
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in hmvod Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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hmVOD
hmvod Limited
hmvod 視頻有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8103)

**(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED CHANGE IN BOARD LOT SIZE;
(3) PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5)
RIGHTS SHARES FOR EVERY ONE (1)
CONSOLIDATED SHARE HELD ON THE RECORD DATE;
(4) RE-ELECTION OF DIRECTORS;
(5) CLOSURE OF REGISTER OF MEMBERS;
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



Underwriter to the Rights Issue



**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Board is set out on pages 12 to 37 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 38 of this circular. A letter of advice from Rainbow Capital to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-20 of this circular.

A notice convening the EGM to be held at R3-R5, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 25 August 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending or voting in person at the EGM or any adjourned meeting thereof should you so wish.

Please see the section headed "PRECAUTIONARY MEASURES FOR THE EGM" in this circular for measures being taken to try to prevent and control the spread of the COVID-19 at the EGM.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right in its absolute discretion to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. Such events are set out in the section headed "Termination of the Underwriting Agreement" of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

This circular will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.hmvod.com.hk.

7 August 2020

CHARACTERISTICS OF GEM

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 that 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing Novel Coronavirus (“**COVID-19**”) epidemic and recent requirements, if any, for prevention and control of its spread, the Company will implement the following preventive measures at the EGM:

- (i) Compulsory body temperature check will be conducted on every shareholder, proxy and other attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be asked to leave the EGM venue.
- (ii) Shareholders that (a) have travelled, and have been in close contact with any person who has travelled, outside of Hong Kong (as per guidelines issued by the Hong Kong government at www.chp.gov.hk/en/features/102742.html) at any time in the preceding 14 days; (b) are, and have been, in close contact with any person who is, subject to any Hong Kong Government prescribed compulsory quarantine (including home quarantine); (c) are, and have been, in close contact with anyone who has contracted COVID-19, has been tested preliminarily positive of COVID-19 or is suspected of contracting COVID-19; or (d) have any flu-like symptoms, may be denied entry into the EGM venue and be asked to leave the EGM venue.
- (iii) All shareholders, proxies and other attendees are required to wear surgical face masks inside the EGM venue at all times. Any person who does not comply with this requirement may be denied entry into the EGM venue and be asked to leave the EGM venue. A safe distance between seats are also recommended.
- (iv) No refreshments will be served, and there will be no corporate gifts.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all stakeholders’ health and safety and consistent with recent COVID-19 guidelines for prevention and control, the Company reminds all shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative to attending the meeting in person, shareholders are encouraged to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM by submitting forms of proxy with voting instructions inserted.

The form of proxy is attached to this circular for shareholders. Alternatively, the form of proxy can be downloaded from the Company’s website at www.hmvod.com.hk and GEM website at www.hkgem.com. If you are not a registered shareholder (if your shares are held via banks, brokers, custodians or HKSCC), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

“2nd Supplemental Agreement”	the 2nd supplement agreement dated 29 July 2020 entered into between the Company and the Underwriter in relation to the Underwriting Agreement
“acting in concert”	has the same meaning ascribed thereto under the Takeovers Code
“Announcements”	the announcements of the Company dated 19 May 2020, 28 May 2020, 26 June 2020, 16 July 2020, 24 July 2020, 30 July 2020 and 5 August 2020 relating to, among other things, the proposed Share Consolidation, the proposed Change in Board Lot Size and the proposed Rights Issue
“associate(s)”	has the same meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks in Hong Kong are generally open for business, other than a Saturday or a Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is issued in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Change in Board Lot Size”	the proposed change in board lot size of the Existing Shares and/or the Consolidated Shares for trading on the Stock Exchange from 2,000 Existing Shares to 6,000 Consolidated Shares
“Company”	hmvod Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately after the Share Consolidation becoming effective
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EAF(s)”	the excess application form(s) for use by the Qualifying Shareholders who wish to apply for excess Rights Shares, in such usual form as may be agreed between the Company and the Underwriter
“EGM”	an extraordinary general meeting of the Company to be convened and held at R3–R5, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong at 10:00 a.m. on Tuesday, 25 August 2020 (or any adjournment thereof) for the purpose of considering and if thought fit, (i) the Share Consolidation; (ii) the Rights Issue; and (iii) the re-election of Directors
“Existing Share(s)/Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company prior to the Share Consolidation having become effective
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors established for the purpose of giving a recommendation to Independent Shareholders as to whether the Rights Issue and the Underwriting Agreement are fair and reasonable and as to voting after taking into account the advice of the Independent Financial Adviser
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue

DEFINITIONS

“Independent Shareholder(s)”	any Shareholder(s) other than any controlling shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates
“Independent Third Party(ies)”	third party(ies) independent of and not connected with the Company and any of its connected persons
“Last Trading Day”	19 May 2020, being the date of the Underwriting Agreement
“Latest Practicable Date”	5 August 2020, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information contained therein
“Latest Time for Acceptance”	4:00 p.m. on Tuesday, 22 September 2020 or other time or date as may be agreed in writing between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares and application and payment for excess Rights Shares
“Latest Time for Termination”	4:00 p.m. on Wednesday, 23 September 2020 or such other time or date as the Underwriter may agree in writing with the Company
“Listing Committee”	has the meaning as defined in the GEM Listing Rules
“Non-Qualifying Shareholder(s)”	those Overseas Shareholder(s) whom the Directors, after making enquiries, consider it necessary, or expedient not to offer the Rights Issue to such Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date and whose registered address(es) as shown on such register at that time is (are) in (a) place(s) outside Hong Kong
“PAL(s)”	the renounceable provisional allotment letter(s) to be issued to the Qualifying Shareholders in connection with the Rights Issue
“Petition”	the winding up petition issued by a petitioner against the Company on 13 January 2020 in the Winding Up Proceedings

DEFINITIONS

“Prospectus”	the prospectus to be despatched to the Shareholders containing details of the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL and the EAF
“Prospectus Posting Date”	Tuesday, 8 September 2020 or such other date as may be agreed in writing between the Underwriter and the Company, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders and the Prospectus for information only to the Non-Qualifying Shareholders
“Qualifying Shareholder(s)”	Shareholder(s), other than the Non-Qualifying Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Monday, 7 September 2020 or such other date as may be agreed between the Company and the Underwriter in writing for the determination of the entitlements under the Rights Issue
“Registrar”	the branch share registrar and transfer office of the Company in Hong Kong, being Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong
“Rights Issue”	the proposed issue of the Rights Shares on the basis of five (5) Rights Shares for every one (1) Consolidated Share held on the Record Date at the Subscription Price on the terms and subject to the conditions in the Underwriting Agreement
“Rights Share(s)”	71,128,435 Consolidated Shares to be allotted and issued pursuant to the Rights Issue
“SFO”	the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Share Consolidation”	the consolidation of every ten (10) issued and unissued Existing Shares of HK\$0.001 each into one (1) Consolidated Share of HK\$0.01 each
“Shareholder(s)”	holder(s) of issued Share(s) or the Consolidated Share(s) as the case may be
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.85 per Rights Share

DEFINITIONS

“Supplemental Agreement”	the supplemental agreement dated 16 July 2020 entered into between the Company and the Underwriter in relation to the Underwriting Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriter”	Win Wind Securities Limited, a licensed corporation carrying out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), and Type 9 (asset management) regulated activities under the SFO
“Underwriting Agreement”	the underwriting agreement dated 19 May 2020 (as amended by the Supplemental Agreement and the 2nd Supplemental Agreement) entered into between the Company and the Underwriter in respect of the Rights Issue
“Underwritten Shares”	71,128,435 Rights Shares underwritten by the Underwriter pursuant to the terms of the Underwriting Agreement
“Untaken Share(s)”	any of the Underwritten Shares which have not been taken up by the Qualifying Shareholders or transferees of nil-paid Rights Shares or applicants under excess applications by the Latest Time for Acceptance
“Winding-Up Proceeding”	the winding-up proceedings in respect of the Petition in the High Court of Hong Kong under the action no. HCCW 16 of 2020
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the Share Consolidation, the Change in Board Lot Size and the Rights Issue is set out below:

Event	Time and Date
Latest date and time for lodging transfer of the Shares in order to be qualified for attendance and voting at the EGM	4:00 p.m. on Tuesday, 18 August 2020
Closure of register of members of the Company for transfer of the Shares to determine the right to attend and vote at the EGM (both days inclusive)	Wednesday, 19 August 2020 to Tuesday, 25 August 2020
Latest time for return of proxy form of the EGM (not less than 48 hours prior to time of the EGM).	10:00 a.m. on Sunday, 23 August 2020
Record date for attendance and voting at the EGM	Tuesday, 25 August 2020
Expected date and time of the EGM	10:00 a.m. on Tuesday, 25 August 2020
Announcement of results of the EGM.	Tuesday, 25 August 2020
Register of members re-opens	Wednesday, 26 August 2020
The following events are conditional on the fulfillment of the conditions for the implementation of the Share Consolidation and Rights Issue.	
Effective date of the Share Consolidation	Thursday, 27 August 2020
Commencement of dealings in the Consolidated Shares	9:00 a.m. on Thursday, 27 August 2020
Original counter for trading in the Existing Shares, in board lots of 2,000 Shares (in the form of existing share certificates) temporarily closes	9:00 a.m. on Thursday, 27 August 2020
Temporary counter for trading in the Consolidated Shares, in board lots of 200 Consolidated Shares (in the form of existing share certificates) opens	9:00 a.m. on Thursday, 27 August 2020

EXPECTED TIMETABLE

Event	Time and Date
First day for the free exchange of existing share certificates of the Shares into new share certificates of the Consolidated Shares commences	Thursday, 27 August 2020
Last day of dealings in the Consolidated Shares on a cum-rights basis for the Rights Issue	Thursday, 27 August 2020
First day of dealings in the Consolidated Shares on ex-rights basis for the Rights Issue	Friday, 28 August 2020
Latest time for lodging transfer of the Consolidated Shares to qualify for the Rights Issue.	4:00 p.m. on Monday, 31 August 2020
Register of members closes to determine the entitlements to the Rights Issue (both days inclusive)	Tuesday, 1 September 2020 to Monday, 7 September 2020
Record Date for the Rights Issue	Monday, 7 September 2020
Register of members re-opens	Tuesday, 8 September 2020
Despatch of the Prospectus Documents	Tuesday, 8 September 2020
Original counter for trading in the Consolidated Shares in board lots of 6,000 Consolidated Shares (in the form of new share certificates) re-opens	9:00 a.m. on Thursday, 10 September 2020
Parallel trading in the Consolidated Shares (in the form of both existing share certificates and new share certificates) commences	9:00 a.m. on Thursday, 10 September 2020
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of the Consolidated Shares.	9:00 a.m. on Thursday, 10 September 2020
First day and time of dealings in nil-paid Rights Shares	9:00 a.m. on Thursday, 10 September 2020
Latest time for splitting the PAL(s)	4:00 p.m. on Monday, 14 September 2020

EXPECTED TIMETABLE

Event	Time and Date
Last day and time of dealings in nil-paid Rights Shares	4:00 p.m. on Thursday, 17 September 2020
Latest time for acceptance of and payment for the Rights Shares and application for excess Rights Shares	4:00 p.m. on Tuesday, 22 September 2020
Latest time for termination of the Underwriting Agreement and for the Rights Issue to become unconditional	4:00 p.m. on Wednesday, 23 September 2020
Announcement of the results of the Rights Issue	Tuesday, 29 September 2020
Despatch of share certificates for fully-paid Rights Shares.	Wednesday, 30 September 2020
Despatch of refund cheques for wholly or partially unsuccessful applications for excess Rights Shares or if the Rights Issue is terminated.	Wednesday, 30 September 2020
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of the Consolidated Shares	4:10 p.m. on Wednesday, 30 September 2020
Temporary counter for trading in board lots of 200 Consolidated Shares (in the form of existing share certificates) closes	4:10 p.m. on Wednesday, 30 September 2020
Parallel trading in the Consolidated Shares (in the form of new and existing share certificates) ends.	4:10 p.m. on Wednesday, 30 September 2020
Commencement of dealings in the fully-paid Rights Shares	9:00 a.m. on Monday, 5 October 2020
Latest time for free exchange of existing share certificates for new share certificates for the Consolidated Shares	4:00 p.m. on Tuesday, 6 October 2020

All times and dates stated above refer to Hong Kong local times and dates. The expected timetable for the Share Consolidation, the Change in Board Lot Size and the Rights Issue set out above and all dates and deadlines specified in this circular are indicative only and may be varied. Any changes to the expected timetable will be announced in a separate announcement by the Company as and when appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES AND FOR APPLICATION AND PAYMENT FOR EXCESS RIGHTS SHARES

The Latest Time for Acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares will not take place if:

1. typhoon signal No. 8 (or above);
2. “extreme conditions” caused by super typhoons as announced by the Government of the Hong Kong Special Administrative Region; or
3. a “black” rainstorm warning
 - (i) is/are in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same Business Day; or
 - (ii) is/are in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the date of the Latest Time for Acceptance. Instead the Latest Time for Acceptance will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on the currently scheduled date, the dates mentioned in the “EXPECTED TIMETABLE” above may be affected. Announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

If at any time on or before the Latest Time for Termination:

- (A) the Underwriter shall become aware of the fact that, or shall have reasonable cause to believe that any of the warranties in the Underwriting Agreement was untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of the Underwriter) material in the context of the Rights Issue; or
- (B) there shall be:
 - (i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever after the signing of Underwriting Agreement;
 - (ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring after the signing of the Underwriting Agreement or continuing after the signing of the Underwriting Agreement) of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets;
 - (iii) any material adverse change after the signing of the Underwriting Agreement in the business or in the financial or trading position of any member of the Group;
 - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out occurred after the signing of the Underwriting Agreement;
 - (v) after signing of the Underwriting Agreement, there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange whether due to exceptional financial circumstances or otherwise;
 - (vi) there is, after signing of the Underwriting Agreement, any change or any development involving a prospective change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong, the People's Republic of China or other jurisdiction relevant to any member of the Group and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs; or
 - (vii) the circular and/or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or the Takeovers Code or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company in compliance with the GEM Listing Rules,

TERMINATION OF THE UNDERWRITING AGREEMENT

which event or events is or are in the absolute opinion of the Underwriter:

- (a) likely to have a material adverse effect on the business or financial or trading position or prospects of the Group as a whole; or
- (b) likely to have a material adverse effect on the success of the Rights Issue or the level of the Rights Shares “taken up”; or
- (c) make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue,

then the Underwriter may, by notice in writing given to the Company on or before the Latest Time for Termination, rescind the Underwriting Agreement.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed. A further announcement would be made by the Company if the Underwriting Agreement is terminated by the Underwriter.

LETTER FROM THE BOARD



hmvod Limited
hmvod 視頻有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8103)

Executive Directors:

Mr. Lau Kelly (*Chief Executive Officer*)
Ms. Ho Chi Na
Mr. Ho Alvin Tzuen Chung
Ms. Sin Pui Ying

Registered office:

Cricket Square Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Independent Non-executive Directors:

Mr. Ho Siu King, Stanley
Mr. Hau Chi Kit
Mr. Ma Stephen Tsz On

*Head office and principal place of
business in Hong Kong:*

Unit C, 8/F, D2 Place Two
15 Cheung Shun Street
Cheung Sha Wan
Kowloon, Hong Kong

7 August 2020

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED CHANGE IN BOARD LOT SIZE;
(3) PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5)
RIGHTS SHARES FOR EVERY ONE (1)
CONSOLIDATED SHARE HELD ON THE RECORD DATE;
(4) RE-ELECTION OF DIRECTORS;
(5) CLOSURE OF REGISTER OF MEMBERS;
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcements in relation to, among other things, the proposed Share Consolidation, the proposed Change in Board Lot Size and the proposed Rights Issue.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders, among other things, (i) further details of the Share Consolidation, the Change in Board Lot Size and the Rights Issue; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Rights Issue; (iii) a letter of advice from Rainbow Capital to the Independent Board Committee and the Independent Shareholders on the Rights Issue; (iv) relevant information regarding the re-election of Directors; and (v) a notice convening the EGM.

(1) PROPOSED SHARE CONSOLIDATION

The Board intends to put forward a proposal to the Shareholders to effect the Share Consolidation which involves the consolidation of every ten (10) issued and unissued Existing Shares of par value of HK\$0.001 each into one (1) Consolidated Share of par value of HK\$0.01 each.

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following:

- (i) the passing of the ordinary resolution(s) by the Shareholders to approve the Share Consolidation at the EGM;
- (ii) the compliance with all relevant procedures and requirements under the laws of the Cayman Islands (where applicable) and the GEM Listing Rules to effect the Share Consolidation; and
- (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares arising from the Share Consolidation.

The Share Consolidation will become effective on Thursday, 27 August 2020, being the second Business Day immediately following the fulfillment of the above conditions.

Effects of the Share Consolidation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$200,000,000 divided into 200,000,000,000 Existing Shares of HK\$0.001 each, of which 142,256,878 Existing Shares have been issued and are fully paid or credited as fully paid. Upon the Share Consolidation becoming effective but before the completion of the Rights Issue and assuming no further Shares will be issued or repurchased from the Latest Practicable Date to the effective date of the Share Consolidation, the authorised share capital of the Company will become HK\$200,000,000 divided into 20,000,000,000 Consolidated Shares of HK\$0.01 each, of which 14,225,687 Consolidated Shares (which are fully paid or credited as fully paid) will be in issue.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank *pari passu* in all respects with each other. No fractional Consolidated Shares will be issued by the Company. Any fractional entitlements of the Consolidated Shares will be aggregated and sold for the benefit of the Company. Fractional Consolidated Shares will only arise in respect of the entire shareholding of a holder of the Shares regardless of the number of share certificates held by such holder.

LETTER FROM THE BOARD

Other than the expenses to be incurred in relation to the Share Consolidation, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Group or the interests or rights of the Shareholders, save for any fractional Consolidated Shares which may arise.

