; advertising and distribution of each of the Movie in PRC. In addition, the Investor shall contribute not over 25% of the investment money of each Movie. The Group plans to introduce many movies into China market through this cooperation, including The Expandabells aka The Belles (starring Nicole Kidman, Helen Mirren, Zhang Ziyi and Li Bingbing); Patriots Day (starring Mark Wahlberg); Angel Has Fallen (starring Gerard Butler and Morgan Freeman), the third episode of the series of the big hit London Has Fallen and Olympus Has Fallen; and Final Score (starring Pierce Brosnan and Cheung Chi Lam) etc. The Group believes it can benefit from Wepiao's ticketing platform in PRC, expand the coverage and diversity of the Group's business, and strengthen its business chain.

According to the information provided by the Investor, the Investor is a new brand of Beijing WeYing Technology Co. Ltd ("WeYing"). WeYing founded in May 2014 and it is a mobile-internet based marketing/distribution platform for films, sports and showbiz. It is an online bridge between culture/entertainment industries and internet users. WeYing contains two major ticketing platforms, WePiao and Gewara. WePiao's three accesses include WeChat Payment, QQ Wallet and WePiao App, covering 5000 cinemas, 1200 theatres, arenas and exhibition halls and 90% film audience. It is the fastest growing entertainment marketing/distribution company of 2015. In the Spring Festival window of 2016, Weying acquired 30%+ market share.

The Directors believes that the entering into the Framework Agreement, the Company and the Investor has established a strategic cooperative relationship by starting of the cooperation of those Movies and it also can further maintaining a continuous launch of movies in the market. The Board believes that the future cooperation is benefit both parties' business development, and help to seize the market opportunities. By utilizing the enormous client and platform resources of Wepiao, the Group can extend the exposure in PRC market, at the same time, further enhance the advantage in introducing foreign movies, as well as expand the business chain.

As at the date of this Interim Report, there is no definitive agreement that has been signed and finalized.

Co-operation Agreement announced on 8 December 2016

On 8 December 2016, the Company entered into a cooperation agreement (the "Co-operation Agreement") with an independent third party (the "Investor"), pursuant to which the Company and the Investor are to co-operation in the operation and management of a themed shopping mall in Beijing, People's Republic of China ("PRC"). According to the Co-operation Agreement, the Company will be responsible for, amongst other things, contributing an exclusive right to use the brand "HMV" in the operation of a themed shopping mall.

The Investor is a reputable real estate developer in the PRC which is based in Beijing. The Directors believe that the co-operation with the Investor will enhance the presence of the "HMV" brand in the PRC.

As at the date of this Interim Report, there is no definitive agreement that has been signed and finalized.

The acquisition of the entire issued share capital of Time Edge Limited and involving the issue of convertible bond under specific mandate on 13 December 2016

On 13 December 2016, Sunny On Corporation Limited (the "Purchaser") (a wholly-owned subsidiary of the Company) and Honour Best Holdings Limited (the "Vendor")(a wholly-owned subsidiary of AID Partners Technology Holdings Limited, which is interested in approximately 20.44% of the issued share capital of the Company) entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase 1 ordinary share of Time Edge Limited (the "Target Company"), representing 100% of its entire issued share capital, at the total consideration of HK$50,000,000, which shall be satisfied by the issue of the Convertible Bond by the Company to the Vendor, subject to the terms and conditions contained in the Sale and Purchase Agreement.

Details of the acquisition were disclosed in the announcement dated 13 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, total borrowing of the Group (excluding payables) amounted to approximately HK$160.5 million (30 June 2016: HK$153.6 million). During the Six-month Period, the Group's gearing ratio (expressed as a percentage of total borrowing over total assets) was 6.88% (30 June 2016: 27.84%).

In addition to its share capital and reserves, the Group also made use of cash flow generated from operations and the borrowings, mainly including convertible bond, promissory note payable and short term loans, 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 in 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 three months ended 31 December 2016, the capital structure of the Company was changed as follows:

Convertible Bond

The Company issued zero coupon bonds with a nominal value of HK$3.5 million which converted into 9,370,816 shares at an initial conversion price of HK$0.3735 per share to Mr. Stephen Chau on 16 January 2017.

