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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in 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 Media Asia Group Holdings Limited (the “Company”), you should at once hand this circular with the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to the shareholders of the Company or any other person to acquire, purchase or subscribe for shares or other securities of the Company.

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## Media Asia Group Holdings Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8075)

**(I) PROPOSED RECAPITALISATION PROPOSAL INVOLVING**  
**(a) SHARE CONSOLIDATION;**  
**(b) INCREASE IN AUTHORISED SHARE CAPITAL;**  
**(c) CONNECTED TRANSACTION — LOAN CAPITALISATION INVOLVING**  
**ISSUE OF SHARES UNDER SPECIFIC MANDATE; AND**  
**(d) OPEN OFFER ON THE BASIS OF ONE (1) OFFER SHARE**  
**FOR EVERY THREE (3) CONSOLIDATED SHARES HELD AT**  
**OPEN OFFER RECORD TIME;**  
**(II) ISSUE OF FEE SHARES UNDER SPECIFIC MANDATE;**  
**AND**  
**(III) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company

**ANGLO CHINESE** 英高  
CORPORATE FINANCE, LIMITED

Underwriter of the Open Offer

 **結好證券有限公司**  
GET NICE SECURITIES LIMITED

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

**ALTUS CAPITAL LIMITED**

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Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed “DEFINITIONS” in this circular.

A notice convening the SGM to be held at Grand Ballroom 5, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Friday, 18 December, 2020 at 8:45 a.m. is set out on pages SGM-1 to SGM-6 of this circular. A form of proxy for use at the SGM is also enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

A letter from the Board is set out on pages 17 to 70 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 71 and 72 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 73 to 108 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events, including force majeure, summarised in the section headed “TERMINATION OF THE UNDERWRITING AGREEMENT” on page 16 of this circular. If the Underwriting Agreement is terminated or does not become unconditional, the Open Offer will not proceed.

This circular will remain on the “Latest Listed Company Information” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its publication and on the website of the Company at [www.mediaasia.com](http://www.mediaasia.com).

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## PRECAUTIONARY MEASURES FOR THE SGM IN HONG KONG

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Considering the outbreak of the novel coronavirus (COVID-19), certain measures will be implemented at the SGM or its adjourned meeting (as the case may be) with a view to addressing the risk to attendees of infection, including the following:

- (i) all attendees will be required to undergo body temperature check;
- (ii) all attendees will be required to complete a health declaration form (a copy of the form is enclosed with this circular), which may be used for contact tracing, if required;
- (iii) any attendees who are subject to health quarantine prescribed by the Government of Hong Kong will not be admitted to the venue of the SGM;
- (iv) all attendees will be required to wear surgical face masks throughout the SGM;
- (v) each attendee will be assigned a designated seat at the time of registration to ensure social distancing;
- (vi) any person who does not comply with the measures above may be denied entry into, or be required to leave, the venue of the SGM; and
- (vii) no refreshments or beverages will be provided, and there will be no corporate gifts.

The Company reminds the Shareholders that they should carefully consider the risks of attending the SGM, taking into account their own personal circumstances. The Company would like to remind the Shareholders that physical attendance in person at the SGM is not necessary for the purpose of exercising their voting rights and **strongly recommends that the Shareholders appoint the chairman of the SGM as their proxy** and submit their form of proxy as early as possible. In light of the risks posed by the COVID-19 pandemic, the Company **strongly encourages the Shareholders NOT to attend the SGM in person.**

The Company will keep the evolving COVID-19 situation under review and may implement additional measures (which it will announce closer to the date of the SGM).