Odd lots arrangements and matching services

In order to alleviate the difficulties arising from the existence of odd lots of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Win Wind Securities Limited as an agent to stand in the market to provide matching services, on a best efforts basis, to the Shareholders for the sale and purchase of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share and the matching period commences from 9:00 a.m. on Thursday, 10 September 2020 to 4:10 p.m. on Wednesday, 30 September 2020 (both dates inclusive). Shareholders who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Mr. Lim Tak Hung of Win Wind Securities Limited at 25/F., China United Centre, 28 Marble Road, North Point, Hong Kong or by phone at (852) 3198 0347 during office hours.

Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares are not warranted. Any Shareholder who is in any doubt about the odd lots arrangements is recommended to consult his/her/its own professional advisers.

Exchange of share certificates

Subject to the Share Consolidation having become effective, Shareholders may, during the period from Thursday, 27 August 2020 to Tuesday, 6 October 2020, submit the existing share certificates for the Existing Shares to the Registrar in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, to exchange, at the expense of the Company, for new share certificates for the Consolidated Shares. Thereafter, existing share certificates for Existing Shares will continue to be good evidence of legal title and may be exchanged for new share certificates for Consolidated Shares at the expense of the Shareholders on payment of a fee of HK\$2.50 (or such higher amount as may be allowed by the Stock Exchange from time to time) for each existing share certificate cancelled or each new share certificate issued for Consolidated Shares (whichever is higher) but are not acceptable for delivery, trading and settlement purposes.

The new share certificates for the Consolidated Shares will be issued in Beige colour in order to distinguish them from the existing Pink colour.

Listing and Dealings

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Consolidated Shares in issue arising from the Share Consolidation and all necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS.

LETTER FROM THE BOARD

Subject to the granting of the listing of, and permission to deal in, the Consolidated Shares on the Stock Exchange upon the Share Consolidation becoming effective, as well as compliance with the stock admission requirements of the HKSCC, the Consolidated Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Consolidated Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements will be made for the Consolidated Shares to be admitted into CCASS established and operated by HKSCC.

Reasons for the Share Consolidation

Under Rule 17.76 of the GEM Listing Rules, where the market price of the securities of an issuer approaches the extremities of HK\$0.01 or HK\$9,995.00, the issuer may be required either to change the trading method or to proceed with a consolidation or splitting of its securities.

Pursuant to the “Guide on Trading Arrangements for Selected Types of Corporate Actions” issued by the Hong Kong Exchanges and Clearing Limited on 28 November 2008 and updated on 30 August 2019 (the “**Guideline**”), the expected board lot value should be greater than HK\$2,000 per board lot taking into account the minimum transaction costs for a securities trade. As at the Last Trading Day, the closing price of each Existing Share is HK\$0.236 (equivalent to the theoretical closing price of HK\$2.36 per Consolidated Share), the value of each board lot of 2,000 Shares was HK\$472. Assuming the Share Consolidation had already been effective, the value of each board lot of 2,000 Consolidated Shares would be HK\$4,720. As such, the Share Consolidation will increase the market value per board lot of the Shares. The Board also believes that it may attract more investors and extend the shareholders base of the Company. The Board therefore believes that the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, save for the Share Consolidation, the Change in Board Lot Size and the Rights Issue, the Company does not have any intention to carry out any other corporate actions or arrangements in the coming 12 months that may affect the trading in the Shares (including share consolidation, share subdivision and change in board lot size).

The Board believes that the Share Consolidation is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

(2) PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Shares are traded in board lot size of 2,000 Shares. The Company proposes to change the board lot size for trading of the Shares and/or the Consolidated Shares on the Stock Exchange from 2,000 Shares to 6,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

The Change in Board Lot Size will not result in any change in the relative rights of the Shareholders.

Reasons for the Change in Board Lot Size

In view of the recent fluctuation in the trading price of the Shares as quoted on the Stock Exchange, in order to comply with the trading requirement that the expected market value per board lot of shares should be greater than HK\$2,000 pursuant to the Guideline, the Board proposes to change the board lot size for trading of the Shares and/or the Consolidated Shares on the Stock Exchange from 2,000 Shares to 6,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.073 per Existing Share as at the Latest Practicable Date (equivalent to the theoretical closing price of HK\$0.73 per Consolidated Shares), (i) the value of each existing board lot of 2,000 Existing Shares is HK\$146; and (ii) the value of each board lot of 6,000 Consolidated Shares would be HK\$4,380 assuming the Share Consolidation and the Change in Board Lot Size becoming effective.

Based on the theoretical ex-entitlement price of HK\$0.83 per Consolidated Share after taking into account the Rights Issue (based on the closing price of HK\$0.073 per Existing Share) as at the Latest Practicable Date, the market value of each board lot of 2,000 Consolidated Shares and 6,000 Consolidated Shares were HK\$1,660 and HK\$4,980 respectively.

The Board believes that the Change in Board Lot Size is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

(3) PROPOSED RIGHTS ISSUE

The Board proposes, subject to, amongst others, the Share Consolidation and the Change in Board Lot Size becoming effective, the Rights Issue with the terms set out as follows:

Issue statistics

Basis of the Rights Issue	:	five (5) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.85 per Rights Share
Net price per Rights Share (i.e. Subscription Price less cost and expenses incurred in the Rights Issue)	:	Approximately HK\$0.80 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	142,256,878 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	14,225,687 Consolidated Shares (assuming no further issue or repurchase of Shares up to the effective date of the Share Consolidation)
Number of Rights Shares to be issued pursuant to the Rights Issue	:	71,128,435 Rights Shares (assuming no further issue or repurchase of the Shares or Consolidated Shares on or before the Record Date)
		The aggregate nominal value of the Rights Shares will be HK\$711,284.35.
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	85,354,122 Consolidated Shares (assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date)
Gross proceeds from the Rights Issue	:	Approximately HK\$60.5 million before expenses (assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date)
Right of excess applications	:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

LETTER FROM THE BOARD

The Company has no outstanding convertible bonds, options, derivatives, warrants, conversion rights or other similar rights entitling holders thereof to subscribe for or convert into or exchange for new Shares as at the Latest Practicable Date.

Assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date, the 71,128,435 Rights Shares to be issued pursuant to the terms of the Rights Issue represent 500% of the total number of issued Consolidated Shares upon the Share Consolidation becoming effective and approximately 83.3% of the total number of issued Consolidated Shares as enlarged by the issue of the Rights Shares.

Undertakings

The Company has undertaken in the Underwriting Agreement that the Company shall not issue new Shares under the general mandate and shall not grant new share options under the share option scheme from the date of the Underwriting Agreement up to and including the Record Date (both days inclusive).

As at the Latest Practicable Date, the Company has not received any information or irrevocable undertaking from any substantial Shareholder of their intention in relation to the Rights Shares to be provisionally allotted to them under the Rights Issue.

The Subscription Price

The Subscription Price of HK\$0.85 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or when a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 64.0% to the theoretical closing price of HK\$2.360 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.236 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 77.5% to the theoretical closing price of HK\$3.780 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.378 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days prior to and excluding the Last Trading Day;
- (iii) a discount of approximately 73.8% to the theoretical closing price of approximately HK\$3.240 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.324 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days prior to and excluding the Last Trading Day;

LETTER FROM THE BOARD

- (iv) a discount of approximately 22.9% to the theoretical ex-rights price of approximately HK\$1.102 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.236 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a premium of approximately 16.4% over the theoretical closing price of HK\$0.73 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.073 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among others, the market price of the Existing Shares under the prevailing market conditions, the financial condition of the Company, the consecutive loss-making history of the Group over the past five years, and the reasons and benefits of Rights Issue as discussed in the section headed "REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS" in this circular.

The Company has approached a total of four financial institutions to see if they were interested to support any fundraising exercises of the Company without proposing any specific terms in the first place. However, except for the Underwriter, no positive feedbacks were received by the Company from the other three financial institutions. The Underwriter is the only available securities house who agrees to provide underwriting service for the Rights Issue at current fund-raising size on a fully-underwritten basis after considering the Company's business scale, financial performance of the Group and recent market sentiment.

The subscription ratio and the Subscription Price were determined between the Company and the Underwriter after arm's length negotiation. During the course of negotiation, based on the funding needs of the Group of around HK\$60 million, prior to arriving at the current structure of the Rights Issue, the Company has proposed different structures of rights issue with lower subscription ratio and higher subscription prices (the "**Proposals**"). However, the Underwriter refused the Proposals. After further discussion, the Underwriter agreed with the terms of the Rights Issue, including the subscription basis of 5 Rights Shares for every 1 Consolidated Share and the Subscription Price of HK\$0.85. After balancing the funding needs of the Company of around HK\$60 million and request of the Underwriter for deeper discount in order for the Underwriter to provide underwriting service on a fully-written basis so as to provide the Group with the certainty of the required minimum level of fund for settlement of its matured indebtedness, the Company and the Underwriter agreed with the current structure of the Rights Issue. The Directors are of the view that the present terms and structure of the Rights Issue reflect the best commercial deal that the Company could negotiate with the Underwriter.

LETTER FROM THE BOARD

Taking into account that (i) the fund raising size of the Rights Issue of HK\$60.5 million is approximately 80.1% more than the market capitalization of approximately HK\$33.6 million of the Company as at the date of the Underwriting Agreement, it is necessary to set the Subscription Price at relatively deep discount for inducing the Underwriter to provide underwriting service for the Rights Issue on a fully-underwritten basis and attracting all of the Qualifying Shareholders to participate in the Rights Issue; (ii) the discount of the Subscription Price gives each Qualifying Shareholder the option to maintain their respective shareholding in the Company at a relatively low price as compared to the prevailing market price, allowing them to have greater flexibility in determining the extent of their participation in the Rights Issue; and (iii) present subscription basis can avoid fractional Consolidated Shares and minimize the potential of odd lots problem, the Board considers that the terms of the Rights Issue, including the Subscription Price and the subscription basis are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

The Rights Shares (when allotted, fully paid or credited as fully paid and issued) will rank *pari passu* in all respects among themselves and with the Consolidated Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the fully paid Rights Shares. Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to payment of stamp duty, Stock Exchange trading fee, transaction levy or any other applicable fees and charges in Hong Kong.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date and not be a Non-Qualifying Shareholder. In order to be registered as members of the Company prior to the close of business on the Record Date, all transfers of the Consolidated Shares (together with the relevant share certificate(s)) must be lodged with the Registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration no later than 4:00 p.m. (Hong Kong time) on Monday, 31 August 2020.

It is expected that the last day of dealings in the Consolidated Shares on a cum-rights basis is Thursday, 27 August 2020, and the Consolidated Shares will be dealt with on an ex-rights basis from Friday, 28 August 2020.

Subject to the Share Consolidation having become effective, the passing of the resolution to approve the Rights Issue by the Independent Shareholders at the EGM and the registration of the Prospectus Documents in accordance with the applicable laws and regulations, the Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Prospectus Posting Date and will despatch the Prospectus (without the PAL(s) and the EAF(s)) to the Non-Qualifying Shareholders for their information only.

LETTER FROM THE BOARD

Closure of register of members

The register of members of the Company will be closed from Wednesday, 19 August 2020 to Tuesday, 25 August 2020 (both days inclusive) for determine the eligibility of the Shareholders to attend and vote at the EGM. No transfer of Shares will be registered during this period.

The register of members of the Company will be closed from Tuesday, 1 September 2020 to Monday, 7 September 2020 (both days inclusive) for determining the entitlements to the Rights Issue. No transfer of the Consolidated Shares will be registered during this period.

Basis of provisional allotments

The Rights Shares will be allotted on the basis of five (5) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders as at the close of business on the Record Date.

Acceptance for all or any part of a Qualifying Shareholder's provisional allotment should be made only by completing a PAL and lodging the same with a remittance for the Rights Shares being accepted with the Registrar by the Latest Time for Acceptance.

Rights of Overseas Shareholders

The Prospectus Documents to be issued in connection with the Rights Issue will not be registered or filed under the securities law of any jurisdiction other than Hong Kong. Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

As at the Latest Practicable Date, there is one Overseas Shareholder with registered address located in the People's Republic of China (the "PRC"). In compliance with Rule 17.41(1) of the GEM Listing Rules, the Directors have made enquiries regarding the feasibility of extending the Rights Issue to the Overseas Shareholder. Based on the advice provided by the legal adviser as to the laws of the PRC, as at the Latest Practicable Date, the laws of the PRC impose no restrictions on extending the Rights Issue to such Overseas Shareholder located in the PRC, and the Company is not required to obtain any approvals for the despatch of the Prospectus Documents to such Overseas Shareholder. Accordingly, there was no Non-Qualifying Shareholder as at the Latest Practicable Date.

The Company will continue to ascertain whether there are any other Overseas Shareholders on the Record Date and will, if necessary, make further enquiries with legal adviser(s) in other overseas jurisdiction(s) regarding the feasibility of extending the Rights Issue to such other Overseas Shareholders registered as a member of the Company on the Record Date and make relevant disclosures in the Prospectus.

LETTER FROM THE BOARD

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Non-Qualifying Shareholders, to be sold in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, will be paid pro rata (but rounded down to the nearest cent) to the Non-Qualifying Shareholders in Hong Kong dollars, except that the Company will retain individual amounts of less than HK\$100 for its own benefit. Any unsold entitlements of the Non-Qualifying Shareholders will be made available for excess application by the Qualifying Shareholders.

Overseas Shareholders should note that they may or may not be entitled to the Rights Issue, subject to the results of enquiries made by the Directors pursuant to Rule 17.41(1) of the GEM Listing Rules. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares or Consolidated Shares.

Application for the excess Rights Shares

Qualifying Shareholders shall be entitled to apply, by way of excess application, for (i) the Rights Shares representing the entitlement of the Non-Qualifying Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not validly accepted by the Qualifying Shareholders or transferees of nil-paid Rights Shares. Applications for the excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for with the Registrar by the Latest Time for Acceptance.

The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable on the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- (ii) the excess Rights Shares will be allocated to the applicants on a pro rata basis based on the number of excess Rights Shares applied for by them. No reference will be made to Rights Shares subscribed through PALs, or the number of Shares held by the Qualifying Shareholders.

Any Rights Shares not accepted for by the Qualifying Shareholders or transferees of nil-paid Rights Shares and not taken by excess application will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

LETTER FROM THE BOARD

Beneficial owners of Consolidated Shares whose Consolidated Shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of Consolidated Shares whose Consolidated Shares are registered in name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually and are advised to consider whether they would like to arrange for registration of the relevant Consolidated Shares in the name of the beneficial owner(s) prior to the Record Date.

For those beneficial owners of Consolidated Shares whose Consolidated Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for completion of the relevant registration not later than 4:00 p.m. (Hong Kong time) on Monday, 31 August 2020.

Certificates of the Rights Shares and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Shares are expected to be sent on or before Wednesday, 30 September 2020 to those entitled thereto by ordinary post, at their own risk, to their registered addresses. If the Underwriting Agreement is terminated or not becoming unconditional, refund cheques will be despatched on or before Wednesday, 30 September 2020 by ordinary post, at the respective Shareholders' own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be posted on or before Wednesday, 30 September 2020, by ordinary post to the applicants, at their own risk, to their registered addresses.

Fractional entitlement to the Rights Shares

On the basis of provisional allotment of five (5) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders on the Record Date, no fractional entitlement to the Rights Shares will arise under the proposed Rights Issue.

Taxation

Shareholders are advised to consult their professional advisers if they are in any doubt as to the taxation implications of the receipt, purchase, holding, exercising, disposing of or dealing in, the nil-paid Rights Shares or the Rights Shares and, regarding the Non-Qualifying Shareholders, their receipt of the net proceeds, if any, from sale of the nil-paid Rights Shares on their behalf.

LETTER FROM THE BOARD

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Rights Shares (in both nil-paid and fully-paid forms) to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

The board lot size of the nil-paid Rights Shares shall be the same as that of the fully-paid Rights Shares, i.e. 6,000 Consolidated Shares in one board lot.

Subject to the granting of the listing of, and the permission to deal in, the Rights Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

THE UNDERWRITING ARRANGEMENT

The Rights Shares will be fully underwritten by the Underwriter in accordance with the terms of the Underwriting Agreement as described below.

Underwriting Agreement

Date	:	19 May 2020 (after trading hours)
Issuer	:	The Company
Underwriter	:	Win Wind Securities Limited

The Underwriter is a licensed corporation carrying out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), and Type 9 (asset management) regulated activities under the SFO and its ordinary course of business includes underwriting of securities. The Underwriter confirmed that it has complied with Rule 10.24A(1) of the GEM Listing Rules.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, the Underwriter and its associates do not hold any Shares, and the Underwriter and its ultimate beneficial owners are Independent Third Parties.

Number of Rights Shares : 71,128,435 Rights Shares
underwritten by the
Underwriter

Underwriting Commission : 3% of the aggregate Subscription Price in respect of
the Underwritten Shares

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiation between the Company and the Underwriter by reference to the financial position of the Group, the size of the Rights Issue, the current and expected market condition and the prevailing market rate. The Directors (save for the independent non-executive Directors who will form their views after considering the advice of the independent financial adviser) consider the entering into of the Underwriting Agreement with the Underwriter and the terms of the Underwriting Agreement (including the underwriting commission) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Subject to the fulfilment of the conditions (or any waiver, as the case may be, by the Underwriter) contained in the Underwriting Agreement and provided that the Underwriting Agreement is not terminated prior to the Latest Time for Termination in accordance with the terms thereof, the Underwriter has agreed to subscribe or procure the subscription for all Underwritten Shares that are not otherwise taken up.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (1) the passing of necessary resolution(s) at the EGM to approve the Rights Issue by the Independent Shareholders;
- (2) the Share Consolidation becoming effective;
- (3) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of and permission to deal in the Rights Shares (in their nil-paid and fully-paid forms);
- (4) the delivery to the Stock Exchange for authorization and the registration with the Registrar of Companies in Hong Kong respectively each of the Prospectus Documents (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies (Winding Up and Miscellaneous Provision) Ordinance not later than the Prospectus Posting Date;

LETTER FROM THE BOARD

- (5) the posting of the Prospectus Documents to the Qualifying Shareholders by no later than the Prospectus Posting Date;
- (6) the obligations of the Underwriter becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms;
- (7) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement and the representations and warranties given by the Company under the Underwriting Agreement remaining true, correct and not misleading in all material respects; and
- (8) either the Petition having been dismissed or withdrawn in the Winding Up Proceedings or, alternatively, a validation order (the “**Validation Order**”) having been granted by the High Court on substantially the terms that (a) any transfer of Shares/Consolidated Shares (including any Rights Shares in their nil-paid and fully-paid forms) between the date of presentation of the Petition and the date of judgment on the Petition; and (b) the allotment and issuance of the Rights Shares pursuant to the Rights Issue, shall not be void pursuant to section 182 of the Companies (Winding-Up and Miscellaneous Provisions) Ordinance, Cap.32 of the Laws of Hong Kong.