Bonus Issue

On 2 February 2017, the ordinary resolutions were passed by the shareholders to approve the Company to implement bonus issue (the "Bonus Issue") on the basis of one (1) bonus share for every one (1) share held by the qualifying shareholders whose names appear on the register of members of the Company as at 13 February 2017 (the "Record Date").

On the basis of 5,471,099,035 existing shares in issue as at the Record Date, it is anticipated that 5,471,099,035 bonus shares will be issued and dispatched to the shareholders on 15 February 2017. After the completion of the Bonus Issue, there will be a total of 10,942,198,070 shares in issue as enlarged by the Bonus Issue.

COMMITMENTS

Total commitments of the Group as at 31 December 2016 was approximately HK$657.2 million (30 June 2016: HK$424.5 million).

NUMBER AND REMUNERATION OF EMPLOYEES

The Group's number of employees as at 31 December 2016 was 390 (31 December 2015: 132), 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

The Group has three pending litigations as below and in the opinion of the Board, it is premature to predict the outcome.

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 court has made an order in terms of the plaintiff's application is granted and final judgement is granted to the plaintiff as per its summons on 21 January 2016. The Company submitted the documents to commence the appeal and won the appeal on 13 July 2016. Green Giant and the Company be arranged to re-fix the hearing in future.

In the opinion of the Directors, the Note payable of HK$14,160,000 is properly recognized as at 30 June 2015 and 30 June 2016, as such, the Directors did not consider that the litigation to have any significant impact on the Group's financial position and operations.

A writ of summons was issued against Champion Peak Corporation Limited, a wholly-owned subsidiary of the Company by Television Broadcasts Limited on 21 July 2016

A writ of summons (the "Writ") was issued against Champion Peak Corporation Limited ("Champion Peak"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 21 July 2016. It was alleged in the Writ that TVB claims against Champion Peak the sum of HK$935,000, being the outstanding additional shooting fees from 16 March 2015 to 1 June 2015. Champion Peak filed and served a Defence in October 2016.

A writ of summons was issued against New Noble Corporation Limited, a wholly-owned subsidiary of the Company by Television Broadcasts Limited on 19 August 2016

A writ of summons (the "Writ") was issued against New Noble Corporation Limited ("New Noble"), a wholly-owned subsidiary of the Company by Television Broadcasts Limited ("TVB") on 19 August 2016. It was alleged in the Writ that TVB claims against New Noble the sum of HK$278,000, being the agreed fee for the subject shooting days, including the shooting of the main film, the "making-of" video and the roller feature from 14 July 2013 to 30 August 2013. New Noble filed and serve a Defence in November 2016.

EVENTS AFTER THE REPORTING PERIOD

The acquisition of the entire issued share capital of Panorama Corporation Limited and Parkway Licensing Company Limited and involving the issue of consideration shares under specific mandate on 9 January 2017

The Panorama Acquisition

The acquisition of the 7,000 ordinary shares of Panorama Corporation Limited ("Panorama Corporation"), representing 70% of the entire issued share capital in Panorama Corporation ("Panorama Sale Shares") by Digital Joyful Limited, a wholly-owned subsidiary of the Company (the "Purchaser") from Mr. Fung Yu Hing Allan (the "Panorama Vendor") pursuant to the agreement entered into between the Panorama Vendor, the Purchaser and the Company in relation to the acquisition (the "Panorama Agreement").

On 9 January 2017, the Purchaser and the Company entered into the Panorama Agreement with the Panorama Vendor, pursuant to which the Panorama Vendor have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Panorama Sale Shares, representing approximately 70% of the issued share capital of Panorama Corporation at consideration of HK$31,500,000 ("Panorama Consideration"), which shall be satisfied by the issue and allotment of 43,448,275 shares (or 86,896,551 shares after completion of bonus issue on 15 February 2017) by the Company to the Panorama Vendor as fully settlement of the Panorama Consideration pursuant to the Panorama Agreement ("Panorama Consideration Shares") in accordance with the terms and conditions of the Panorama Agreement.