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## CHARACTERISTICS OF GEM

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**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.**

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## CONTENTS

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	<i>Page</i>
<b>Expected Timetable</b> .....	1
<b>Definitions</b> .....	5
<b>Termination of the Underwriting Agreement</b> .....	16
<b>Letter from the Board</b> .....	17
<b>Letter from the Independent Board Committee</b> .....	71
<b>Letter from the Independent Financial Adviser</b> .....	73
<b>Appendix I — Financial Information of the Group</b> .....	I-1
<b>Appendix II — Unaudited Pro Forma Financial Information of the Group</b> .....	II-1
<b>Appendix III — General Information</b> .....	III-1
<b>Notice of SGM</b> .....	SGM-1
<b>Accompanying Documents:</b>	
<b>Form of Proxy</b>	
<b>Health Declaration Form</b>	

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## EXPECTED TIMETABLE

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An indicative timetable for the Share Consolidation, the Change in Board Lot Size and the Increase in Authorised Share Capital is set out below. The indicative timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

<b>Events</b>	<b>Hong Kong date and time</b>
Despatch of the circular with notice of the SGM and proxy form for the SGM.....	Monday, 30 November, 2020
Latest date and time for lodging transfer documents <sup>(Note)</sup> .....	4:30 p.m. on Monday, 14 December, 2020
Latest date and time for lodging the proxy forms for the SGM .....	8:45 a.m. on Wednesday, 16 December, 2020
Date and time of the SGM.....	8:45 a.m. on Friday, 18 December, 2020
Announcement of the poll results of the SGM .....	Friday, 18 December, 2020
Effective date of the Share Consolidation and the Increase in Authorised Share Capital.....	Tuesday, 22 December, 2020
First date of free exchange of Existing Share Certificates into New Share Certificates for the Consolidated Shares.....	Tuesday, 22 December, 2020
Commencement of dealings in the Consolidated Shares .....	9:00 a.m. on Tuesday, 22 December, 2020
Original counter for trading in the Shares (in board lots of 4,000 Existing Shares) closes .....	9:00 a.m. on Tuesday, 22 December, 2020
Temporary counter for trading in board lots of 400 Consolidated Shares (in the form of existing share certificates) opens.....	9:00 a.m. on Tuesday, 22 December, 2020

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## EXPECTED TIMETABLE

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Original counter for trading in the Consolidated Shares in board lots of 12,000 Consolidated Shares (in the form of new share certificates for the Consolidated Shares) re-opens.....	9:00 a.m. on Thursday, 7 January, 2021
Parallel trading in the Consolidated Shares (in the form of new and existing share certificates) commences .....	9:00 a.m. on Thursday, 7 January, 2021
Designated broker starts to stand in the market to provide matching services for sale and purchase of odd lot of Shares.....	9:00 a.m. on Thursday, 7 January, 2021
Temporary counter for trading in Consolidated Shares in board lots of 400 Consolidated Shares (in form of existing share certificates) closes .....	4:10 p.m. on Wednesday, 27 January, 2021
Parallel trading in the Consolidated Shares (in the form of new and existing share certificates) ends .....	4:10 p.m. on Wednesday, 27 January, 2021
Designated broker ceases to stand in the market to provide matching services for sale and purchase of odd lot of Shares .....	4:10 p.m. on Wednesday, 27 January, 2021
Last day for free exchange of Existing Share Certificates for New Share Certificates .....	Friday, 29 January, 2021

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## EXPECTED TIMETABLE

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An indicative timetable for the Open Offer is set out below. Dates or deadlines specified below are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

<b>Events</b>	<b>Hong Kong date and time</b>
Expected despatch date of the circular, proxy form and notice of SGM .....	Monday, 30 November, 2020
Latest date and time for lodging transfers of Shares in order to qualify for attendance and voting at the SGM <sup>(Note)</sup> .....	4:30 p.m. on Monday, 14 December, 2020
Latest date and time for lodging the proxy forms for the SGM .....	8:45 a.m. on Wednesday, 16 December, 2020
Date and time of the SGM.....	8:45 a.m. on Friday, 18 December, 2020
Announcement of the poll results of the SGM .....	Friday, 18 December, 2020
Last day of dealings in Shares on cum-entitlements basis .....	Tuesday, 19 January, 2021
First day of dealings in the Shares on an ex-entitlement basis .....	Wednesday, 20 January, 2021
Latest date and time for lodging transfers of Shares in order to qualify for the Open Offer .....	4:30 p.m. on Thursday, 21 January, 2021
Open Offer Record Time for determining entitlements to the Open Offer.....	4:30 p.m. on Thursday, 21 January, 2021
Despatch of Prospectus Documents (in the case of the Non-Qualifying Shareholders, the Prospectus only) .....	Monday, 1 February, 2021
Latest Time for Acceptance of and payment for the Offer Shares and excess Offer Shares.....	4:00 p.m. on Wednesday, 17 February, 2021