The conditions precedent, save and except paragraph (7) above which can only be waived by the Underwriter, are incapable of being waived.

As at the Latest Practicable Date, save and except condition no. (8), none of the above conditions have been fulfilled. As regards condition no.(8) above, the Company has filed the application of the Validation Order to the High Court on 29 July 2020. On 31 July 2020, the Company received a letter from the High Court setting out the observations of the hearing judge of the said application that (i) the Validation Order appears to be uncontroversial given that the assets of the Company would not be diminished; (ii) subject to the comments of the petitioner in the Winding Up Proceedings, the judge is minded to grant the Validation Order; and (iii) the said petitioner and the Company be invited to lodge their consent summons with the court. On 3 August 2020, the said petitioner has consented to the Validation Order application by signing the consent summons with the Company and the consent summons has been filed to the court for the court’s approval.

The court has granted the Validation Order on 4 August 2020. In the circumstances, condition no.(8) has been satisfied.

The Company shall use all reasonable endeavours to procure the fulfilment of the conditions precedent set out in paragraphs (1) to (5) and (8) by the Latest Time for Acceptance. If the conditions precedent set out in the above paragraphs are not satisfied (or, if applicable, waived by the Underwriter) by the Latest Time for Acceptance and/or the condition set out in paragraph (7) does not remain fulfilled (unless waived by the Underwriter under the terms of the Underwriting Agreement) up to the Latest Time for Termination, the Underwriting Agreement shall terminate (save in respect of the surviving provisions in relation to fees and expenses, indemnity, notices and governing law) and no party hereto will have any claim against any other party for cost, damages, compensation or otherwise (save in respect of any rights or obligations which may have accrued under the Underwriting Agreement prior to such termination), and the Rights Issue will not proceed.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group principally engages in provision of professional services, over-the-top (“OTT”) services, and proprietary trading. The professional services segment involves cyber security services and solutions. The OTT services segment involves provision of multi-media related services and content to customers in Hong Kong and Taiwan via its own digital video rental platform.

The gross proceeds of the Rights Issue will be approximately HK\$60.5 million and the estimated net proceeds of the Rights Issue, after deducting the related expense, will be approximately HK\$57.2 million. The Company intends to apply the net proceeds from the proposed Rights Issue as follows:

- (i) approximately HK\$50.4 million for the repayment of the outstanding principal amount, interests and charges of the Group’s overdue loans (the “**Overdue Loans**”) which had been expired by over 10 months; and
- (ii) approximately HK\$6.8 million for partial repayment of overdue bond payables (the “**Overdue Bond**”) and other accrued expenses of the Group.

Details of the Overdue Loans and the Overdue Bond (collectively, the “**Matured Indebtedness**”) are set out below:

Creditors	Nature of the debts	Outstanding principal amount (HK\$'000)	Maturity date	Interest rate (p.a.)	Outstanding	Total
					accrued interest and charges as at 30 June 2020 (HK\$'000)	outstanding amount as at 30 June 2020 (HK\$'000)
Overdue Loans						
A	Overdue Loans	35,000	26 September 2019	12%	8,470	43,470
B	Overdue Loans	<u>5,000</u>	8 May 2019	15%	<u>1,960</u>	<u>6,960</u>
	Sub-total	40,000			10,430	50,430
Overdue Bond						
C	Overdue Bond	<u>9,800</u>	14 September 2019	6.25%	<u>487</u>	<u>10,287</u>
Total:		<u>49,800</u>			<u>10,917</u>	<u>60,717</u>

As at 30 June 2020, the Matured Indebtedness with aggregate outstanding amount of approximately HK\$60.7 million had already been expired for over 10 months. As such, the Group has an imminent need of funding to cope with the Matured Indebtedness.

LETTER FROM THE BOARD

For the Overdue Loans, the Company has been negotiating with the Creditor A and the Creditor B since May 2019 for loan extension based on existing terms. In February 2020, the Creditor A and the Creditor B indicated that they were unwilling to extend the maturity date and would like the Overdue Loans to be settled by cash in due course and request for prompt settlement.

In respect of the Overdue Bond, the Company has been negotiating with the Creditor C since November 2019. During the negotiation, the Creditor C verbally agreed with the settlement by a combination of cash and loan capitalization (the “**Overdue Bond Proposal**”). On 13 January 2020, the Company was served with a sealed copy of the Petition issued by the Creditor C in the Winding-Up Proceedings under which petitioned that the Company be wound up by the court. Details of the Petition are set out in the paragraph headed “2. Statement of Indebtedness – Litigation – (a) Winding up petition from bondholder” in appendix I to this circular. In February 2020, the Group and the Creditor C verbally reached the preliminary terms for the Overdue Bond Proposal, which would render a funding requirement of the Group of around HK\$6 million to HK\$8 million for the cash settlement under the Overdue Bond Proposal. Subsequent to February 2020, ongoing negotiations are being carried out between the Company and Creditor C and the Board considers that the Company is making positive progress in the negotiation. The Company and Creditor C have agreed in principle for the key arrangement under the Overdue Bond Proposal such as the ratio of cash settlement portion. The Company and Creditor C have preliminary agreed that not more than 60% of the outstanding principal amount of the Overdue Bond will be settled by cash. Accordingly, around HK\$6 million of the net proceeds of the Rights Issue will be allocated for the cash settlement of the Overdue Bond.

On 24 July 2020, the Company and the Creditor C signed a binding broad terms of settlement under which the parties agree, amongst other things:

- (i) All outstanding interest due under the Overdue Bond (which amounts to HK\$526,000 accrued up to 24 July 2020) shall be paid within 5 days from the date of the signing of the definitive settlement agreement (the “**Interest Payment**”);
- (ii) 60% of the outstanding principal of the Overdue Bond (i.e. HK\$5,880,000) to be paid by 3 monthly instalments of HK\$1,960,000 and the 1st instalment shall be paid on or before 5 October 2020 (the “**Principal Payment**”);
- (iii) the remaining 40% of the outstanding principal (i.e. HK\$3,920,000) shall be settled by new Shares of the Company to be allotted to the Creditor C subject to regulatory approval;
- (iv) Upon payment of the Interest Payment, the Creditor C shall agree to adjourn the winding up hearing on 26 August 2020 to October 2020 or thereafter;
- (v) Upon payment of the Principal Payment, the Creditor C shall discharge or withdraw the Petition; and
- (vi) The parties shall negotiate in good faith the terms of the definitive settlement agreement reflecting the terms hereinabove and shall enter into the settlement agreement on or before 10 August 2020.

LETTER FROM THE BOARD

The Directors are aware that the Group has other outstanding interest-bearing loans (the “**Other Outstanding Loans**”), of which the Loan D and the Loan G bear higher interest rate as compared to the Matured Indebtedness. However, the Directors are of the view that there is no immediate need to repay the Other Outstanding Loans (except the Loan G) and the Group has sufficient financial resources to repay the Loan G (as discussed below). The details of the terms of the Other Outstanding Loans are set out as below:

Loans	D	E	F	G
Outstanding principal amount (HK\$'000)	14,000	10,005	527	1,500
Maturity date	26 June 2023 (Note)	15 July 2022	16 July 2022	9 September 2020
Interest rate (p.a.)	8%	4.85%	4.85%	24%
Agreement date	27 June 2018	16 July 2015	17 July 2015	9 June 2020

Note: The Loan D was initially repayable on 26 May 2019 and the maturity date of the Loan D was subsequently extended for another 13 months to 26 June 2020 and further extended to 26 June 2023.

At the time of proposing the Rights Issue and accessing the funding needs of the Company, it is the Group’s intention to extend the Loan D, which would become mature on 26 June 2020, rather than repaying it. In early March 2020, the Group has commenced the negotiation with the creditor of the Loan D (the “**Creditor D**”) for extension or renewal for a term of around one year. In early July 2020, the Creditor D has agreed by written notice, which is legally binding, to extend the maturity date of the Loan D to 26 June 2023. For the Loan E and the Loan F, they are not yet matured until July 2022. As such, the Directors consider that there is no urgency for the Group to settle the Other Outstanding Loans.

The Group intends to repay the Loan G with its internal resources and/or the revolving credit facilities of HK\$15,000,000 obtained in early July 2020 at an interest rate of 8% per annum for a term of two years after the drawdown date (the “**Loan G Settlement**”). As disclosed in the section headed “3. Working Capital” of appendix I to this circular, the Directors are of the opinion that the Group has sufficient working capital (having considered the repayment of the Loan G) for at least the next 12 months from the date of this circular.

As disclosed in the annual report of the Company for the year ended 31 March 2020 (the “**2020 Annual Report**”), the Group recorded a consolidated loss of approximately HK\$40.7 million for the year ended 31 March 2020 compared to loss of HK\$36.4 million for the corresponding period of 2019. The bank balances and cash of the Group were approximately HK\$1.5 million as at 31 March 2020. In addition, the Group recorded net current liabilities and net liabilities of approximately HK\$153.9 million and HK\$132.4 million respectively as at 31 March 2020.

In view of the current challenging financial position of the Group, it would constrain the business development of the Group. Besides, the annual finance cost of the Matured Indebtedness which amounts to approximately HK\$5.6 million, has been becoming a heavy burden on the Group’s operation. As such, the Directors consider it is essential to trim down the debt level of the Group to relieve its financial burden.

LETTER FROM THE BOARD

By a combination of the Rights Issue and the Overdue Bond Proposal and after utilizing proceeds from the Rights Issue for full repayment of the Overdue Loans and partial repayment of the Overdue Bond (assuming the remaining portion will be settled by way of loan capitalization under the Overdue Bond Proposal), it will result in full settlement of the Overdue Loans and the Overdue Bond (the **“Overdue Debts Full Settlement”**). Thereafter, the interest-bearing debts of the Group (the **“Interest-bearing Debts”**) will be reduced substantially by approximately 67.8% from approximately HK\$89.5 million as at 30 June 2020 to approximately HK\$28.8 million. Moreover, after the Overdue Debts Full Settlement and the Loan G Settlement, the Other Outstanding Loans (excluding Loan G), which will not incur immediate repayment obligation on the Group as they are not yet overdue, will be the only remaining Interest-bearing Debts. As estimated based on the interest rate of the Interest-bearing Debts, after the Overdue Debts Full Settlement and the Loan G Settlement, it will result in substantial interest saving as estimated annual interest will drop significantly by over 75% to approximately HK\$1.6 million.

With the substantial improvement in the financial position of the Group upon completion of the Rights Issue, the Board considers that it will enable the Group to be in a better position to negotiate with the creditors for the settlement of the outstanding debts and will facilitate the possible debt arrangements (e.g. settlement of Loan E and Loan F, being long term debts, by way of loan capitalization) for further strengthening the financial position of the Group.

Fund-raising alternatives

The Board has considered various fund-raising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing of new shares and open offer.

It is the Group’s intention to obtain bank financing which incurs lower interest rate for re-financing the Matured Indebtedness. The Company has approached two principal banks of the Group in Hong Kong (the **“Principal Banks”**) for exploring the possibility of obtaining new banking facilities. However, given the volatile market conditions and the consecutive loss-making financial performance of the Group, the Principal Banks turned down (the **“Banks Rejection”**) the request of the Company for banking facilities at an early stage and there was no further negotiation of scale or terms between the Company and the Principal Banks.

The Directors consider that it would be difficult for the Company to obtain loans from other non-banking financial institution (the **“Non-Banking FIs”**) due to the Company lack of collateral acceptable to the Non-Banking FIs. Moreover, based on the past experience of the Directors, even for secured loan financing with acceptable collateral (such as property) from the Non-Banking FIs, it will still result in an expectedly high interest rate ranging from at least 12% to 18% per annum under prevailing market conditions. The Group is reluctant to obtain loan financing from the Non-Banking FIs which generally charge higher interest rates than banks. As such, after the Banks Rejection, the Company did not further approach the Non-Banking FIs.

LETTER FROM THE BOARD

The Directors have also considered utilizing the existing general mandate of 28,451,375 Shares. The Directors consider that by applying relevant net proceeds of placing for partial settlement of the Matured Indebtedness, it would reduce scale of the Rights Issue and lower the overall price discount and dilution effect in conducting fund raising activities. During April 2020, the Company has approached three securities houses to explore if they were interested to support any fundraising exercises of the Company without proposing any specific terms in the first place. However, in view of the existing weak financial position of the Group, low market capitalization of the Group, none of the securities house has any interest on any possible fundraising activities.

The Board considers that the Rights Issue would be more favourable and attractive to the Shareholders than an open offer because it would allow Shareholders to have more flexibility in dealing with the Consolidated Shares and the nil-paid rights attaching thereto.

Benefits of the Rights Issue

The Board is of the view that the Rights Issue represents an opportunity for the Company to strengthen its financial position after having considered that:

- (i) tight cash position alongside with net current liabilities and net deficit position of the Group as at 31 March 2020;
- (ii) the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so;
- (iii) the discount of the Subscription Price to the prevailing market price in order to enhance the attractiveness of the Rights Issue and it is the Company's objective to encourage the participation of Qualifying Shareholders in the Rights Issue;
- (iv) after considering other alternative fund-raising methods, it is prudent to finance the Group's long-term growth by long-term financing, preferably in the form of equity which will not increase the Group's finance costs. In addition, the Board believes that the Rights Issue will enable the Group to strengthen its capital base and enhance its financial position for future strategic investments as and when such opportunities arise; and
- (v) to allow the Shareholders to have more flexibility in dealing with the Consolidated Shares and the nil-paid rights attaching thereto.

Therefore, the Board considered that raising funds by way of the Rights Issue is more cost effective and efficient.

LETTER FROM THE BOARD

Theoretical dilution effect

The Company has not conducted any rights issue, open offer and/or specific mandate placing within the 12-month period immediately preceding the Latest Practicable Date, or prior to such 12-month period where dealing in respect of the Shares issued pursuant thereto commenced within such 12-month period, nor has it issued any bonus securities, warrants or other convertible securities as part of such rights issue, open offers and/or specific mandate placings within such 12-month period.

The Rights Issue will result in a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) of over 25%, but in view of the following factors, the Board (save for the independent non-executive Directors who will form their view after receiving and considering the advice by the independent financial adviser) considers that the terms and conditions of the Rights Issue and the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(i) Financial difficulties of the Group

According to the 2020 Annual Report, (i) as at 31 March 2020, the Group recorded net current liabilities and net liabilities which amounted to approximately HK\$153.9 million and HK\$132.4 million respectively; (ii) the Group merely maintained bank balances and cash of approximately HK\$1.5 million as at 31 March 2020, representing a drop of approximately 41.2% as compared to 31 March 2019; and (iii) among the Group's total assets of approximately HK\$39.9 million as at 31 March 2020, goodwill and intangible assets which accounted for over 78% of the Group's total assets are not readily realizable into cash independently due to their intangible nature. Besides, as at 30 June 2020, the Matured Indebtedness amounted to approximately HK\$60.7 million. With the current financial position of the Group, the Directors considered that the Group has imminent funding needs to cope with the Matured Indebtedness and it is necessary to conduct fund-raising activities to alleviate the financial burden. The proposed Rights Issue will be a rescue plan for the Company in order to avoid a potential liquidation of the Company.

(ii) Going concern of the Group

The Company's auditor issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 March 2020 which stated the existence of multiple uncertainties cast significant doubt on the Group's ability to continue as a going concern related to, among others, the Group had net current liabilities of approximately HK\$153,927,000 and capital deficiency of approximately HK\$132,404,000 as at 31 March 2020.

LETTER FROM THE BOARD

However, those Qualifying Shareholders who do not take up the Rights Shares to which they are entitled and Non-Qualifying Shareholder(s) should note that their shareholdings will be diluted.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the possible changes in the shareholding structure of the Company arising from the proposed Share Consolidation and Rights Issue which are for illustrative purpose only.

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Share Consolidation becoming effective but before completion of the Rights Issue; and (iii) immediately after completion of the Rights Issue, assuming no further issue or repurchase of Shares or Consolidated Shares up to completion of the Rights Issue save for the Rights Shares:

	As at the Latest Practicable Date		Immediately after the Share Consolidation becoming effective but before completion of the Rights Issue		Immediately after completion of the Rights Issue			
					Assuming all Shareholders take up their respective allotment of Rights Shares in full		Assuming no Shareholders take up any of the Rights Shares and the Underwriter takes up the Rights Shares in full	
							Consolidated	
							No. of Consolidated Shares	Approx. %
	No. of Existing Shares	Approx. %	No. of Consolidated Shares	Approx. %	No. of Consolidated Shares	Approx. %	No. of Consolidated Shares	Approx. %
Public Shareholders								
Underwriter, sub-underwriter(s) and/or subscriber(s) procured by them (<i>Note 1</i>)	–	–	–	–	–	–	71,128,435	83.3
Other public Shareholders	142,256,878	100.0	14,225,687	100.0	85,354,122	100.0	14,225,687	16.7
Total	142,256,878	100.0	14,225,687	100.0	85,354,122	100.0	85,354,122	100.0

Notes:

- (1) Pursuant to the Underwriting Agreement, the Underwriter undertakes to the Company that in the event of it being called upon to subscribe for or procure subscribers for the Untaken Shares:
 - (i) it will not and shall procure that the sub-underwriter and subscribers procured by them, together with parties acting in concert (within the meaning of the Takeovers Code) with each of them, will not own 10% or more of the voting rights of the Company immediately after completion of the Rights Issue;

LETTER FROM THE BOARD

- (ii) it will not, and will procure that the sub-underwriter and subscribers procured by them will not, together with any party acting in concert (within the meaning of the Takeovers Code) with it, hold 30.0% or more of the voting rights of the Company immediately upon completion of the Rights Issue; and
 - (iii) it shall and shall cause the sub-underwriter to procure subscribers independent of the Company and its connected persons to take up such number of Untaken Shares as necessary to ensure that the public float requirements under Rule 17.36 of the GEM Listing Rules are complied with.
- (2) The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY FOR THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months immediately preceding the Latest Practicable Date.