The Parkway Acquisition

The acquisition of the 36,000 ordinary shares of Parkway Licensing Company Limited ("Parkway Licensing"), representing 36% of the entire issued share capital in Parkway Licensing ("Parkway Sale Shares I"), 6,000 ordinary shares of Parkway Licensing, representing 6% of the entire issued share capital in Parkway Licensing, (" Parkway Sale Shares II") and 28,000 ordinary shares of Parkway Licensing, representing 28% of the entire issued share capital in Parkway Licensing ("Parkway Sale Shares III") by Digital Joyful Limited, a wholly-owned subsidiary of the Company (the "Purchaser") from Mr. Fung Yu Hing Allan, Mr. Wong Wing Kwong Kelvin and Ingate International Company Limited, (the "Parkway Vendors") pursuant to the agreement entered into between the Parkway Vendors, the Purchaser and the Company in relation to the Sale and Purchase Agreement (the "Parkway Agreement").

On 9 January 2017, the Purchaser and the Company entered into the Parkway Agreement with the Parkway Vendors, pursuant to which the Parkway Vendors have conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Parkway Sale Shares I, II and III, representing approximately 70% of the issued share capital of Parkway Licensing at a consideration of HK$7,000,000 which shall be satisfied by cash and issue and allotment of 8,275,861 shares (or 16,551,723 shares after completion of bonus issue on 15 February 2017) by the Company ("Parkway Consideration Shares") to the Parkway Vendors as fully settlement of the Consideration pursuant to the Parkway Agreement.

Details of the acquisitions were disclosed in the announcement dated 9 January 2017.

Potential Acquisition of an Entertainment Group based in Taiwan announced on 6 February 2017

On 6 February 2017, the Company has entered into a non-binding letter of intent ("LOI") with a third party independent from the Company and its connected persons (as defined under the GEM Listing Rules) relating to the potential acquisition of the entire issued share capital of a Taiwan-based company (the "Target", together with its subsidiaries, the "Target Group") by the Company (the "Potential Transaction").

Pursuant to the LOI, the Potential Transaction is conditional upon, amongst others: (i) satisfaction of due diligence on the Target Group by the Company; (ii) issue of legal opinions from counsels of relevant jurisdictions on, amongst other things, the legality of corporate structure and business of Target Group; (iii) no material adverse change to the business of the Target Group from the date of the LOI; (iv) execution and completion of definitive agreement(s) in the form and substance mutually acceptable to relevant parties; and (v) other reasonable and customary conditions reasonably requested by the Company. It is expected that the consideration of the Potential Transaction is to be settled by way of cash and issue of consideration shares by the Company (which shall be subject to lock-up arrangement).

The Target Group is an integrated entertainment group primarily engaged in the investment in and production of motion pictures projects, including but not limited to a number of blockbuster movies, including box office hits and Golden Horse Award winning movies, which are one of the highest grossing Taiwanese film in the People's Republic of China, namely, "Our Times". The Target Group also has some upcoming projects in development. The Target Group is one of the main investors for "Our Times", and has the right to produce "Our Times" series movies and video products. Subsequent to the Potential Transaction, the Target Company will be a wholly-owned subsidiary of the Company. The Directors believes that the Potential Transaction is in line with the Company, together with its subsidiaries' (the "Group") strategic to expand and broaden its territorial reach and allows the Group to strengthen its presence for the movie production and distribution business segments in Asia-Pacific.

Save for the LOI, the Company (or any of its subsidiaries) have not entered into any agreement(s) relating to the Potential Transaction.

As at the date of this Interim Report, there is no definite agreement that has been signed and finalized.

RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the Three-month and Six-month Period ended 31 December 2016 together with the comparative unaudited figures for the corresponding period in 2015 as follows:

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

		For the three months ended 31 December		For the six months ended 31 December	
	Notes	**2016** **HK$'000**	2015 HK$'000	**2016** **HK$'000**	2015 HK$'000
Revenue	2 & 3	**107,123**	54,161	**330,926**	80,919
Other income		**7,212**	356	**9,711**	758
Cost of sales	3	**(68,113)**	(37,096)	**(238,780)**	(60,932)
Selling and distribution costs		**(21,749)**	(2,291)	**(35,471)**	(4,969)
Administrative expenses		**(13,118)**	(15,582)	**(33,317)**	(29,559)
Change in fair value of investments at fair value through profit or loss mandatorily measured at fair value		**(380)**	248	**1,716**	871
Finance costs		**(102)**	(1,653)	**(2,793)**	(3,692)
Share of results of associates		**590**	636	**295**	731
Share of results of a joint venture		**–**	(1)	**1**	4
Profit/(loss) before taxation	4	**11,463**	(1,222)	**32,288**	(15,869)
Taxation	5	**210**	–	**210**	–
Profit/(loss) for the period		**11,673**	(1,222)	**32,498**	(15,869)
Profit/(loss) for the period attributable to:					
Owners of the Company		**11,334**	(1,428)	**31,226**	(15,628)
Non-controlling interests		**339**	206	**1,272**	(241)
		11,673	(1,222)	**32,498**	(15,869)

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

For the three months and six months ended 31 December 2016

		For the three months ended 31 December		For the six months ended 31 December	
	Notes	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Other comprehensive income/(loss)					
Exchange differences on translating foreign operation		**(1,144)**	(786)	**(1,144)**	(694)
Change in fair value of investments at fair value through other comprehensive income		**(1,044)**	(12,861)	**(1,305)**	(17,114)
Total other comprehensive income/(loss) for the period, net of income tax		**(2,188)**	(13,647)	**(2,449)**	(17,808)
Total comprehensive income/(loss) for the period		**9,485**	(14,869)	**30,049**	(33,677)
Total comprehensive loss for the period attributable to:					
Owners of the Company		**9,146**	(15,075)	**28,777**	(33,436)
Non-controlling interests		**339**	206	**1,272**	(241)
		9,485	(14,869)	**30,049**	(33,677)
Profit/(loss) per share (2015: restated)	6				
Basic & diluted		**HK0.22 cents**	HK(0.06) cents	**HK0.6 cents**	HK(0.61) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31 December 2016 (Unaudited) HK$'000	30 June 2016 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	7	**113,819**	54,318
Intangible assets	8	**188,178**	3,621
Interest in associates	9	**24,783**	27,658
Interest in a joint venture		**111**	110
Investments at fair value through other comprehensive income	11	**17,483**	18,787
Other financial assets	12	**259,107**	–
Prepayments, deposits and other receivables	13	**127,507**	60,549
Film rights and films production in progress	7	**183,474**	173,520
Loans receivables	14	**285**	214
Goodwill	15	**1,084,295**	–
Deferred tax assets		**2,965**	3,124
		2,002,007	341,901
Current assets			
Inventories	16	**37,254**	214
Loans receivables	14	**59,073**	38,199
Trade receivables	17	**18,639**	15,172
Prepayments, deposits and other receivables	13	**139,800**	74,451
Investments at fair value through profit or loss	18	**31,840**	27,728
Pledged bank deposits		**14,736**	8,070
Bank and cash balances		**30,894**	46,108
		332,236	209,942
Current liabilities			
Trade payables		**77,173**	21,391
Accruals, deposits received and other payables		**128,750**	70,739
Other borrowings	20	**125,357**	118,372
Convertible bonds		**2,000**	2,000
Promissory note payable		**14,160**	14,160
Finance lease payables		**85**	85
Tax payables		**–**	–
		347,525	226,747
Net current liabilities		**(15,289)**	(16,805)
Total assets less current liabilities		**1,986,718**	325,096

	Notes	31 December 2016 (Unaudited) HK$'000	30 June 2016 (Audited) HK$'000
Non-current liabilities			
Accruals, deposits received and other payables		–	12,497
Finance lease payables		1,875	1,980
Provision for asset retirement		2,739	2,887
Convertible bonds		5,919	5,919
Derivative financial instruments		11,099	11,099
Deferred tax liabilities		16,033	113
		37,665	34,495
NET ASSETS		1,949,053	290,601
Capital and reserves			
Share capital		54,617	38,328
Reserves		1,891,402	250,511
Equity attributable to owners of the Company		1,946,019	288,839
Non-controlling interests		3,034	1,762
TOTAL EQUITY		1,949,053	290,601