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## EXPECTED TIMETABLE

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Latest Time for Termination and for the Open Offer to become unconditional .....	4:00 p.m. on Thursday, 18 February, 2021
Announcement of the results of the Open Offer and excess application.....	Wednesday, 24 February, 2021
Despatch of certificates for fully-paid Offer Shares.....	Thursday, 25 February, 2021
Despatch of refund cheques in respect of wholly or partially unsuccessful application for excess Offer Shares (if any), or if the Open Offer is terminated .....	Thursday, 25 February, 2021
Commencement of dealings in fully-paid Offer Shares .....	9:00 a.m. on Friday, 26 February, 2021

*Note: Any unregistered holders of the Shares who have not lodged the relevant transfer documents and share certificates before the aforesaid time will not be entitled to attend and vote at the SGM.*

### **EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE**

The Latest Time for Acceptance will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning signal (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Wednesday, 17 February, 2021, instead the Latest Time for Acceptance will be extended to 5:00 p.m. on the same business day; or (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Wednesday, 17 February, 2021, 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 Wednesday, 17 February, 2021, the dates mentioned in the “Expected Timetable” above may be affected. The Company will notify the Shareholders by way of announcement(s) of any change to the expected timetable as soon as practicable.



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## DEFINITIONS

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In this circular and the appendices to it, unless the context otherwise requires, the following expressions shall have the following respective meanings:

“Acquisition Term Sheet”	the non-legally binding term sheet dated 6 November, 2020 entered into between the Company and VS Media in relation to the Potential Acquisition
“Advisory Fee”	the advisory fee of HK\$400,000 to be paid by the Company to the Financial Adviser, being a portion of the total advisory fee in relation to the advisory service provided by the Financial Adviser, which was agreed to be settled by the allotment and issue of Fee Shares to the Financial Adviser at the election of the Financial Adviser
“Announcement”	the joint announcement issued by LSG, LSD, eSun and the Company dated 6 November, 2020 in relation to, among other things, the (1) Share Consolidation; (2) Change In Board Lot Size; (3) Increase In Authorised Share Capital; (4) Loan Capitalisation; (5) Open Offer; (6) Potential Acquisition; (7) issue of Fee Shares under Specific Mandate; (8) Potential Placing; and (9) resumption of trading
“Application Form(s)”	the form(s) of application for the Offer Shares to be issued to the Open Offer Qualifying Shareholders (other than the Non-Qualifying Shareholders)
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules and the Listing Rules
“Board”	the board of Directors
“business day(s)”	means any weekday(s) (other than (i) a Saturday; (ii) a Sunday; (iii) a public holiday; and (iv) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which licensed banks are generally open for business in Hong Kong
“Capitalisation Price”	HK\$0.16 per Capitalisation Share
“Capitalisation Shares”	a maximum of 2,687,500,000 new Consolidated Shares in aggregate to be allotted and issued by the Company at the Capitalisation Price to eSun (or to any member of the eSun Group or such other person(s) as eSun may direct in writing) pursuant to the Loan Capitalisation Agreement