RISK FACTORS

In compliance with the GEM Listing Rules, the Company sets out below the risk factors of the Group for the Shareholders' attention. The Directors believe that there are certain risks involved in the operations of the Group which includes, but is not limited to, the following:

Risk relating to professional services business

The professional services business is subject to rapidly changing technology and evolving industry standards. The existing cyber services and solutions of the Group may become obsolete due to the rapid technological change. If the Group is not able to make available upgrades of services or solutions to address the needs of the customers, the competitive position and profitability of the Group will be adversely affected. Furthermore, if the services of the Group does not meet the expectations of the customers, such as the solutions and services of the Group fail to detect or prevent intrusions or cyber-attacks for any reason, the reputation and business of the Group could be harmed.

Risk relating to OTT services business

The OTT services business depends on the ability to provide high quality media content in order to retain existing users and attract new users. To attract new users and retain existing users, the Group must continue to offer high-quality and diversified media content that meets the users' fast changing appetite. If the Group fails to deliver suitable media content to cater for the needs of users, users may not find the OTT services attractive and may not subscribe for the OTT services. Besides, the ability to provide users with a high quality viewing experience depends on the continuous and reliable operation of the systems and proper functioning of the mobile apps and websites. Failure to do so may significantly impair user experience on mobile apps and websites of the Group, which could hurt the reputation of the Group and cause the users to switch to other platforms.

LETTER FROM THE BOARD

Risk relating to proprietary trading

The proprietary trading of the Group is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in the trading volume and the credit capacity or perceived credit worthiness of the securities industry in the marketplace. The proprietary trading of the Group is also subject to general economic and political conditions, such as macro-economic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates.

Any sudden downturn in the securities markets may adversely affect the market sentiment in general which would in turn adversely affect the fair value of the investment portfolio of the Group and the performance of the proprietary trading of the Group.

RE-ELECTION OF DIRECTORS

Reference is made to the announcements of the Company dated 16 October 2019 and 21 April 2020, whereby Mr. Ho Alvin Tzuen Chung and Ms. Sin Pui Ying were appointed as an executive Director with effect from 16 October 2019 and 21 April 2020 respectively.

In accordance with Article 86(3) of the articles of association of the Company, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members of the Company after his appointment and be subject to re-election at such meeting. Accordingly, Mr. Ho Alvin Tzuen Chung and Ms. Sin Pui Ying shall hold office until the EGM and being eligible, offer themselves for re-election at the EGM.

Biographical details of Mr. Ho Alvin Tzuen Chung and Ms. Sin Pui Ying are set out in Appendix IV to this circular.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder had a material interest in the transactions contemplated under the re-election of Directors as at the Latest Practicable Date. As such, no Shareholder is required to abstain from voting on the resolution in respect of the re-election of Directors.

GEM LISTING RULES IMPLICATIONS

Rights Issue

Since the proposed Rights Issue will increase the issued share capital or the market capitalisation of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the proposed Rights Issue must be made conditional on approval by the Independent Shareholders at the EGM by a resolution on which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the proposed Rights Issue and the transactions contemplated thereunder.

LETTER FROM THE BOARD

As at Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules and none of the Directors and the chief executive of the Company and their respective associates holds any Share. Accordingly, no Shareholder shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM.

The Independent Board Committee and The Independent Financial Adviser

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Ho Siu King, Stanley, Mr. Hau Chi Kit and Mr. Ma Stephen Tsz On, has been established to advise the Independent Shareholders in respect of the Rights Issue, whether the terms are fair and reasonable and whether it is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders how to vote, taking into account the recommendations of the Independent Financial Adviser. With the approval of the Independent Board Committee, Rainbow Capital (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Share Consolidation

The Share Consolidation is conditional upon, among other things, the approval by the Shareholders by way of poll at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as none of the Shareholders or their associates would have material interest in the Share Consolidation, no Shareholder would be required to abstain from voting in favour of the resolution relating to the Share Consolidation at the EGM.

GENERAL

A notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed herewith. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending or voting in person at the EGM or any adjourned meeting thereof should you so wish.

The register of members of the Company will be closed from Wednesday, 19 August 2020 to Tuesday, 25 August 2020 (both days inclusive) for determine the eligibility of the Shareholders to attend and vote at the EGM. In order to qualify for attendance and voting at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 18 August 2020.

In compliance with the GEM Listing Rules, all the resolutions to be proposed at the EGM will be voted on by way of poll at the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors believe that the terms of the Underwriting Agreement are on normal commercial terms, and the Share Consolidation and the Rights Issue are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and recommend the Shareholders or the Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the EGM to approve the Share Consolidation and the Rights Issue.

The Directors also consider that the re-election of Directors is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the re-election of Directors.

Your attention is drawn to the letter from the Independent Board Committee set out on page 38 of this circular which contains its recommendation to the Independent Shareholders in relation to the Rights Issue, and the letter from Rainbow Capital set out on pages IFA-1 to IFA-20 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

WARNING OF THE RISKS OF DEALING IN THE EXISTING SHARES, THE CONSOLIDATED SHARES AND NIL-PAID RIGHTS SHARES

Shareholders and potential investors of the Company should note that the Rights Issue is conditional upon, among others, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the section headed “Termination of the Underwriting Agreement” in this circular). Accordingly, the Rights Issue may or may not proceed.

Any Shareholder or other person dealing in the Existing Shares, the Consolidated Shares and/or the nil-paid Rights Shares up to the date on which all the conditions to which the Rights Issue are fulfilled (and the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases) will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

Shareholders and potential investors are advised to exercise caution when dealing in the Existing Shares, the Consolidated Shares and/or the nil-paid Rights Shares. Any party who is in any doubt about his/her/its position or any action to be taken is recommended to consult his/her/its own professional adviser(s).

Yours faithfully,
On behalf of the Board
hmvod Limited
Lau Kelly
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



hmvod Limited
hmvod 視頻有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8103)

7 August 2020

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5)
RIGHTS SHARES FOR EVERY ONE (1)
CONSOLIDATED SHARE HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 7 August 2020 (“**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as the members of the Independent Board Committee, to advise the Independent Shareholders as to whether, in our opinion, the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Rights Issue are set out in the “Letter from the Board” on pages 12 to 37 of the Circular.

The Independent Financial Adviser has been appointed to advise us and Independent Shareholders in respect of the terms of the Rights Issue. Details of its advice, together with the principal factors taken into consideration in arriving thereat, are set out in its letter on pages IFA-1 to IFA-20 of the Circular.

Having considered the terms of the Rights Issue, taking into account the information contained in the Circular and the advice of the Independent Financial Adviser, we are of the opinion that the terms of the Rights Issue are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution approving the Rights Issue at the EGM.

Yours faithfully,

For and on behalf of

The Independent Board Committee

hmvod Limited

Mr. Ho Siu King, Stanley Mr. Hau Chi Kit Mr. Ma Stephen Tsz On

Independent non-executive Directors

LETTER FROM RAINBOW CAPITAL

The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, which has been prepared for the purpose of inclusion in this circular.



7 August 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF FIVE (5) RIGHTS SHARE FOR EVERY ONE (1) CONSOLIDATED SHARE HELD ON THE RECORD DATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 7 August 2020 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As stated in the Letter from the Board, the Board intends to put forward a proposal to the Shareholders to effect the Share Consolidation which involves the consolidation of every ten (10) issued Shares into one (1) Consolidated Share and the Change in Board Lot Size. Conditional upon the Share Consolidation and the Change in Board Lot Size becoming effective, the Board proposes to raise gross proceeds of approximately HK\$60.5 million before expenses on the basis of five (5) Rights Shares for every one (1) Consolidated Share held on the Record Date by issuing 71,128,435 Rights Shares (assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date) at the Subscription Price of HK\$0.85 per Rights Share. The Rights Issue is only available to the Qualifying Shareholders and will not be extended to Non-Qualifying Shareholders.

Since the proposed Rights Issue will increase the issued share capital or the market capitalisation of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the proposed Rights Issue must be made conditional on approval by the Independent Shareholders at the EGM. As at Latest Practicable Date, the Company has no controlling Shareholder as defined under the GEM Listing Rules and none of the Directors and the chief executive of the Company and their respective associates holds any Share. Accordingly, no Shareholder shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Ho Siu King, Stanley, Mr. Hau Chi Kit and Mr. Ma Stephen Tsz On, has been formed to advise the Independent Shareholders in respect of the Rights Issue. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM RAINBOW CAPITAL

As at the Latest Practicable Date, we did not have any relationships or interests in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other parties. Accordingly, we are qualified to give independent advice on the Rights Issue.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, or any of its respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Rights Issue are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Business and financial performance of the Group

The Group is principally engaged in the provision of professional services, over-the-top (“OTT”) services and proprietary trading business. The OTT services segment has been the core business of the Group which primarily involves provision of multi-media related services and content to customers in Hong Kong and Taiwan via its own digital video rental platform. The professional services segment mainly involves the provision of cyber security services and solutions to corporations in the Greater China and Asia Pacific region. Revenue of the Group are predominantly generated from Hong Kong.

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(i) Financial performance

Set out below is a summary of the consolidated statements of comprehensive income for the three years ended 31 March 2020 as extracted from the annual report of the Company for the year ended 31 March 2019 (the “**2019 Annual Report**”) and the annual report of the Company for the year ended 31 March 2020 (the “**2020 Annual Report**”), respectively:

	For the year ended 31 March		
	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
<i>Revenue from continuing operations</i>			
– Professional services	3,107	3,614	1,654
– Proprietary trading	5,232	–	–
– OTT services	30,386	51,636	34,684
– Money lending	303	–	–
	<u>39,028</u>	<u>55,250</u>	<u>36,338</u>
<i>Revenue from discontinued operations</i>			
– Provision of systems development services	11,868	1,558	–
– Loan interest income	–	60	7
– Rental income arising from investment property	2,400	600	–
	<u>14,268</u>	<u>2,218</u>	<u>7</u>
Proceeds from sales of financial assets at fair value through profit or loss	<u>187,952</u>	<u>151,944</u>	<u>–</u>
Turnover	241,248	209,412	36,345
Other income and gains	30	16,770	14,637
Subcontractor costs	(24,844)	(51,029)	(32,292)
Impairment losses on goodwill	(5,657)	(21,294)	(21,701)
Loss on disposal of financial assets at fair value through profit or loss	(11,163)	(7,073)	–
Other expenses	(24,240)	(19,652)	(5,584)
Finance costs	(30,400)	(21,350)	(8,684)
Staff costs, including Directors' emoluments	(10,266)	(9,466)	(6,456)
<i>Continuing operations</i>			
(Loss)/profit for the year	(75,567)	(66,097)	(40,749)
<i>Discontinued operations</i>			
(Loss)/profit for the year	<u>(15,733)</u>	<u>29,729</u>	<u>37</u>
(Loss)/profit for the year	(91,300)	(36,368)	(40,712)

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(a) Year ended 31 March 2019 compared to year ended 31 March 2018

For the year ended 31 March 2019, turnover of the Group was approximately HK\$209.4 million, representing a decrease of approximately 13.2% as compared to approximately HK\$241.4 million in the previous year. Such decrease was mainly due to (i) the decrease in sale proceeds of financial assets at fair value through profit or loss from its proprietary trading business from approximately HK\$188.0 million for the year ended 31 March 2018 to approximately HK\$151.9 million for the year ended 31 March 2019, representing a decrease of approximately 19.2%, primarily resulting from the volatility of the global market and the uncertainties triggered by trade war and the effect of contractionary monetary policy from the United States and (ii) the discontinuation of (a) the operation in systems development business in July 2018 and (b) the property investment businesses in relation to the Group's 20% shareholding interests in its associates, which is principally engaged in the operation of a tourism project, namely Shantou City Chaoren Port Cultural Park, in November 2018 (the **"Tourism Project"**). Nevertheless, the decrease in turnover was partially offset by the increase in revenue generated from the OTT services by approximately 69.9% from approximately HK\$30.4 million for the year ended 31 March 2018 to approximately 51.6 million for the year ended 31 March 2019, primarily attributable to the growing penetration of the use of multi-media platform by many companies to brand and market their products.

For the year ended 31 March 2019, net loss of the Group was approximately HK\$36.4 million as compared to approximately HK\$91.3 million in the previous year. The decrease in net loss was primarily attributable to (i) the gain on disposal of the Tourism Project of approximately HK\$16.8 million for the year ended 31 March 2019, which was recognised under other income and gains; (ii) the decrease in finance costs as a result of the reduction of bank and other borrowings from approximately HK\$30.4 million for the year ended 31 March 2018 to approximately HK\$21.4 million for the year ended 31 March 2019; and (iii) the gain on disposal of approximately HK\$32.9 million in relation to the entire issued share capital of one of the Group's subsidiaries, which owned investment properties of a floor and 3 car parking space in a commercial building in Hong Kong, in exchange of the assignment of a loan and provision of credit facility from a creditor. Such gain in disposal was accounted under discontinued operations for the year ended 31 March 2019 (the **"Discontinued Gains"**). Nonetheless, the aforesaid decrease in net loss was partially offset by the increase in (i) subcontracting costs by approximately HK\$26.2 million, which was generally in line with the increase in revenue generated from the provision of OTT services and (ii) impairment losses on goodwill by approximately HK\$15.6 million, primarily attributable to one of the Group's subsidiaries acquired in June 2017 (the **"Acquisition"**) which is principally engaged in the provision of the OTT services.

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(b) Year ended 31 March 2020 compared to year ended 31 March 2019

Turnover of the Group decreased from approximately HK\$209.4 million for the year ended 31 March 2019 to approximately HK\$36.3 million for the year ended 31 March 2020, mainly due to the substantial decrease in sale proceeds of financial assets at fair value through profit or loss from its proprietary trading business of approximately HK\$151.9 million given the fact that the Group does not involve in the proprietary trading business since the last financial year ended. On the other hand, revenue from the Group's continuing operations, being the professional services and OTT services, also decreased from approximately HK\$3.6 million and HK\$51.6 million for the year ended 31 March 2019 to approximately HK\$1.7 million and HK\$34.7 million for the year ended 31 March 2020, respectively, primarily due to the general uncertainties brought by social movement since June 2019 and the expiration of contracts of subscribers of the Group's video-on-demand platform.

For the year ended 31 March 2020, net loss of the Group was approximately HK\$40.7 million as compared to approximately HK\$36.4 million in the previous year. The slight increase in net loss was primarily attributable to the decrease in (i) revenue of the Group's continuing operations by approximately HK\$18.9 million and (ii) profits of discontinued operations by approximately HK\$30.0 million, primarily attributable to the absence of the Discontinued Gains; which were partially offset by the decrease in (i) subcontractor costs by approximately HK\$18.7 million, which was generally in line with the decrease in revenue generated from the provision of OTT services; (ii) other expenses and staff costs by approximately HK\$17.1 million, primarily resulting from the reduction in general operating costs and rental costs; and (iii) finance costs by approximately HK\$12.7 million, primarily due to the waiver of principal and interests on promissory note which was discharged in November 2018 and settlement of short term loans during the second and third quarter of 2018.

As stated in the 2020 Annual Report, the professional services and the OTT services remain the principal businesses of the Group and the Company will continue to look for opportunities through making investments into and/or acquiring interests in companies or projects that have promising outlooks and prospects.

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(ii) *Financial position*

Set out below is a summary of the consolidated statements of financial position as at 31 March 2018, 2019 and 2020 as extracted from the 2019 Annual Report and the 2020 Annual Report, respectively:

	As at 31 March		
	2018	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Total assets	438,228	97,702	39,879
<i>Include:</i>			
<i>Investment property</i>	136,000	–	–
<i>Goodwill</i>	58,745	37,450	15,749
<i>Investment in associates</i>	77,413	–	–
<i>Intangible assets</i>	29,271	22,384	15,497
<i>Trade and other receivables</i>	39,198	18,003	4,429
<i>Financial assets at fair value</i>			
<i>through profit or loss</i>	62,841	–	–
<i>Bank balances and cash</i>	5,666	2,592	1,525
<i>Pledged bank deposits</i>	1,001	–	–
Current assets	118,472	26,529	7,107
Total liabilities	498,229	189,304	172,283
<i>Include:</i>			
<i>Trade and other payables</i>	136,870	89,883	86,425
<i>Bank and other borrowings</i>	207,202	63,990	64,095
<i>Bonds</i>	15,274	17,419	18,826
<i>Promissory note</i>	99,185	13,890	–
Deficit attributable to Shareholders	(54,677)	(83,511)	(122,715)

As at 31 March 2020, total assets of the Group amounted to approximately HK\$39.9 million, representing a decrease of approximately 59.2% as compared to that as at 31 March 2019. Total assets primarily consist of goodwill arising from the Acquisition, intangible assets which primarily comprised of the Group's platform of OTT services and trade and other receivables. As at 31 March 2020, goodwill and intangible assets accounted for approximately 78.4% of total assets of the Group.

As at 31 March 2020, total liabilities of the Group amounted to approximately HK\$172.3 million, representing a decrease of approximately 9.0% as compared to that as at 31 March 2019. Total liabilities primarily consist of trade and other payables to the Group's suppliers and bank and other borrowings and issuance of bonds.

As at 31 March 2020, the Group had net current liabilities of approximately HK\$153.9 million and net debt (being bank balances and cash minus borrowings and bonds) of approximately HK\$81.4 million.