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 December 2016

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Contributed surplus HK$'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 2015	1,582	184,209	(69,433)	261,837	55	(100,233)	278,017	(614)	277,403
Total comprehensive loss for the period	–	–	(17,114)	–	(694)	(15,628)	(33,436)	(241)	(33,677)
Issue of shares upon bonus issue	28,746	(28,746)	–	–	–	–	–	–	–
Issue of shares upon placing	8,000	192,000	–	–	–	–	200,000	–	200,000
Transaction cost attributable to issues of shares	–	(5,158)	–	–	–	–	(5,158)	–	(5,158)
At 31 December 2015	38,328	342,305	(86,547)	261,837	(639)	(115,861)	439,423	(855)	438,568
At 1 July 2016	38,328	342,305	(59,863)	–	(1,833)	(30,098)	288,839	1,762	290,601
Total comprehensive income for the period	–	–	(1,305)	–	(1,144)	31,226	28,777	1,272	30,049
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)	1,128	1,946,019	3,034	1,949,053

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash used in operating activities	**(55,404)**	(127,717)
Net cash used in investing activities	**1,339**	(52,480)
Net cash generated from financing activities	**46,661**	207,522
Net increase in cash and cash equivalents	**(7,404)**	27,325
Effect of foreign exchanges rate changes	**(1,144)**	(694)
Cash and cash equivalents at beginning of the period	**54,178**	20,722
Cash and cash equivalents at end of the period	**45,630**	47,353
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**45,630**	47,353

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 2016.

The unaudited condensed consolidated financial statements for the six months ended 31 December 2016 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 of loss at the point of sale to customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2. REVENUE (Continued)

	Three months ended 31 December		Six months ended 31 December	
	2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000	**2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000
An analysis of the Group's revenue for the period is as follows:				
Artiste management services and music production	**29,164**	17,437	**68,372**	29,099
Production, licensing and distribution of films and television programmes	**14,837**	26,046	**152,088**	33,492
Money lending				
– Loan interest income	**3,433**	3,374	**6,430**	4,020
Operation of cinemas	**6,768**	7,304	**17,203**	14,308
HMV Business				
– Sales of goods	**49,930**	–	**80,423**	–
– Sales of food and beverage	**2,873**	–	**6,199**	–
– Concession stores income	**118**	–	**211**	–
	107,123	54,161	**330,926**	80,919

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 and music production, (ii) production, licensing and distribution of films and television programmes, (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 and music production		Production, licensing and distribution of films and television programmes		Money lending		Securities and bonds investment		Operation of cinemas		HMV Business		Total	
	Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December		Six months ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue														
Revenue from external customers	**68,372**	29,099	**152,088**	33,492	**6,430**	4,020	**-**	-	**17,203**	14,308	**86,833**	-	**330,926**	80,919
Segment results	**3,038**	2,261	**33,624**	(877)	**6,430**	2,640	**1,716**	871	**5,813**	(1,890)	**8,536**	-	**59,157**	3,005
Bank interest income													**108**	53
Unallocated corporate expenses, net													**(24,480)**	(15,970)
Finance costs													**(2,793)**	(3,692)
Shares of results of associates													**295**	731
Share of results of a joint venture													**1**	4
Profit/(loss) before taxation													**32,288**	(15,869)
Taxation													**210**	-
Profit/(loss) for the period													**32,498**	(15,869)

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. PROFIT/(LOSS) BEFORE TAXATION

	Three months ended 31 December		Six months ended 31 December	
	2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000	**2016 (Unaudited) HK$'000**	2015 (Unaudited) HK$'000
Profit/(loss) before taxation has been arrived at after charging/(crediting):				
Staff costs, including directors' remuneration				
– Basic salaries and allowances	**9,329**	4,389	**21,911**	7,758
– Retirement benefits scheme contributions	**657**	219	**1,212**	387
Total staff costs	**9,986**	4,608	**23,123**	8,145
Depreciation of property, plant and equipment	**(2,103)**	932	**(6,568)**	1,422
Minimum lease payments under operating leases:				
– Land and buildings	**5,174**	1,583	**13,083**	3,176
Exchange loss/(gain)	**398**	(285)	**1,310**	(265)

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 2015: 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. PROFIT/(LOSS) PER SHARE

The calculation of the basic profit/(loss) per share is based on the profit for the Six-month Period attributable to owners of the Company of approximately HK$31,226,000 (2015: loss of approximately HK$15,628,000) and the weighted average number of 5,176,616,942 ordinary shares of the Company in issue during the Three-month Period (2015: 2,546,453,876 (restated)).