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## DEFINITIONS

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“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“Change in Board Lot Size”	the change in board lot size of the Shares for trading on the Stock Exchange from 4,000 Existing Shares to 12,000 Consolidated Shares
“circular”	this circular which is despatched to the Shareholders by the Company, relating to, among other things, the Recapitalisation Proposal and the issue of Fee Shares under Specific Mandate
“Clawback Application Form”	the application form for use by the Clawback Qualifying Shareholder(s) to apply for the Clawback Offer Shares under their assured entitlements
“Clawback Offer”	the offer to the Clawback Qualifying Shareholders to purchase the Clawback Offer Shares on and subject to the terms and conditions set out in the clawback prospectus to be issued by the Company and eSun, and the Clawback Application Form(s) to be despatched
“Clawback Offer Share(s)”	initially not more than 207,869,997 Consolidated Shares (assuming that there will be no change in the issued share capital of the Company from the Latest Practicable Date and up to and including the Clawback Record Time) offered pursuant to the Clawback Offer subject to adjustment as set out in the section headed “VI. CLAWBACK OFFER BY eSun” in this circular
“Clawback Qualifying Shareholder(s)”	Independent Shareholder(s) whose name(s) appear on the register of members of the Company as at the Clawback Record Time, other than certain Overseas Shareholders and other person(s) whom the Directors and the directors of eSun, after making relevant enquiries, consider it necessary or expedient to exclude from the Clawback Offer on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place

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## DEFINITIONS

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“Clawback Record Time”	4:30 p.m. on Wednesday, 23 December, 2020, or such other date or time as eSun and the Company may announce, being the record time for ascertaining the entitlement(s) of the Clawback Qualifying Shareholder(s) to apply for the Clawback Offer Shares under the Clawback Offer on the basis described in the Announcement and the circular published by eSun dated 30 November, 2020
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Media Asia Group Holdings Limited (寰亞傳媒集團有限公司), an exempted company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed and traded on GEM (Stock Code: 8075)
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules and the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company immediately following the Share Consolidation becoming effective
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and the Listing Rules
“COVID-19”	the Coronavirus Disease 2019
“Director(s)”	the director(s) of the Company
“Dr. Peter Lam”	Dr. Lam Kin Ngok, Peter, the ultimate controlling shareholder of LSG, LSD and eSun, the deputy chairman and an executive director of LSG, the chairman and an executive director of LSD, and the chairman and an executive Director of the Company
“eSun”	eSun Holdings Limited (豐德麗控股有限公司), an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board (Stock Code: 571), and the controlling shareholder of the Company
“eSun Group”	eSun and its subsidiaries (excluding, for the avoidance of doubt, the Group)

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## DEFINITIONS

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“eSun 1st Shareholder’s Loan”	the loan agreement dated 1 November, 2019, entered into between the Company and eSun pursuant to which eSun as lender has made a term loan facility available to the Company as borrower in the principal amount of HK\$50,000,000 at the interest rate of 3-month HIBOR plus 2.8% per annum repayable on 31 October, 2022
“eSun 2nd Shareholder’s Loan”	the loan agreement dated 11 June, 2020, entered into between the Company and eSun pursuant to which eSun as lender has made a term loan facility available to the Company as borrower in the principal amount of HK\$300,000,000 at the interest rate of 3-month HIBOR plus 2.8% per annum repayable on 10 June, 2023
“eSun 3rd Shareholder’s Loan”	the loan agreement dated 20 October, 2020, entered into between the Company and eSun pursuant to which eSun as lender has made a term loan facility available to the Company as borrower in the principal amount of HK\$80,000,000 at the interest rate of 3-month HIBOR plus 2.8% per annum repayable on 19 October, 2023
“eSun Shareholder’s Loans”	collectively, the eSun 1st Shareholder’s Loan, the eSun 2nd Shareholder’s Loan and the eSun 3rd Shareholder’s Loan
“Excess Application Form(s)”	the form(s) of application for use by the Open Offer Qualifying Shareholders (other than the Non-Qualifying Shareholders) who wish to apply for excess Offer Shares
“Existing Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company prior to the Share Consolidation having become effective
“Existing Share Certificate(s)”	certificate(s) of Existing Shares in board lot(s) of 4,000 Existing Shares
“Fee Shares”	2,500,000 newly issued and fully paid-up Consolidated Shares which may be allotted and issued by the Company to the Financial Adviser in settlement of the Advisory Fee
“Financial Adviser”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, as the financial adviser to the Company in relation to the Potential Transactions