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(iii) Overall comments

The Group has been streamlining its business in the recent years, as seen from the discontinuation of the operation in systems development business in July 2018 and the disposal of its investment in the Tourism Project in November 2018. In view of the high volatility of the global market filled with uncertainties such as the trigger of trade war and effect of contractionary monetary policy from the United States, the Company has not been engaging in the proprietary trading business since the year ended 31 March 2019. Alongside with the aforesaid restructuring and business strategy, the Company has been focusing on the development of the provision of the OTT services following the completion of the Acquisition in June 2017, which accounted for the majority of the Group's total revenue stream for the three years ended 31 March 2020. As disclosed in the 2020 Annual Report, the Company is optimistic in providing multi-media related services and content in the PRC via different platforms, given the growing penetration and expansion of multi-media segment which in turn is expected to play a vital role in business marketing strategy.

The Group has been in a net liability position as at 31 March 2020, with bank balances and cash amounting to only approximately HK\$1.5 million and majority of assets being intangible in nature such as goodwill and intangible assets that are not readily relisable into cash. In view of its asset being intangible in nature which make it difficult to obtain bank financing, the Group mainly financed its operation through other borrowings, including but not limited to issuances of bonds and promissory note, which in turn incurred finance costs that become a heavy burden on the Group's operation. As such, the Group has been working in the direction to trim down the debt level of the Group, as seen from its decreasing level of borrowings and the related finance costs in the recent two years so as to relieve its financial burden.

2. Use of proceeds of the Rights Issue

As stated in the Letter from the Board, the gross proceeds of the Rights Issue will be approximately HK\$60.5 million and the estimated net proceeds from the Rights Issue after expenses and fees, will be approximately HK\$57.2 million and are intended to be used to repay the Matured Indebtedness, as follows:

- (i) approximately HK\$50.4 million for the repayment of the outstanding principal amount, interests and charges of the Overdue Loans to the Creditor A and the Creditor B which has been expired for over 10 months as at 30 June 2020; and
- (ii) approximately HK\$6.8 million for partial repayment of the Overdue Bond to the Creditor C and other accrued expenses of the Group.

As advised by the management of the Group, as at 30 June 2020, the Matured Indebtedness amounted to approximately HK\$60.7 million in aggregate, which had already been expired for over 10 months.

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In respect of the Overdue Loans to the Creditor A and the Creditor B which should be matured in September 2019 and May 2019 respectively, the Company has been negotiating with the Creditor A and the Creditor B since May 2019 for the extension of the respective loan based on existing terms. However, we are given to understand that, in February 2020, both creditors indicated that they were unwilling to extend the loan maturity date and in turn request for prompt settlement in cash.

In respect of the Overdue Bond to the Creditor C which should be matured in September 2019, the Group has been negotiating with the Creditor C since November 2019. As advised by the management of the Group, in January 2020, following the receipt of a sealed copy of the Petition issued by the Creditor C in the Winding-Up Proceedings under which petitioned that the Company be wound up by the court, both parties verbally reached the preliminary terms for the Overdue Bond Proposal in February 2020, which render a funding requirement of the Group of around HK\$6 million to HK\$8 million for the cash settlement. As stated in the Letter from the Board, the Company and Creditor C have preliminary agreed that not more than 60% of the outstanding principal amount of the Overdue Bond will be settled by cash. Accordingly, around HK\$6 million of the net proceeds of the Rights Issue will be allocated for the cash settlement of the Overdue Bond. In July 2020, the Company and the Creditor C signed a binding broad terms of settlement. Details of the Petition and the aforesaid settlement terms are stated in Appendix I and the Letter from the Board of the Circular, respectively.

As stated in the Letter from the Board, the Group has Other Outstanding Loans, of which the Loan D and the Loan G bear higher interest rate as compared to the Matured Indebtedness. However, taking into account that (i) the Loan E and Loan F were not yet matured until July 2022; (ii) the Group has commenced the negotiation with the Creditor D for extension or renewal of the loan for a term of around one year and a written notice (which is legally binding) was agreed among the parties to extend the maturity date of the Loan D to 26 June 2023 according to the management of the Group; (iii) the Group intends to repay the Loan G with its internal resources and/or the revolving credit facilities as stated in the Letter from the Board; (iv) the maturity dates of the Overdue Loans and Overdue Bond have been expired for over 10 months as at 30 June 2020 and both the Creditor A and the Creditor B are unwilling to negotiate for a further extension according to the management of the Group; (v) a funding requirement of cash was required under the Overdue Bond Proposal and (vi) the unsettlement of the Overdue Loans and the Overdue Bond may lead to the creditors call for the immediate repayment which will potentially affect the operation of the Group, we consider it is justifiable for the Group to apply the net proceeds from the Rights Issue to repay the Matured Indebtedness.

3. Reasons for and benefits of the Rights Issue

(i) Financial difficulties to repay the Matured Indebtedness

As mentioned in the above sub-section headed “1.(ii) Business and financial performance of the Group – Financial position”, the Group recorded net current liabilities amounted to approximately HK\$153.9 million and net debt (being bank balances and cash minus borrowings and bonds) of approximately HK\$81.4 million as at 31 March 2020. In addition, the Group merely maintained bank balances and cash of approximately HK\$1.5 million as at 31 March 2020, which demonstrated a continual decrease of such balance as compared to that of 31 March 2018 and 31 March 2019. Coupled with the intangible nature of the majority of the Group’s total assets (being primarily goodwill and intangible assets) which are not readily realisable into cash and the loss-making position over the past five years, it will be difficult for the Group to repay the Matured Indebtedness if no fund-raising activities were conducted.

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Taking into account of the current financial position of the Group, the Directors consider that it is necessary to conduct fund-raising activities to alleviate the financial burden. Accordingly, as advised by the management of the Group, after taking into account of other fund-raising alternatives which is detailed in the below sub-section, the Rights Issue will be a rescue plan for the Company in order to avoid the potential liquidation of the Company.

(ii) Suitable source of financing among other fund-raising alternatives

As stated in the Letter from the Board, the Company has considered various fund-raising alternatives before resolving to the Rights Issue, including but not limited to debt financing, placing of new shares and open offer.

In respect of debt financing, it is the Group's intention to obtain bank financing which incurs lower interest rate for re-financing the Matured Indebtedness. Based on our discussion with the management of the Group, the Company has approached two principal banks of the Group in Hong Kong for exploring the possibility of obtaining new banking facilities. However, given the volatile market conditions and the consecutive loss-making financial performance of the Group, the Principal Banks turned down the request of the Company for banking facilities at an early stage and there was no further negotiation of scale or terms between the Company and the Principal Banks. Regarding the Non-Banking FIs, according to our understanding, the Directors consider that it would be difficult for the Company to obtain loans from other non-banking financial institution due to the Company lack of collateral acceptable to the Non-Banking FIs, set aside for the potentially high interest rate they may charge for secured loan financing if collateral is available to the Group. As such, after the Banks Rejection, the Company did not further approach the Non-Banking FIs.

In respect of placing of new shares, the Directors have also considered utilising the existing general mandate of 28,451,375 Shares. The Directors consider that by applying relevant net proceeds of placing for partial settlement of the Matured Indebtedness, it would reduce scale of the Rights Issue and lower the overall price discount and dilution effect in conducting fund raising activities. Based on our understanding, during April 2020, the Company has approached three securities houses to explore if they were interested to support any fundraising exercises of the Company without proposing any specific terms in the first place. However, in view of the existing weak financial position of the Group, low market capitalisation of the Group, none of the securities house has any interest on any possible fundraising activities.

In respect of open offer, the Board considers that the Rights Issue would be more favourable and attractive to the Shareholders than an open offer because it would allow Shareholders to have more flexibility in dealing with the Consolidated Shares and the nil-paid rights attaching thereto.

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(iii) Other benefits of the Rights Issue

As disclosed in the Letter from the Board, the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company. In addition, the discount of the Subscription Price to the prevailing market price of the Shares also enhances the attractiveness of the Rights Issue since it is the Company's objective to encourage the participation of Qualifying Shareholders in the Rights Issue.

(iv) Overall comment

In view of (i) the weak financial position, in particular the net liability position and the majority of assets being intangible in nature which make the Group difficult to obtain bank financing; (ii) the Rights Issue can strengthen the capital base of the Group and (iii) the Group's debt level will be substantially trimmed down after the Rights Issue which will improve the financial position of the Group, we concurred with the management of the Group that the Rights Issue is a suitable source of financing over the aforementioned fund-raising alternatives.

4. Principal terms of the Rights Issue

For details of the terms of the Rights Issue, please refer to the section headed "Proposed Rights Issue" in the Letter from the Board. Set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue	:	Five (5) Rights Shares for every one (1) Consolidated Share held by the Qualifying Shareholders at the close of business on the Record Date
Subscription Price	:	HK\$0.85 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	142,256,878 Existing Shares
Number of Consolidated Shares in issue upon the Share Consolidation becoming effective	:	14,225,687 Consolidated Shares (assuming no further issue or repurchase of Shares up to the effective date of the Share Consolidation)
Number of Rights Shares to be issued pursuant to the Rights Issue	:	71,128,435 Rights Shares (assuming no further issue or repurchase of the Shares or Consolidated Shares on or before the Record Date)
Total number of Consolidated Shares in issue upon completion of the Rights Issue	:	85,354,122 Consolidated Shares (assuming no further issue or repurchase of Shares or Consolidated Shares on or before the Record Date)
Gross proceeds from the Rights Issue	:	Approximately HK\$60.5 million before expenses

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Right of excess applications : Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

Underwriting commission : 3%

5. Assessment of the principal terms of the Rights Issue

(i) *Subscription Price*

The Subscription Price of HK\$0.85 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Shares under the Rights Issue, upon an application of excess Rights Shares, or when a transferee of the nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price of HK\$0.85 per Rights Share represents:

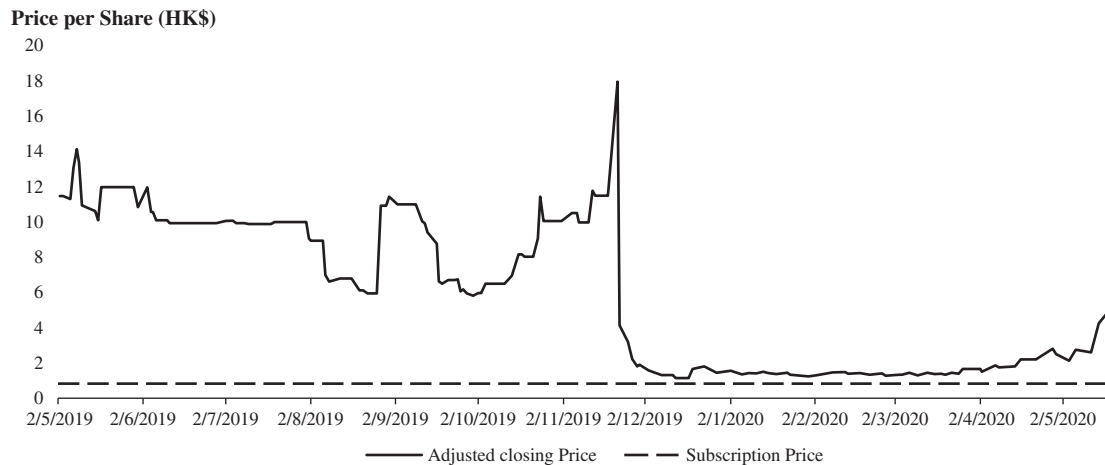
- (i) a discount of approximately 64.0% to the theoretical closing price of HK\$2.360 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.236 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 77.5% to the theoretical closing price of HK\$3.780 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of HK\$0.378 per Existing Share as quoted on the Stock Exchange for the five (5) consecutive trading days prior to and excluding the Last Trading Day;
- (iii) a discount of approximately 73.8% to the theoretical closing price of approximately HK\$3.240 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing price of approximately HK\$0.324 per Existing Share as quoted on the Stock Exchange for the ten (10) consecutive trading days prior to and excluding the Last Trading Day;
- (iv) a discount of approximately 22.9% to the theoretical ex-rights price of approximately HK\$1.102 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.236 per Existing Share as quoted on the Stock Exchange on the Last Trading Day; and
- (v) a premium of approximately 16.4% over the theoretical closing price of HK\$0.73 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.073 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date.

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(a) *Comparison with adjusted historical closing prices of the Consolidated Share*

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily adjusted closing prices (as adjusted for 10-to-1 Share Consolidation) and trading volume of the Consolidated Shares from 1 May 2019 to the Last Trading Day (the “**Share Price Review Period**”) (being a period of approximately one year prior to and including the Last Trading Day) and compared with the Subscription Price. We consider the Share Price Review Period is adequate to reflect the general market sentiment primarily caused by the US-Mainland trade tensions and the local social incidents since the second half of 2019 and illustrates the general trend and level of movement of the daily closing price and trading volume of the Consolidated Shares.

Historical daily adjusted closing price per Consolidated Share



Source: Bloomberg

During the Share Price Review Period, the average adjusted closing price was approximately HK\$6.01 per Consolidated Share (the “**Average Adjusted Closing Price**”). The daily adjusted closing price ranged from HK\$1.08 per Consolidated Share recorded on 17 December 2019 (the “**Lowest Adjusted Closing Price**”) to HK\$18 per Consolidated Share (the “**Highest Adjusted Closing Price**”) recorded on 21 November 2019 during the Share Price Review Period.

As shown in the chart above, during the Share Price Review Period, the Consolidated Share price generally fluctuated from HK\$11.5 per Consolidated Share on 2 May 2019 to the Highest Adjusted Closing Price on 21 November 2019 before a sharp drop to HK\$4.15 per Consolidated Share on 22 November 2019. Since then, the Consolidated Share price continued to fluctuate narrowly and maintained relatively stable in general, and closed at HK\$2.36 per Consolidated Share on the Last Trading Day. Following the publication of the Announcement, the Consolidated Share price continued to drop and closed at HK\$0.73 per Consolidated Share as at the Latest Practicable Date. Save for the announcements of the Company dated 27 June 2019 (annual financial results for the year ended 31 March 2019), 12 August 2019 (first quarterly financial results for the three months ended 30 June 2019), 8 November 2019 (profit warning in relation to the interim financial results for the six months ended 30 September 2019), 12 November 2019 (interim financial results for the six months ended 30 September 2019), 10 February 2020 (positive profit alert in relation to the third

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quarterly financial results for the nine months ended 31 December 2019) and 12 February 2020 (third quarterly financial results for the nine months ended 31 December 2019), we did not notice any incident which may lead to the fluctuation of Consolidated Share price during the Share Price Review Period.

The Consolidated Shares were traded above the Subscription Price throughout the Share Price Review Period. The Subscription Price of HK\$0.85 represents (i) a discount of approximately 21.3% to the Lowest Adjusted Closing Price of HK\$1.08 per Consolidated Share; (ii) a discount of approximately 95.3% to the Highest Adjusted Closing Price of HK\$18 per Consolidated Share; and (iii) a discount of approximately 85.9% to the Average Adjusted Closing Price of approximately HK\$6.01 per Consolidated Share for the Share Price Review Period.

As discussed in the sub-section below headed “5.(i)(b) Comparison with recent rights issue exercises”, we note that it is a common market practice to set the subscription price at a discount to the prevailing market prices of the relevant shares in order to increase the attractiveness and encouraging shareholders to participate in the rights issue as to meet the companies’ need for additional funding.

(b) Comparison with recent rights issue exercises

In order to further assess the fairness and reasonableness of the terms of the Rights Issue, we have further reviewed the rights issue exercises initially announced by companies listed on the Stock Exchange from 1 May 2019 up to the Last Trading Day (being around one year prior to and including the Last Trading Day) which (i) have subscription ratios above 2-for-1 that the rights issue would be subject to shareholders’ approval; (ii) are fully underwritten by the underwriters and (iii) do not offer bonus shares or bonus warrant in the rights issue transactions (the “**Comparables**”).

To the best of our knowledge, we have found 8 transactions which met the said criteria. We consider that the aforesaid review period is appropriate to capture the recent market practice because the Comparables are considered for the purpose of taking a general reference for the recent market practice in relation to rights issue exercise under the recent market conditions and sentiment. Although the Comparables include rights issue in different basis of entitlement, given that (i) our analysis is mainly concerned with the principal terms of the rights issue and we are not aware of any correlation between the entitlement basis of the rights issue and its underlying principal terms and (ii) the Comparables were objectively selected with the basis of entitlement requiring shareholders’ approval, which in our opinion, represent a more comprehensive assessment of the recent market trends for similar fully-underwritten rights issue transactions conducted by other issuers listed on the Stock Exchange, we consider it is fair and representative to compare the respective discounts/premiums between each of the Comparables and that of the Rights Issue. We further consider that the Comparables are fair and representative samples for comparison purpose, which represent an exhaustive list based on the said criteria, and are sufficient for assessing the fairness and reasonableness of the Rights Issue. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Comparables.

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Date of announcement	Company name (stock code)	Basis of entitlement	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price based on the closing price on the last trading day prior to/on the date of the relevant announcements <i>Approximate</i>	Premium/ (discount) of the subscription price over/to the theoretical ex-rights price based on the closing price on the last trading day prior to/on the date of the relevant announcements <i>Approximate</i>	Underwriting commission %	Maximum dilution on shareholding %	Fully underwritten Y/N	Excess application Y/N
						(Note 1)		
3 July 2019	South China Financial Holdings Limited (619.HK)	3 for 2	(16.00%)	(7.08%)	2.00%	60.00%	Y	N
18 July 2019	Cocoon Holdings Limited (428.HK)	2 for 1	(13.80%)	(5.10%)	1.00%	66.67%	Y	Y
6 November 2019	Eminence Enterprise Limited (616.HK)	4 for 1	(24.50%)	(6.10%)	1.50%	80.00%	Y	Y
6 December 2019	Wanjia Group Holdings Limited (401.HK)	2 for 1	(31.43%)	(11.93%)	2.50%	66.67%	Y	Y
18 December 2019	Victory City International Holdings Limited (539.HK)	2 for 1	(22.86%)	(9.09%)	1.50%	66.67%	Y	Y
10 January 2020	Merdeka Financial Group Limited (8163.HK)	4 for 1	(8.33%)	(1.79%)	2.00%	80.00%	Y	Y
10 January 2020	Neway Group Holdings Limited (55.HK)	2 for 1	(20.00%)	(8.68%)	0.00%	66.67%	Y	N
11 May 2020	Victory City International Holdings Limited (539.HK)	2 for 1	(30.35%)	(12.50%)	1.75%	66.67%	Y	Y
		Max	(8.33%)	(1.79%)	2.50%	80.00%		
		Min	(31.43%)	(12.50%)	0.00%	60.00%		
		Median	(21.43%)	(7.88%)	1.63%	66.67%		
		Mean	(20.91%)	(7.78%)	1.53%	69.17%		
	The Company	5 for 1	(64.0%)	(22.9%)	3%	83.3%	Y	Y

Source: website of the Stock Exchange (www.hkex.com.hk)

Note:

- Maximum dilution effect of each of the Comparables is calculated as: (number of rights shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of rights shares to be issued under the basis of entitlement) x 100%.