The calculation of the diluted profit/(loss) per share for the Six-month Period is based on the profit attributable to owners of the Company of approximately HK$31,226,000 (2015: loss of approximately 15,628,000) and the weighted average number of 5,195,358,575 ordinary shares for the purpose of diluted profit per share during the Three-month Period (2015: 2,546,453,876 (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 2016	54,318	26,710	146,810
Exchange realignment	(3,458)	–	–
Additions	17,185	–	15,529
Acquisition of subsidiary	52,342	–	–
Transfer to film rights	–	22,480	(22,478)
Depreciation and amortisation	(6,568)	(5,577)	–
At 31 December 2016	113,819	43,613	139,861

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 2016, 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 2015: 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. INTANGIBLE ASSETS

	Club membership HK$'000	Management contract HK$'000	HMV Trademarks HK$'000	Total HK$'000
Cost:				
At 1 July 2016	2,930	731	–	3,661
Acquisition of a subsidiary	–	–	184,700	184,700
At 31 December 2016	2,930	731	184,700	188,361
Accumulated amortization:				
At 1 July 2016	–	40	–	40
Charged for the year	–	143	–	143
At 31 December 2016	–	183	–	183
Carrying amounts:				
At 31 December 2016	2,930	548	184,700	188,178
At 30 June 2016	2,930	691	–	3,621

The Group's club membership of HK$2,930,000 at 31 December 2016 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 2016 (level 3 fair value measurements).

The HMV Trademarks of HK$184,700,000 at 31 December 2016 is assessed as having indefinite useful life.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

9. Interests in associates

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Unlisted investments		
Share of net assets	**4,684**	7,559
Goodwill	**20,099**	20,099
	24,783	27,658

Particulars of the associates as at 31 December 2016 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
GME Holdings Limited	Hong Kong	55%	Artiste management
Starz Holdings Limited	Hong Kong	25%	Artiste 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	
	2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
Revenue	**17,884**	8,261
Profit for the period	**614**	919
The Group's share of profit of associates	**295**	731

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

10. 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 2016 (Unaudited) HK$'000	30 June 2016 (Audited) HK$'000
In respect of:		
Rented premises		
Within one year	**54,241**	17,286
In the second to fifth year, inclusive	**166,791**	77,318
Over fifth year	**190,854**	221,368
Total	**411,886**	315,972

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 2016 (Unaudited) HK$'000	30 June 2016 (Audited) HK$'000
Amounts contracted for but not provided in the consolidated financial statements in respect of:		
Film production costs	**61,988**	96,757
Guaranteed sum to be paid under distributors agreements	**183,362**	1,622
Others	**–**	10,176
	245,350	108,555

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

11. INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	**As at 31 December 2016 (Unaudited) HK$'000**	As at 30 June 2016 (Audited) HK$'000
Listed securities			
– Equity securities listed in Hong Kong, at fair value	(b)	**17,483**	18,787
		17,483	18,787

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) The fair values of listed securities are based on current bid prices.

12. OTHER FINANCIAL ASSETS

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
4% of the issued share capital of Prime Focus World N.V.	**259,107**	–

The acquisition was completed on 29 July 2016 and 259,106,982 ordinary shares were issued to the nominee of AID Partners Visual Entertainment, L.P. on 29 July 2016.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Prepayments *(note)*	**177,043**	113,374
Deposits and other receivables	**90,264**	46,827
Less: Impairment loss	**–**	(25,201)
	267,307	135,000

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 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
– Non-current portion		
Prepayments	108,493	47,721
Deposits	19,014	12,828
	127,507	60,549
– Current portion		
Prepayments	68,550	40,552
Deposits	683	181
Other receivables	70,567	33,718
	139,800	74,451
	267,307	135,000

Note:

Prepayments mainly represent upfront payments for film productions, distribution rights and prepaid administrative expenses. As at 31 December 2016, 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 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Loan receivables	59,358	41,913
Less: Impairment loss	–	(3,500)
	59,358	38,413
Analysed as :		
Non-current assets	285	214
Current assets	59,073	38,199
	59,358	38,413

As at 31 December 2016, all loan receivables are denominated in Hong Kong dollars, secured by customers' pledged properties, carried at fixed interest rate ranging from 5% to 36% (30 June 2016: 5% to 36%) per annum with the payment term ranging from 30 days to 4 years (30 June 2016: 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 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
0 – 30 days	41,558	3
31 – 90 days	–	–
91 – 180 days	–	4,294
181 to 365 days	17,800	34,116
Over 365 days	–	–
	59,358	38,413

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

15. GOODWILL

Group

	HK$'000
Cost:	
At 1 July 2016	–
Acquisition of subsidiaries *(note 21)*	1,084,295
At 31 December 2016	1,084,295
Impairment:	
At 1 July 2016	–
Impairment during the year	–
At 31 December 2016	–
Net carrying amount:	
At 31 December 2016	1,084,295
At 30 June 2016	–

16. INVENTORIES

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Finished goods	**37,254**	214

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 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Current	**18,639**	15,172

18. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Equity securities listed in Hong Kong, at fair value	**31,840**	27,728

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 2016 (Unaudited) HK$'000	As at 31 December 2015 (Unaudited) HK$'000
Consultancy fee paid to a joint venture *(note (i))*	**–**	175
Film production cost paid to directors *(note (ii))*	**–**	300

Notes:

(i) The amount represents consultancy service provided by Mustard Seed Entertainment Company Limited, a joint venture of the Company.

(ii) The amount represents upfront 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 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Secured	59,000	63,000
Unsecured	66,357	55,372
	125,357	118,372

Other borrowings of HK$59,000,000 (30 June 2016: HK$63,000,000) are secured by the followings:

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
Personal guaranteed by a director	30,000	30,000
HK$14,500,000 Zero Coupon CB	4,000	8,000
25% of equity interest in a subsidiary	25,000	25,000
	59,000	63,000

Interest rate of other borrowings are as follows:

	As at 31 December 2016 (Unaudited) HK$'000	As at 30 June 2016 (Audited) HK$'000
5% per annum	25,000	25,000
8% per annum	5,061	1,777
9% per annum	3,000	3,000
10% per annum	20,000	62,000
11% per annum	–	–
12% per annum	68,296	18,595
15% per annum	4,000	8,000
	125,357	118,372

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

21. ACQUISITION OF A SUBSIDIARY

During the period ended 31 December 2016, the Company, acquired 100% interests in HMV M&E Limited ("HMV M&E") at a consideration of HK$1,369,863,013 from independent third parties.

The fair value of the identifiable assets and liabilities of HMV M&E acquired as at its date of acquisition is as follows:

	HK$'000
Net assets acquired	285,568
Goodwill on acquisition *(note 15)*	1,084,295
Satisfied by:	
Issue of shares	1,369,863
Net cash inflow arising on acquisition:	
Cash consideration paid	–
Cash and cash equivalents acquired	76,534
	76,534

Note:

The recoverable amounts of HMV M&E are determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). Cash flow projection was based on financial budget covering a five-year period approved by management. Management determined the budgeted gross margin based on past performances. The Group reviewed the recoverable amount of goodwill of approximately HK$1,084,295,000 is resulted.

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 2015: Nil).

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

As at 31 December 2016, 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 Rule 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	141,920	0%
Mr. Wu King Shiu, Kelvin *(note 1)*	Beneficiary owner	259,106,982	4.74%
Ms. Li Mau *(note 1)*	Family interest	259,106,982	4.74%

Note:

1. AID Partners Urban Development Company Limited ("AID Partners") owns 259,106,982 shares. 60% of the issued share capital of AID Partners are held by Mr. Wu King Shiu Kelvin ("Mr. Wu"). 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 2016, 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 2016, 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.

Name	No. of shares	Percentage
AID Treasure Investment Ltd *(Note 1)*	1,118,219,178 shares	20.44%

Note:

1. 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 2016.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period of the six months ended 31 December 2016, 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 2016 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 2016.

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, 14 February 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. Ho Gilbert Chi Hang
Non-executive Director:	Mr. Wu King Shiu, Kelvin
Independent Non-executive Directors:	Mr. Kam Tik Lun Mr. Chan Chi Ho Mr. Tam Kwok Ming, Banny