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As illustrated from the above table, it is a common market practice that the pricing of a rights issue represents a discount to both the closing share prices on the last trading day and to the theoretical ex-entitlement prices of the shares. The subscription prices of the Comparables:

- (i) ranged from a discount of approximately 31.43% to a discount of approximately 8.33% (the “**LTD Range**”), with a median of a discount of approximately 21.43% (the “**LTD Median Discount**”) and a mean of a discount of approximately 20.91% (the “**LTD Mean Discount**”) for their respective closing prices per share on the last trading day prior to/on the dates of the relevant announcements of the Comparables; and
- (ii) ranged from a discount of approximately 12.50% to a discount of approximately 1.79% (the “**TERP Range**”), with a median of a discount of approximately 7.88% (the “**TERP Median Discount**”) and a mean of a discount of approximately 7.78% (the “**TERP Mean Discount**”) for their respective average theoretical ex-rights prices per share based on the closing prices on the last trading day prior to/on the dates of the relevant announcements of the Comparables.

It should be noted that taking into account that (i) the net liability position of the Group as at the recent year ended; (ii) the majority of assets of the Group are intangible in nature which primarily comprised of goodwill and intangible assets; and (iii) the net asset value is not a factor considered by the Board and the underwriter during the course of negotiation for the Rights Issues; we did not include the net asset value of the Comparables for assessing the fairness and reasonableness of the Subscription Price.

The Subscription Price of HK\$0.85 per Rights Share represents (i) a discount of approximately 64.0% to the adjusted closing price per Consolidated Share on the Last Trading Day (the “**LTD Discount**”) and (ii) a discount of approximately 22.9% to the theoretical ex-rights price per Consolidated Share (the “**TERP Discount**”). We noted that (i) each the LTD Discount and the TERP Discount fall out of the LTD Range and TERP Range; (ii) the LTD Discount is higher than both the LTD Median Discount and the LTD Mean Discount, respectively and (iii) the TERP Discount is higher than both the TERP Median Discount and TERP Mean Discount, respectively. Although the LTD Discount and the TERP Discount are seen to be deviated from the Comparables, given that (i) our assessment covers transactions conducted by the Comparables with different funding needs and business which represent an objective and a comprehensive overall market sentiment and (ii) it is not uncommon to principally adopt the Comparables in comparing and assessing the terms of the rights issue transactions, we consider that there are no other methods applicable to analyse the fairness and reasonableness of the terms of the Rights Issue, other than principally through the comparison of recent rights issue exercises. It should be noted that, in forming our opinion, we have considered the results of the above analysis together with all other factors stated in this letter as a whole.

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Given that (i) it is a common market practice that the pricing of a rights issue represents a discount to both the closing share prices on the last trading day and to the theoretical ex-entitlement prices of the shares in order to enhance the attractiveness of the Rights Issue for encouraging Qualifying Shareholders to participate in the Rights Issue; (ii) the relatively substantial discount on the Subscription Price could enhance the attractiveness of the Rights Issue for encouraging Qualifying Shareholders to participate in the Rights Issue given the current financial difficulties of the Group; (iii) it is the request of the Underwriter for deeper discount for the provision of underwriting service on a fully-written basis so as to provide the Group with the certainty of the required minimum level of fund for settlement of the Matured Indebtedness; (iv) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares and (v) those Qualifying Shareholders who do not wish to subscribe for their pro-rata entitlement of the Rights Shares can receive economic benefits from selling their nil-paid Rights Shares in the market, we are of the view that the Subscription Price is justifiable so far as the Independent Shareholders are concerned.

(ii) Application for excess Rights Shares

Qualifying Shareholders will be entitled to apply, by way of excess application, for (i) any entitlements of the Non-Qualifying Shareholders which cannot be sold at a net premium, and (ii) any Rights Shares provisionally allotted but not accepted. Application for excess Rights Shares may be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares being applied for.

The Directors will allocate the excess Rights Shares (if any) at their discretion on a fair and equitable basis. No preference will be given to topping up odd lots to whole board lots. The Board will allocate the excess Rights Shares to the Qualifying Shareholders who have applied for excess application at its discretion, but on a pro-rata basis in proportion to the number of excess Rights Shares being applied for under each application. In determining the number of excess Rights Shares to be allocated to a Qualifying Shareholder, no reference will be made to the number of Rights Shares subscribed by that Qualifying Shareholder through applications by PAL or the existing number of Shares held by such Qualifying Shareholder.

As set out in table under the sub-section above headed “5.(i)(b) Comparison with recent rights issue exercises”, six out of eight of the Comparables have the arrangement for excess application for the qualifying shareholders. In addition, we note that the allocation arrangement of excess application of the Rights Issue, which includes allocating the excess Rights Shares on a pro-rata basis and no preference will be given to topping up odd lots to whole board lots, are the same as the relevant allocation arrangement of the majority (i.e. five out of six) of the Comparables. Based on the above, we concur with the Company that the arrangement of application for excess Rights Shares for the Qualifying Shareholders and the allocation mechanism for the excess Rights Shares are in line with the market practice.

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(iii) Underwriting commission

As stated in the Letter from the Board, the terms of the Underwriting Agreement, including the underwriting commission, were determined after arm's length negotiation between the Company and the Underwriter, among others, (i) the financial position of the Group; (ii) the size of the Rights Issue; and (iii) the current and expected market condition and the prevailing market rate.

From the comparison with recent rights issue exercises under the sub-section above headed "5.(i)(b) Comparison with recent rights issue exercises", we note that the commission rate of 3% under the Rights Issue falls out of the range of commission rate of nil to 2.5% received by underwriters of the Comparables. Given that (i) the Company has been loss making over the past five years, and in a net liability position as at 31 March 2020 with bank balances and cash amounting to only approximately HK\$1.5 million and (ii) the outbreak of the novel coronavirus in 2020 which has added significant downward pressure to the domestic economy, we consider the commission rate is justifiable for inducing the Underwriter to provide underwriting service for the Rights Issue on a fully-underwritten basis.

(iv) Overall comment

Although the Subscription Price, as particularly indicated by the LTD Discount and the TERP Discount, are seen to be deviated from that of the Comparables, we have reviewed and assessed the terms of the Rights Issue as a package. Taking into account the other principal terms of the Rights Issue (such as the arrangement for excess application of the Rights Issue), reasons and the benefits of the Rights Issue as discussed in the above section headed "3. Reasons and benefits of the Rights Issue" and the positive financial impact brought by the Rights Issue as detailed in the below section headed "7. Financial impacts of the Rights Issue", overall speaking, we consider that the terms of the Rights Issue are justifiable.

6. Dilution effect of the Rights Issue on shareholding interest

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their full provisional allotments under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue. Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market conditions, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. However, they and the Non-Qualifying Shareholders should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue.

As at the Latest Practicable Date, the existing public Shareholders held 100% of the total issued share capital of the Company. Upon completion of the Rights Issue (assuming none of the Rights Shares are subscribed for by the existing public Shareholders), the shareholding of the existing public Shareholders will be diluted to approximately 16.7%. On the other hand, Qualifying Shareholders who wish to increase their shareholding interests in the Company through the Rights Issue may, subject to availability, apply for excess Rights Shares.

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As set out in table under the above sub-section headed “5.(i)(b) Comparison with recent rights issue exercises”, the maximum dilution of the Comparables ranged from approximately 60.00% to approximately 80.00%. For the Non-Qualifying Shareholders and those Qualifying Shareholders who do not take up their full provisional allotments under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their shareholding interests in the Company upon completion of the Rights Issue will be potentially diluted by up to a maximum of approximately 83.3%, which slightly lies above the high end of the range of the Comparables.

Having considered (i) the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company and Independent Shareholders’ interests in the Company will not be diluted if they elect to exercise their full provisional allotments under the Rights Issue; (ii) the Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to availability; (iii) shareholding dilution is inherent in rights issue in general; and (iv) the Group is of imminent need for the Right Issues to repay the Matured Indebtedness as mentioned in the above sub-section headed “3.(i) Reasons for and benefits of the Rights Issue – Financial difficulties to repay the Matured Indebtedness”, we are of the view that the potential dilution effect on the shareholding, which may only happen to the Qualifying Shareholders who decide not to subscribe for their pro-rata Rights Shares, is acceptable.

7. Financial impacts of the Rights Issue

(a) Net tangible liability

Based on the audited consolidated net tangible liabilities of the Group attributable to owners of the Company as set out in Appendix II to this Circular, the audited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 March 2020 was approximately HK\$154.0 million. Upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to owners of the Company would become approximately HK\$96.8 million, representing a decrease of approximately 37.1%.

Upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible liabilities per share attributable to owners of the Company would be approximately HK\$1.13, representing an increase of approximately 4.6% as compared to the unaudited consolidated net tangible liabilities per share attributable to owners of the Company as at 31 March 2020 of approximately HK\$1.08. The net liability position of the Group would be improved upon the completion of the Rights Issue.

(b) Liquidity

As part of the net proceeds of not less than approximately HK\$57.2 million from the Rights Issue will be used as the repayment of the Matured Indebtedness, the working capital position of the Group would be improved upon the completion of the Rights Issue.

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(c) Earnings

Following the completion of the Rights Issue, total debt of the Group will be reduced by the amounts of net proceeds of not less than approximately HK\$57.2 million which is applied to the repayment of the Matured Indebtedness. As such, finance costs arising from the Matured Indebtedness will be reduced accordingly which will bring a positive impact to the earnings of the Company.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company following the Rights Issue.

OPINION AND RECOMMENDATION

In arriving at our opinion and recommendation in respect of Rights Issue, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- The Group has been in a net liability position as at the recent year ended, with bank balances and cash amounting to only approximately HK\$1.5 million and majority of assets being intangible in nature which primarily comprised of goodwill and intangible assets. Coupled with its loss-making position over the past five years, the Company is of imminent needs to seek for fund raisings to repay the Matured Indebtedness which was expired for over 10 months as at 30 June 2020;
- The Rights Issue is a suitable source of financing as compared to other fund-raising alternatives such as debt financing, placing of new shares and open offer, as particularly discussed under the above section headed “3.(ii) Reasons and benefit of the Rights Issue – Suitable source of financing among other fund-raising alternatives”;
- The principal terms of the Rights Issue, in particular the Subscription Price, the LTD Discount and the TERP Discount are seen to fall out of the LTD Range and TERP Range and are higher than the respective means and medians of the Comparables. Nonetheless, in view of (i) the relatively substantial discount on the Subscription Price could enhance the attractiveness of the Rights Issue for encouraging Qualifying Shareholders to participate in the Rights Issue given the severe financial difficulties of the Group; (ii) it is the request of the Underwriter for deeper discount for the provision of underwriting service on a fully-written basis as mentioned in the above section headed “5.(i)(b) Comparison with recent rights issue exercise” and (iii) the interest of the Qualifying Shareholders will not be prejudiced by the discount of the Subscription Price as long as they are offered with an equal opportunity to participate in the Rights Issue and subscribe for the Rights Shares; we consider the relatively substantial discount on the Subscription Price is justifiable;
- The dilution effect on the shareholding interests of the Shareholders, which will be potentially diluted by up to a maximum of approximately 83.3% following the completion of the Rights Issue, is considered to be acceptable given the Rights Issue is not prejudicial to the Shareholders’ interests in the Company if they choose to subscribe for their full entitlement of the Rights Shares under the Rights Issue;

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- Qualifying Shareholders who do not intend to accept the Rights Shares provisionally allotted to them can sell their nil-paid Rights Shares; and
- The Rights Issue is expected to bring a positive financial impact on the Group, in particular improving the net tangible liability and improving the gearing ratio of the Group.

Based on the above, we consider that the terms of the Rights Issue are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Rights Issue, while not in the ordinary and usual course of business of the Company, is nevertheless in the interests of the Company and its shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited
Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.

1. SUMMARY OF THE FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three financial years ended 31 March 2018, 2019 and 2020 were disclosed in the annual reports of the Company for the years ended 31 March 2018 (pages 43 to 113), 2019 (pages 33 to 109) and 2020 (pages 31 to 95) respectively. The aforementioned financial information of the Group has been published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.hmvod.com.hk). Please refer to the hyperlinks as stated below:

2018 annual report:

<https://www1.hkexnews.hk/listedco/listconews/gem/2018/0702/gln20180702011.pdf>

2019 annual report:

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0628/gln20190628015.pdf>

2020 annual report:

<https://www1.hkexnews.hk/listedco/listconews/gem/2020/0630/2020063002674.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 June 2020, being the latest practicable date for the purpose of preparing the statement of indebtedness prior to the printing of this circular, the Group had the following outstanding indebtedness:

	<i>HK\$'000</i>
Unsecured borrowings	69,169
Unsecured bonds	19,386
	88,555

Borrowings

As at 30 June 2020, the Group has aggregate unsecured credit facilities of approximately HK\$78,500,000, of which HK\$58,500,000 has been utilised. The unutilised credit facilities of HK\$20,000,000 are not available to the Group until full repayment of the existing lines of credit.

Litigation

During the course of business, the Company has received petitions from bondholder and a professional firm concerned with the outstanding balances due by the Company. The Directors are of the opinion that the Group has taken steps to mitigate the impact of these claims, accordingly, the Directors do not anticipate that these claims will have any material adverse impact on the Group and no provisions have been made in respect thereof.

(a) Winding up petition from bondholder

On 14 September 2015, the Company issued a bond of HK\$9,800,000 to an independent third party with coupon interest of 6% per annum and a maturity of 4 years from the date of issue. The effective interest rate for the bond is 12.41% per annum after considering the direct transaction costs.

On 8 November 2019, the bondholder served a statutory demand to the Company to request the settlement of principal of the bond with interest of approximately HK\$9,894,000.

The Company commenced the negotiation with bondholder upon receipt of the statutory demand.

On 13 January 2020, the Company was served with a sealed copy of the Petition issued by the bondholder in the Winding-Up Proceedings under which petitioned that the Company be wound up by the court. The winding up petition hearing is adjourned to 26 August 2020.

In March 2020, the Company and the bondholder reached the preliminary terms for the settlement, which would render a funding requirement of the Company of around HK\$6,000,000 to HK\$8,000,000 for the cash settlement.

On 24 July 2020, the Company and the bondholder signed a binding broad terms of settlement under which the parties agree, amongst other things:

- (i) All outstanding interest due under the bond (which amounts to HK\$526,000 accrued up to 24 July 2020) shall be paid within 5 days from the date of the signing of the definitive settlement agreement (the “**Interest Payment**”);
- (ii) 60% of the outstanding principal of the bond (i.e. HK\$5,880,000) to be paid by 3 monthly instalments of HK\$1,960,000 and the 1st instalment shall be paid on or before 5 October 2020 (the “**Principal Payment**”);
- (iii) the remaining 40% of the outstanding principal (i.e. HK\$3,920,000) shall be settled by new Shares of the Company to be allotted to the bondholder subject to regulatory approval;
- (iv) Upon payment of the Interest Payment, the bondholder shall agree to adjourn the winding up hearing on 26 August 2020 to October 2020 or thereafter;
- (v) Upon payment of the Principal Payment, the bondholder shall discharge or withdraw the Petition; and
- (vi) The parties shall negotiate in good faith the terms of the definitive settlement agreement reflecting the terms hereinabove and shall enter into the settlement agreement on or before 10 August 2020.

(b) Winding up petition from a professional firm

On 2 January 2020, the Company was served (i) a sealed copy of Amended Petition issued on 3 December 2019 and amended and re-filed on 2 January 2020 pursuant to section 178(1)(a) of the Companies (Winding up and Miscellaneous Provisions) Ordinance, and (ii) a true copy of the 2nd Affirmation of the authorised representative of the professional firm on 3 January 2020, in relation to the unsettled service fee payable by the Company.

On 7 January 2020, the Company has returned a letter along with the cheque of the outstanding service fee to the legal representative of the professional firm and on 20 January 2020, the professional firm has issued an official receipt of such outstanding service fee. The professional firm has agreed to withdraw the petition against the Company on the basis that the cost incurred by the professional firm in relation to the winding up petition to be settled by the Company and the Company has made such payment to the professional firm on 29 January 2020.

In light of the general adjournment of court proceedings announced by the Hong Kong Judiciary in response to COVID-19, the scheduled hearing on 29 January 2020 in relation to the withdrawal of the winding up petition was adjourned. On 6 May 2020, both the solicitors of the Company and the professional firm have signed a consent summons and filed it with the court for withdrawal of the winding up petition issued by the professional firm. Pursuant to a sealed copy order made by High Court and filed on 28 July 2020, the High Court has granted leave to the petitioner to withdraw the winding-up petition.

Accordingly, the winding up petition has been withdrawn and shall have no further legal implication to the Company.

Save as aforesaid and apart from intra-group liabilities and normal trade and other payables in the ordinary course of the business, as at the close of business on 30 June 2020, the Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, term loans, debt securities, other similar indebtedness, hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account (i) the Group's present available financial resources of the Group; (ii) the net cash proceeds from the Rights Issue; (iii) the cash flows generated from the operating activities of the Group; (iv) the credit facilities available to the Group; and (v) the combination of the Rights Issue and the Overdue Bond Proposal will result in the Overdue Debts Full Settlement, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular in the absence of any unforeseen circumstances.

The Directors' opinion is based on, among other things, the assumptions that (i) the Group will be able to reach agreement with the Creditor C for the Overdue Bond Proposal; and (ii) the successful implementation of the Overdue Bond Proposal and combining with the Rights Issue which will result in the Overdue Debts Full Settlement.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2020, being the date to which the latest published audited financial statements of the Group was made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group recorded net current liabilities of approximately HK\$153.9 million as at 31 March 2020. For the year ended 31 March 2020 (the “FY2020”), the Group recorded a turnover and net loss of approximately HK\$36.3 million and HK\$40.7 million respectively.

The Group principally engages in provision of professional services, over-the-top (“OTT”) services and proprietary trading. The professional services segment involves cyber security services and solutions. The OTT services segment involves provision of multi-media related services and content to customers in Hong Kong and Taiwan via its own digital video rental platform. During middle of December 2019, the money lending business had been sold to the independent third party due to the uncertainties in Hong Kong which has been affected by the social movement since June 2019. The interest income in money lending business amounted to approximately HK\$7,000 for the FY2020 (year ended 31 March 2019 (the “FY2019”): approximately HK\$60,000). The decrease in revenue was due to the general underlying uncertainties in Hong Kong which has been affected by the social movement since June 2019, and the unexpected forced majeure event of the continued and worsening situation derived from the recent coronavirus outbreak.

The Group will continue to pursue development of the businesses of the Group with focus towards the OTT services as its core business, which accounted for over 90% of the total revenue of the Group for FY2020.

For professional services, in view of the change of business environment, the Company has strategically broadened its professional services in cyber security services and solutions. The revenue from provision of professional services amounted to approximately HK\$1.7 million for FY2020 (FY2019: approximately HK\$3.6 million).

The Group intends to diversify the customer base by penetrating into the cyber security market in the South East Asia region and the Greater Bay Area. The Group will continue to keep abreast of the latest developments in the IT security industry and to explore new technique based on information collected from, including but not limited to, industry-related conferences, exhibitions, and the feedbacks from the existing and potential business partners and end users of the Group. Also, the Group intends to establish strategic alliances and enhance its connections with existing and new business partners which have well-established reputation in the IT security industry. Leverage on the business network of the business partners, the Group will be able to capture business opportunities.

OTT services is providing multi-media related services and content in the PRC via different platforms. In view of the growing penetration and expansion of multi-media segment, the Group is optimistic to such business segment. In addition, consumers are moving beyond traditional media, the multi-media platform is an option used by many companies to brand and market their products. As such, the multimedia platform is playing an increasingly vital role in business marketing strategy. Having considered that the OTT services is equipped with experience in the industry with diversified clientele and being specialized in the provision of OTT services of video-on-demand in Hong Kong and Taiwan via its own digital video rental platform. The revenue from provision of OTT services amounted to approximately HK\$34.7 million for FY2020 (FY2019: approximately HK\$51.6 million). The decrease of segment revenue is primarily due to (i) drop of subscription as a result of the expiration of 24 month contracts (the “**Expired Contracts**”) of the subscribers on the video-on-demand platform; and (ii) restructuring of Hong Kong business.

The Group cooperates with various telecom providers (the “**Partners**”) to reach out to the broad customer base of the Partners to facilitate subscription of OTT services of the Group.

In the cooperation between the Group and the Partners, the Partners will procure their individual customers (the “**End Users**”) to subscribe for the OTT services of the Group. The Partners will enter into contacts with the End Users for subscription of the OTT services of the Group (generally for a term of 24 months) through the platform of the Partners (the “**Subscribers’ Contracts**”). The Group will provide OTT services to the End Users and share revenue at prescribed revenue sharing ratio with the Partners for total subscription fees for OTT services under Subscribers’ Contracts. The Expired Contracts referred to those expired Subscribers’ Contracts.

For FY2019 and FY2020, the revenue attributable to the Subscribers’ Contracts were approximately HK\$30.9 million and HK\$21.7 million respectively, which accounted for approximately 59.9% and 62.5% of the total segment revenue of the OTT services respectively. As at 31 March 2020, there are approximately 26,200 valid Subscribers’ Contracts, representing a decrease of approximately 60.6% as compared with that as at 31 March 2019. The Board considers that it is not uncommon to have expired Subscribers’ Contracts in conducting the OTT services.

In order to expand the subscribers base of the Group, the Group has been soliciting and will continue to solicit co-operation with new telecom companies, mobile operators and TV broadcast companies in Macau and the PRC (the “**New Partners**”). The Group envisages to leverage on the customer base of the New Partners as a gateway for expanding its own customer base and promoting its brand recognition. Recently, the Group has entered into cooperation with 3 telecom companies in Hong Kong and a telecom company in Macau, each of them will perform marketing initiatives to promote the OTT services. Up to 15 June 2020, the aforesaid new Partners has acquired approximately 20,000 new subscribers for the Group. Following the launching of new 5G service plan (the “**Plan**”), which the public are looking forward to be launched, the Partners will promote the Plan and in the meantime they will procure those customers who join the Plan to subscribe for the OTT services. In addition, the Board considers that there will be another opportunity for the Partners and the Group to promote the OTT services to those customers who are interested in buying the new design of iPhone which is expected to be launched in the second half of 2020.

The Group will seek to deepen the market penetration through better content offerings and enhancement of subscriber experience. The Group will continue to strengthen and optimize the media content according to the tastes and preference of the subscriber in order to enrich their entertainment experience. Accordingly, the Group will continue to strengthen the relationship with existing content providers and form new business relationship with both domestic and international media content providers for improving and diversifying the media content. The Group is under negotiation with one of the largest film studio in Hollywood. The Board expects to commence the cooperation with the aforesaid film studio in fourth quarter of 2020 and after that the Group may have an addition of not less than 600 hours of Hollywood blockbuster movies annually for the OTT services. Besides, in view of the glasses-free 3D technology has aroused attention from the public, the Group intends to offer high resolution 3D movies and related ancillary equipment for facilitating the customers to watch 3D contents without wearing glasses, in order to accelerate the interest of the customers to subscribe for the OTT services.

For proprietary trading, the global market has been highly volatile in 2019. Although Asian market including Hong Kong has attracted capital inflow across the world, the market is still filled with a lot of uncertainties such as the trigger of trade war and the effect of contractionary monetary policy from US. The Group will adopt a prudent approach in identifying opportunities in securities investment which will create value and will be beneficial to the Group and Shareholders. The Group also maintains a risk management policy in which key risk factors such as government and politic risks, country risks, price risks, interest rate risks, currency risks and economic risks have been identified and will be closely monitored. The turnover in proprietary trading business recorded HK\$Nil for FY2019 and FY2020.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the “Unaudited Pro Forma Financial Information”) as at 31 March 2020 has been prepared by the directors of the Company in accordance with paragraph 7.31 of the GEM Listing Rules to illustrate the effect of the consolidation of every ten (10) issued and unissued existing shares of HK\$0.001 each into one (1) consolidated share of HK\$0.01 each and the proposed rights issue on the basis of five (5) rights shares for every one (1) consolidated share held on the record date at the subscription price of HK\$0.85 per rights share on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Rights Issue had taken place on 31 March 2020.

The Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not reflect a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Rights Issue.

The Unaudited Pro Forma Financial Information is prepared based on the consolidated net tangible assets of the Group attributable to owners of the Company derived from the consolidated statement of financial position of the Group as at 31 March 2020, as extracted from the published annual report of the Company for the year ended 31 March 2020, after incorporating the adjustments described in the accompanying notes.

Audited consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 March 2020	Estimated net proceeds from the Rights Issue	Unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 March 2020 upon completion of the Rights Issue	Unaudited consolidated net tangible liabilities per share attributable to owners of the Company as at 31 March 2020	Unaudited consolidated net tangible liabilities per share attributable to owners of the Company as at 31 March 2020 after taking into account of the Share Consolidation but prior to the completion of the Rights Issue	Unaudited pro forma adjusted consolidated net tangible liabilities per share attributable to owners of the Company immediately after the completion of the Rights Issue
HK\$'000	HK\$'000	HK\$'000	HK\$	HK\$	HK\$
(Note 1)	(Note 2)		(Note 3)	(Note 4)	(Note 5)
Based on 71,128,435 rights shares at subscription price of HK\$0.85 per rights share to be issued					
(153,961)	57,186	(96,775)	(1.08)	(10.82)	(1.13)

Notes:

1. The audited consolidated net tangible liabilities attributable to owners of the Company as at 31 March 2020 has been extracted from the published annual report of the Company for the year ended 31 March 2020, adjusted by intangible assets and goodwill of approximately HK\$15,497,000 and HK\$15,749,000 respectively.
2. The estimated net proceeds from the Rights Issue is approximately HK\$57,186,000 are based on 71,128,435 rights shares to be issued at the subscription price of HK\$0.85 per rights share and after deducting estimated related expenses directly attributable to the Rights Issue, of approximately HK\$3,273,000.
3. The amount is calculated based on the unaudited consolidated net tangible liabilities of the Group per share attributable to the owners of the Company as at 31 March 2020 of HK\$153,961,000 and 142,256,878 shares in issue as at 31 March 2020, without taking into account of the consolidation of every ten issued and unissued existing shares of par value of HK\$0.001 each into one consolidated share (“**Consolidated Share(s)**”) of par value of HK\$0.01 each (the “**Share Consolidation**”).
4. The amount is calculated based on the unaudited consolidated net tangible liabilities of the Group attributable to the owners of the Company as at 31 March 2020 of HK\$153,961,000 and 14,225,687 Consolidated Shares.
5. The unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to owners of the Company per share immediately after completion of the Rights Issue and Share Consolidation is calculated based on 85,354,122 shares which comprise of 14,225,687 Consolidated Shares and 71,128,435 rights shares expected to be issued on the completion of the Rights Issue as at 31 March 2020.
6. No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible liabilities of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2020.

**B. INDEPENDENT REPORTING ACCOUNTANTS ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the Company's reporting accountants, Elite Partners CPA Limited, Certified Public Accountants, Hong Kong, prepared for the sole purpose of inclusion in this circular, in respect of the Unaudited Pro Forma Financial Information of the Group.

**INDEPENDENT REPORTING ACCOUNTANTS ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the directors of hmvod Limited:

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of hmvod Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma net tangible liabilities of the Group as at 31 March 2020, and related notes as set out in Section A of Appendix II to the Company’s circular dated 7 August 2020 (the “**Circular**”). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed rights issue of 71,128,435 rights shares at HK\$0.85 per rights share (the “**Rights Shares**”) on the basis of five (5) Rights Share for every one (1) consolidated share of the Company held on the rights issue record date (the “**Rights Issue**”) on the Group’s audited consolidated net tangible liabilities attributable to owners of the Company as at 31 March 2020 as if the Rights Issue had taken place on 31 March 2020. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s audited consolidated financial statements for the year ended 31 March 2020, on which an annual report has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (“**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accounts (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Your faithfully,

Elite Partners CPA Limited
Certified Public Accountants

Hong Kong, 7 August 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. SHARE CAPITAL

The authorised and issued and fully paid share capital of the Company (i) as at the Latest Practicable Date; (ii) immediately following the Share Consolidation having become effective (assuming no change in the number of issued Shares); and (iii) immediately following the Share Consolidation having become effective and the completion of the Rights Issue (assuming no further issue or repurchase of Shares or Consolidated Shares up to completion of the Rights Issue save for the Rights Shares) were as follows:

(i) As at the Latest Practicable Date

Authorised: HK\$

<u>200,000,000,000</u>	Shares of HK\$0.001 each	<u>200,000,000.00</u>
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Issued and fully paid:

<u>142,256,878</u>	Shares of HK\$0.001 each	<u>142,256.88</u>
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(ii) Immediately following the Share Consolidation having become effective (assuming no change in the number of issued Shares)

Authorised: HK\$

<u>20,000,000,000</u>	Consolidated Shares of HK\$0.01 each	<u>200,000,000.00</u>
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Issued and fully paid:

<u>14,225,687</u>	Consolidated Shares of HK\$0.01 each	<u>142,256.87</u>
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- (iii) Immediately following the Share Consolidation having become effective and the completion of the Rights Issue (assuming no further issue or repurchase of Shares or Consolidated Shares up to completion of the Rights Issue save for the Rights Shares)

Authorised:

HK\$

<u>20,000,000,000</u>	Consolidated Shares of HK\$0.01 each	<u>200,000,000.00</u>
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Issued and fully paid:

14,225,687	Consolidated Shares immediately following the Shares Consolidation having become effective	142,256.87
<u>71,128,435</u>	Rights Shares to be allotted and issued under the Rights Issue	<u>711,284.35</u>
<u>85,354,122</u>	Consolidated Shares in issue immediately upon completion of the Rights Issue	<u>853,541.22</u>

All of the Shares or Consolidated Shares and the Rights Shares in issue and to be issued (when fully paid) rank and will rank *pari passu* with each other in all respects, including, in particular, as to dividends, voting rights and return of capital. The Shares or Consolidated Shares and the Rights Shares are or will be listed on the Stock Exchange. None of the securities of the Company is listed, or dealt in, on any other exchange, nor is any listing of or permission to deal in the securities of the Company being, or proposed to be, sought on any other stock exchange.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Consolidated Shares or the Rights Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares or Consolidated Shares.

As at the Latest Practicable Date, none of the capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, none of the Directors or chief executive of the Company and/or any of their respective associates had or was deemed to have any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial Shareholders and other person

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, no person (other than a Director or chief executive of the Company), had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered into the register maintained by the Company pursuant to Section 336 of the SFO, who were, directly or indirectly, interested in 5% or more of the number of any class of share carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Long positions in the Shares:

Name of Substantial Shareholders	Capacity	Number of Shares/underlying Shares held	Approximate percentage of total number of issued Shares of the Company (note 1)
Kingston Securities Limited (note 2)	Beneficial owner	30,000,000	35.1
Galaxy Sky Investments Limited (note 2)	Interest in controlled corporation	30,000,000	35.1
Kingston Capital Asia Limited (note 2)	Interest in controlled corporation	30,000,000	35.1

Name of Substantial Shareholders	Capacity	Number of Shares/underlying Shares held	Approximate percentage of total number of issued Shares of the Company (note 1)
Kingston Financial Group Limited (note 2)	Interest in controlled corporation	30,000,000	35.1
Active Dynamic Limited (note 2)	Interest in controlled corporation	30,000,000	35.1
Chu Yuet Wah (note 2)	Interest in controlled corporation	30,000,000	35.1
VMS Securities Limited (note 3)	Beneficial owner	8,000,000	9.4
VMS Financial Group Limited (note 3)	Interest in controlled corporation	8,000,000	9.4
VMS Securities Holdings Limited (note 3)	Interest in controlled corporation	8,000,000	9.4
Fastlane Global Investments Limited (note 3)	Interest in controlled corporation	8,000,000	9.4
VMS Holdings Limited (note 3)	Interest in controlled corporation	8,000,000	9.4
Master Competent Limited (note 3)	Interest in controlled corporation	8,000,000	9.4
Mak Siu Hang Viola (note 3)	Interest in controlled corporation	8,000,000	9.4
Get Nice Securities Limited (note 4)	Beneficial owner	8,000,000	9.4
Get Nice Incorporated (note 4)	Interest in controlled corporation	8,000,000	9.4

Notes:

1. The percentage holding is calculated based on the expected issued share capital of the Company as consolidated under Share Consolidation and enlarged by the issue of Rights Shares under the Rights Issue comprising 85,354,122 Shares.
2. Based on the notice of disclosure of interest filed by each of Kingston Securities Limited, Galaxy Sky Investments Limited, Kingston Capital Asia Limited, Kingston Financial Group Limited, Active Dynamic Limited and Chu Yuet Wah on 10 June 2020 respectively, Kingston Securities Limited has deemed interest in 30,000,000 Shares by virtue of itself acting as a sub-underwriter agreeing to sub-underwrite the said shares in relation to the proposed Rights Issue. Kingston Securities Limited is wholly-owned by Galaxy Sky Investments Limited, which is in turn wholly owned by Kingston Capital Asia Limited. Kingston Capital Asia Limited is wholly-owned by Kingston Financial Group Limited which is in turn 74.6% owned by Active Dynamic Limited. Active Dynamic Limited is wholly-owned by Chu Yuet Wah. Each of Galaxy Sky Investments Limited, Kingston Capital Asia Limited, Kingston Financial Group Limited, Active Dynamic Limited and Chu Yuet Wah is deemed to be interested 30,000,000 Shares held by Kingston Securities Limited.
3. Based on the notice of disclosure of interest filed by each of VMS Securities Limited, VMS Financial Group Limited, VMS Securities Holdings Limited, Fastlane Global Investments Limited, VMS Holdings Limited, Master Competent Limited and Mak Siu Hang Viola on 11 June 2020 respectively, VMS Securities Limited has deemed interest in 8,000,000 Shares by virtue of itself acting as a sub-underwriter agreeing to sub-underwrite the said shares in relation to the proposed Rights Issue. VMS Securities Limited is wholly-owned by VMS Financial Group Limited, which in turn is wholly-owned by VMS Securities Holdings Limited and in turn wholly owned by Fastlane Global Investments Limited. Fastlane Global Investments Limited is wholly owned by VMS Holdings Limited, which is owned as to 59.8% by Mak Siu Hang Viola and 32.2% by Master Competent Limited, which is wholly owned by Mak Siu Hang Viola. Each of VMS Financial Group Limited, VMS Securities Holdings Limited, Fastlane Global Investments Limited, VMS Holdings Limited, Master Competent Limited and Mak Siu Hang Viola is deemed to be interested 8,000,000 Shares held by VMS Securities Limited.
4. Based on the notice of disclosure of interest filed by each of Get Nice Securities Limited and Get Nice Incorporated on 9 June 2020 respectively, Get Nice Securities Limited has deemed interest in 8,000,000 Shares by virtue of itself acting as a sub-underwriter agreeing to sub-underwrite the said shares in relation to the proposed Rights Issue. Get Nice Securities Limited is wholly-owned by Get Nice Incorporated. Get Nice Incorporated is deemed to be interested 8,000,000 Shares held by Get Nice Securities Limited.

4. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (i) none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2020 (being the date to which the latest published audited accounts of the Group were made up); and
- (ii) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Group.

5. LITIGATION

Save as the litigation discussed under the section headed “2. Statement of Indebtedness” in appendix I, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened against any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or was proposing to enter into any service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling shareholder of the Company nor their respective close associates (as defined in the GEM Listing Rules) had any interest in a business, which competes or may compete, either directly or indirectly, with the business of the Group or any other conflict of interest which any such person has or may have with the Group which would be required to be disclosed pursuant to the GEM Listing Rules.

8. MATERIAL CONTRACTS

The following contracts (being contracts not enter into in the ordinary course of business of the Group) have been entered into by the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date which are or may be material:

- (a) the subscription agreement dated 17 August 2018 entered into between the Company (as issuer) and Topful Holdings Limited (as subscriber) in relation to the subscription of the 4% interest bearing convertible bonds in an aggregate principal amount of HK\$45,000,000. The subscriber failed to complete the subscription scheduled to take place on 16 October 2018;
- (b) the Underwriting Agreement;
- (c) the Supplemental Agreement; and
- (d) the 2nd Supplemental Agreement.

9. EXPERTS AND CONSENTS

The following is the qualification of the experts or professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
Elite Partners CPA Limited	Certified Public Accountants
Rainbow Capital (HK) Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears. Each of the above experts confirmed that as at the Latest Practicable Date:

- (i) it did not have any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and
- (ii) it was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2020, being the date to which the latest published audited accounts of the Company were made up.

10. EXPENSES

The expenses in connection with the Rights Issue, including financial advisory fees, Independent Financial Adviser fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to be approximately HK\$3.3 million, which are payable by the Company.

11. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Board of Directors*Executive Directors*Mr. Lau Kelly (*Chief Executive Officer*)

Ms. Ho Chi Na

Mr. Ho Alvin Tzuen Chung

Ms. Sin Pui Ying

Independent non-executive Directors

Mr. Ho Siu King, Stanley

Mr. Hau Chi Kit

Mr. Ma Stephen Tsz On

*Audit Committee*Mr. Ho Siu King, Stanley (*Chairman*)

Mr. Hau Chi Kit

Mr. Ma Stephen Tsz On

*Nomination Committee*Mr. Ho Siu King, Stanley (*Chairman*)

Mr. Hau Chi Kit

Mr. Ma Stephen Tsz On

*Remuneration Committee*Mr. Ho Siu King, Stanley (*Chairman*)

Mr. Hau Chi Kit

Mr. Ma Stephen Tsz On

Registered office

Cricket Square Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal place of business in Hong Kong

Unit C, 8/F, D2 Place Two

15 Cheung Shun Street

Cheung Sha Wan, Kowloon

Hong Kong

Authorised representatives

Mr. Lau Kelly

Mr. Wong King Hung

Compliance officer

Mr. Lau Kelly

Company secretary

Mr. Wong King Hung

Principal share registrar and transfer office in the Cayman Islands	SMP Partners (Cayman) Limited Royal Bank House – 3rd Floor 24 Shedden Road P.O. Box 1586 George Town Grand Cayman KY1-1110 Cayman Islands
Branch share registrar in Hong Kong	Union Registrars Limited Suites 3301–04, 33/F. Two Chinachem Exchange Square 338 King’s Road, North Point Hong Kong
Principal banker	Hang Seng Bank Limited 83 Des Voeux Road Central Hong Kong
Reporting accountants	Elite Partners CPA Limited 10/F, 8 Observatory Road Tsim Sha Tsui, Kowloon Hong Kong
Legal adviser to the Company	Eric Yung & Co. Suite 2001, 20/F China United Centre, 28 Marble Road North Point, Hong Kong
Financial adviser to the Company	Akron Corporate Finance Limited 21A Harbour Commercial Building 122–124 Connaught Road Central Hong Kong
Underwriter	Win Wind Securities Limited 25/F, China United Centre 28 Marble Road North Point Hong Kong

12. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT**(a) Profiles of the Directors and senior management***Executive Directors*

Mr. Lau Kelly (“**Mr. Lau**”), aged 41, was appointed as executive Director on 31 December 2015 and appointed chief executive officer of the Company on 1 August 2016. Prior to joining the Group, Mr. Lau has worked with the Hong Kong Police Force for twelve years receiving commendations from Secretary of Civil Service and Secretary of Home Affairs for highly rated performances during his tenure. Mr. Lau has worked with Easy Finance Limited as Principal Consultant from 1 May 2011 to 31 October 2015 responsible for all regulatory and legal compliances.

Ms. Ho Chi Na (“**Ms. Ho**”), aged 41, was appointed as executive Director on 1 November 2017. Ms. Ho is a director of Anyplex Hong Kong Limited and Anyplex Taiwan Limited, subsidiaries of the Company. She has over 15 years of experience in TV and digital industry and was a Head of Pay TV department in Hong Kong Broadband Network Limited from 2009 to 2012. She then joined Anyplex Hong Kong Limited as general manager in 2012 and was promoted to CEO in 2016 with her tremendous contribution to OTT services growth. Ms. Ho received her bachelor’s degree in business administration from the City University of Hong Kong in 2001 and master degree in business administration from University of Hong Kong in 2013.

Mr. Ho Alvin Tzuen Chung (“**Mr. Ho**”), aged 54, was appointed as executive Director on 16 October 2019, is currently a director of Consortium Capital Co. Ltd. and several companies. Mr. Ho is one of the founder and GP of Hina-Consortium Beijing Fund, the fund is now evaluated at 5X return and is at matured stage. He was the non-executive Director for a US-based VC WI Harper. He also participated in many social duties; he was the investment advisor to Beijing Government, he was one of the founders of Beijing Huayuan Technology Association, as well as Secretary General of Mt. Jade Association Hong Kong. Mr. Ho was the director and chairman of FX Hotels Group Inc. (2724. TWO), a listed company in Taiwan from June 2012 to September 2017. Mr. Ho received his bachelor’s computer science degree from University of Southern California in 1985 and entered master program in computer science of University of Southern California in 1986.

Ms. Sin Pui Ying (“**Ms. Sin**”), aged 40, was appointed as executive Director on 21 April 2020. She is a practicing member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor’s degree in Business Administration (Accounting and Finance) from the University of Hong Kong. She has over 18 years of experience in finance and accounting. Prior to joining the Company, she was responsible for accounting, internal audit, investment and corporate finance matters for several listed companies in Hong Kong. Ms. Sin is currently an executive director of KNK Holdings Limited (stock code: 8039), On Real International Holdings Limited (stock code: 8245) and Aurum Pacific (China) Group Limited (stock code: 8148), the shares of the companies are listed on the GEM. She is also an executive director of HongDa Financial Holding Limited (stock code: 1822), whose shares are listed on the Main Board of the Stock Exchange.

Independent non-executive Directors

Mr. Ho Siu King, Stanley (“**Mr. SK Ho**”), aged 32, was appointed as an independent non-executive Director on 20 July 2018. He is currently a practicing barrister in Hong Kong. His areas of practice include civil and criminal law. He was an independent non-executive director of Easy Repay Finance & Investment Limited (Stock code: 8079), whose shares listed on the GEM, from 1 July 2016 to 7 June 2020. Mr. SK Ho holds a Master of Laws degree from the London School of Economics and Political Science, and Bachelor of Laws and Bachelor of Engineering (Civil Engineering and Laws) degrees from the University of Hong Kong. Mr. SK Ho was an independent non-executive director of Chinese Food and Beverage Group Limited (stock code: 8272), a company listed on the GEM, from 26 January 2017 to 19 February 2019.

Mr. Hau Chi Kit (“**Mr. Hau**”), aged 48, was appointed as an independent non-executive Director on 4 March 2016. He is currently an independent non-executive director of Xinyang Maojian Group Limited (stock code: 362) and eForce Holdings Limited (stock code: 943), both being companies whose shares are listed on the Main Board of the Stock Exchange. He was an independent non-executive director of Code Agriculture (Holdings) Limited (now known as Farnova Group Holdings Limited) (stock code: 8153), whose shares are listed on the GEM, from 30 November 2016 to 18 July 2019. Mr. Hau was a barrister-at-law in private practice in Hong Kong from 2001 to 2008. Prior to becoming a barrister, Mr. Hau worked at the Securities and Futures Commission. Mr. Hau is a solicitor.

Mr. Ma Stephen Tsz On (“**Mr. Ma**”), aged 41, was appointed as an independent non-executive Director on 20 July 2018. He is currently a barrister-at-law at Wellington Chambers. He was admitted to practice law as a barrister in the High Court of Hong Kong in 2006. Mr. Ma is also an independent non-executive director of Chinese Food and Beverage Group Limited (Stock code: 8272), a company listed on the GEM. Mr. Ma holds a Postgraduate Certificate in Laws from The University of Hong Kong, a Graduate Diploma in Law from The Nottingham Trent University and a Bachelor’s degree in Business Administration from Simon Fraser University.

Company Secretary

Mr. Wong King Hung (“**Mr. Wong**”), aged 36, was appointed as a company secretary of the Company on 9 September 2019. He has over 10 years of experience in auditing, accounting and financial managing field. He is a member of Hong Kong Institute of Certified Public Accountants. In addition, he holds a degree of Bachelor of Business Administration in Accounting from the Open University of Hong Kong.

(b) Business address of the Directors, the senior management and authorised representatives

The business address of the Directors, the senior management and authorised representatives is the same as the Company’s head office and principal place of business in Hong Kong located at Unit C, 8/F, D2 Place Two, 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong.

13. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board (the “**Audit Committee**”) comprised three independent non-executive Directors, namely, Mr. Ho Siu King, Stanley, Mr. Hau Chi Kit and Mr. Ma Stephen Tsz On. The Audit Committee is chaired by Mr. Ho Siu King, Stanley. The Audit Committee is responsible for monitoring and reviewing the risk management procedures and internal control system of the Group.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit C, 8/F, D2 Place Two, 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 March 2018, 2019 and 2020 respectively;
- (c) the material contracts disclosed in the paragraph under the heading “Material Contracts” in this Appendix to this circular;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 38 of this circular;
- (e) the letter of advice from Rainbow Capital, the text of which is set out on pages IFA-1 to IFA-20 of this circular;
- (f) the accountants’ report on the unaudited pro forma financial information of the Group set out in Appendix II to this circular;
- (g) the written consent of the experts referred to in the section headed “Expert and Consent” in this Appendix; and
- (h) this circular.

15. MISCELLANEOUS

- (a) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (b) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

APPENDIX IV DETAILS OF DIRECTORS PROPOSED FOR RE-ELECTION

The biographical details of the Directors proposed to be re-elected at the EGM are set out as follows:

Mr. Ho

Mr. Ho, aged 54, was appointed as executive Director on 16 October 2019, is currently a director of Consortium Capital Co. Ltd. and several companies. Mr. Ho is one of the founder and GP of Hina-Consortium Beijing Fund, the fund is now evaluated at 5X return and is at matured stage. He was the non-executive Director for a US-based VC WI Harper. He also participated in many social duties; he was the investment advisor to Beijing Government, he was one of the founders of Beijing Huayuan Technology Association, as well as Secretary General of Mt. Jade Association Hong Kong. Mr. Ho was the director and chairman of FX Hotels Group Inc. (2724. TWO), a listed company in Taiwan from June 2012 to September 2017. Mr. Ho received his bachelor's computer science degree from University of Southern California in 1985 and entered master program in computer science of University of Southern California in 1986.

Pursuant to the appointment with Mr. Ho, his initial term of service shall be three years commencing from 16 October 2019 and is subject to rotation and re-election pursuant to the articles of association of the Company. Mr. Ho shall be entitled to receive a director's fee of HK\$120,000 per annum which is determined by the Board by reference to the duties and responsibilities undertaken by him as a Director. Save as disclosed above, Mr. Ho did not hold (i) any other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (ii) other major appointments and professional qualifications; or (iii) any other position with the Company or other members of the Group.

As at the Latest Practicable Date, Mr. Ho does not hold any Shares or options of the Company. Mr. Ho has no interest in the Shares of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance and does not have any relationship with any other Directors, senior management or any substantial or controlling Shareholders of the Company.

There is no information which is discloseable nor is/was he involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 17.50(2)(h) to 17.50(2) (v) of the GEM Listing Rules and the Board is not aware of any other matters which need to be brought to the attention of the Shareholders.

APPENDIX IV DETAILS OF DIRECTORS PROPOSED FOR RE-ELECTION

Ms. Sin

Ms. Sin, aged 40, was appointed as executive Director on 21 April 2020. She is a practicing member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor's degree in Business Administration (Accounting and Finance) from the University of Hong Kong. She has over 18 years of experience in finance and accounting. Prior to joining the Company, she was responsible for accounting, internal audit, investment and corporate finance matters for several listed companies in Hong Kong. Ms. Sin is currently an executive director of KNK Holdings Limited (stock code: 8039), On Real International Holdings Limited (stock code: 8245) and Aurum Pacific (China) Group Limited (stock code: 8148), the shares of the companies are listed on the GEM. She is also an executive director of HongDa Financial Holding Limited (stock code: 1822), whose shares are listed on the Main Board of the Stock Exchange.

Pursuant to the appointment with Ms. Sin, her initial term of service shall be three years commencing from 21 April 2020 and is subject to rotation and re-election pursuant to the articles of association of the Company. Ms. Sin shall be entitled to receive a director's fee of HK\$120,000 per annum with discretionary bonus which is determined by the Board by reference to the duties and responsibilities undertaken by her as a Director. Save as disclosed above, Ms. Sin did not hold (i) any other directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (ii) other major appointments and professional qualifications; or (iii) any other position with the Company or other members of the Group.

As at the Latest Practicable Date, Ms. Sin does not hold any Shares or options of the Company. Ms. Sin has no interest in the Shares of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance and does not have any relationship with any other Directors, senior management or any substantial or controlling Shareholders of the Company.

There is no information which is discloseable nor is/was she involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 17.50(2)(h) to 17.50(2) (v) of the GEM Listing Rules and the Board is not aware of any other matters which need to be brought to the attention of the Shareholders.

NOTICE OF EGM



hmvod Limited
hmvod 視頻有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8103)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of hmvod Limited (the “Company”) will be held at R3–R5, United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 25 August 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** subject to and conditional upon the granting by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of, and permission to deal in, the Consolidated Shares (as defined below) upon the Share Consolidation (as defined below) becoming effective:
 - (i) with effect from the date of passing of this resolution by the shareholders of the Company (“**Shareholders**”), every ten (10) existing Shares be consolidated into one (1) consolidated share (the “**Consolidated Share(s)**”) in the issued share capital of the Company (the “**Share Consolidation**”);
 - (ii) all of the Consolidated Shares resulting from the Share Consolidation shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the articles of association of the Company;
 - (iii) all fractional Consolidated Shares shall be disregarded and not be issued to the Shareholders of the Company and any fractional entitlements to the issued Consolidated Shares will be aggregated and, if possible, sold and the net proceeds shall be retained for the benefit of the Company by an agent appointed by the Company’s board of directors for that purpose; and
 - (iv) any one director of the Company (the “**Director(s)**”) be and is authorised to approve, sign and execute such documents and take any and all steps, and to do and/or procure to be done any and all acts and things which in his/her opinion may be necessary, desirable or expedient to implement and carry into effect this resolution.”

NOTICE OF EGM

2. “**THAT**

- (i) subject to and conditional upon the passing of the resolution numbered 1 and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Rights Issue (as defined below) and the transactions contemplated thereunder be and are hereby approved;
- (ii) the underwriting agreement in respect of the Rights Issue (as defined below) dated 19 May 2020 and made between the Company and Win Wind Securities Limited (as amended by two supplemental agreements dated 16 July 2020 and 29 July 2020 respectively) (the “**Underwriting Agreement**”) (a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (iii) subject to the fulfillment of the conditions set out in the Underwriting Agreement, the allotment and issue of 71,128,435 rights shares (the “**Rights Shares**”) in the share capital of the Company pursuant to an offer by way of rights to the Shareholders at the subscription price of HK\$0.85 per Rights Share on the basis of five (5) Rights Shares for every one (1) Consolidated Share held by the Shareholders whose names appear on the register of members of the Company on 7 September 2020 (the “**Record Date**”) as described in further details in a circular issued by the Company dated 7 August 2020 and on and subject to such terms and conditions as may be determined by the Directors (the “**Rights Issue**”), be and is hereby approved, confirmed and ratified;
- (iv) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to any Shareholders whose addresses as of the Record Date are outside of Hong Kong (if any) as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong, and to do all such acts and things as they consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (v) the Directors be and hereby authorised to do all acts and things in connection with the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement.”

NOTICE OF EGM

3. “THAT

- (i) Mr. Ho Alvin Tzuen Chung be re-elected as an executive Director.
- (ii) Ms. Sin Pui Ying be re-elected as an executive Director.”

By order of the Board
hmvod Limited
Lau Kelly
Executive Director

Hong Kong, 7 August 2020

Registered Office:

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Unit C, 8/F, D2 Place Two
15 Cheung Shun Street
Cheung Sha Wan
Kowloon, Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy and the power of attorney (if any), under which it is signed or a notarially certified copy thereof, must be lodged, at the office of the branch share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. Completion and return of a form of proxy will not preclude members of the Company from attending and voting in person at the EGM or any adjournment thereof should they so wish and in such event, the form of proxy shall be deemed to be revoked.
4. Where there are joint registered holders of any shares of the Company, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said person as present whose name stands first on the register in respect of such share of the Company shall alone be entitled to vote in respect thereof.
5. For the purpose of determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 19 August 2020 to Tuesday, 25 August 2020 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 18 August 2020.
6. If Typhoon Signal No. 8 or above, “extreme conditions” caused by super typhoons as announced by the Government of the Hong Kong Special Administrative Region or a “black” rainstorm warning is in effect any time after 6:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will post an announcement on the website of the Company at www.hmvod.com.hk and on the “Latest Company Announcements” page of the GEM website at www.hkgem.com to notify shareholders of the Company of the date, time and place of the rescheduled meeting.

NOTICE OF EGM

As at the date of this notice, the board of Directors comprises the following Directors:

Executive Directors:

Mr. Lau Kelly (*Chief Executive Officer*)

Ms. Ho Chi Na

Mr. Ho Alvin Tzuen Chung

Ms. Sin Pui Ying

Independent Non-executive Directors:

Mr. Ho Siu King, Stanley

Mr. Hau Chi Kit

Mr. Ma Stephen Tsz On