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## DEFINITIONS

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“GEM”	the GEM of the Stock Exchange
“GEM Listing Committee”	the GEM listing committee of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended, or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong Interbank Offered Rate
“Hibright”	Hibright Limited (希耀有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of LSD
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Increase in Authorised Share Capital”	the proposed increase in the authorised share capital of the Company from HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares to HK\$1,000,000,000 divided into 10,000,000,000 Consolidated Shares by creating an additional 4,000,000,000 unissued Consolidated Shares
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Au Hoi Fung, Mr. Ng Chi Ho, Dennis and Mr. Poon Kwok Hing, Albert, which has been established to make recommendations to the Independent Shareholders in respect of the terms of the Loan Capitalisation, the Open Offer and the transactions contemplated thereunder
“Independent Financial Adviser” or “Altus Capital”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Loan Capitalisation Agreement, the Open Offer and the transactions contemplated thereunder

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## DEFINITIONS

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“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the SGM under the GEM Listing Rules
“Independent Third Party(ies)”	third party(ies) who are independent of and not connected with the Group, the eSun Group or any other member of the Lai Sun Group or any of their respective associates
“Irrevocable Undertaking”	the irrevocable undertaking dated 6 November, 2020 in the agreed form given by eSun in its capacity as the controlling Shareholder in favour of the Company whereby it undertakes, inter alia, to subscribe for its full entitlement to the Offer Shares under the Open Offer
“Lai Sun Group”	LSG, LSD, eSun and the Company and their respective subsidiaries
“Lai Sun Listco(s)”	LSG, LSD, eSun and the Company, being the listed members of the Lai Sun Group
“Last Trading Day”	2 November, 2020, being the last trading day immediately before the date of the Announcement
“Latest Practicable Date”	26 November, 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Latest Time for Acceptance”	4:00 p.m. on Wednesday, 17 February, 2021, being the latest time for acceptance of and payment for the Offer Shares and excess Offer Shares, or such other time or date as the Company and the Underwriter may agree in writing
“Latest Time for Termination”	the latest time for terminating the Underwriting Agreement at 4:00 p.m., on Thursday, 18 February, 2021, being the first business day after the Latest Time for Acceptance or such other time or date as may be agreed between the Company and the Underwriter
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation”	the proposed allotment and issue of the Capitalisation Shares at the Capitalisation Price by capitalising the loans in the principal amount of HK\$430 million upon the terms and conditions of the Loan Capitalisation Agreement

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## DEFINITIONS

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“Loan Capitalisation Agreement”	the loan capitalisation agreement dated 6 November, 2020 entered into between the Company and eSun in relation to the capitalisation of the Loan Capitalisation Amount
“Loan Capitalisation Amount”	the outstanding principal amount of HK\$430 million under the eSun Shareholder’s Loans which is to be capitalised and cancelled under the Loan Capitalisation
“LSD”	Lai Sun Development Company Limited (麗新發展有限公司), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed and traded on the Main Board (Stock Code: 488)
“LSD Group”	LSD and its subsidiaries (excluding, for the avoidance of doubt, eSun Group and the Group)
“LSG”	Lai Sun Garment (International) Limited (麗新製衣國際有限公司), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed and traded on the Main Board (Stock Code: 191)
“Main Board”	the Main Board of the Stock Exchange
“NAV”	the net asset value of the Company attributable to the Shareholders
“New Share Certificate(s)”	certificate(s) of Shares in board lot(s) of 12,000 Consolidated Shares
“Non-Qualifying Shareholder(s)”	Overseas Shareholder(s) to whom the Directors, after making enquiries, are of the opinion that it would be necessary or expedient not to offer the Offer Shares or the Clawback Offer Shares (as the case may be) on account either of the legal restrictions under the laws of the relevant place or any requirements of the relevant regulatory body or stock exchange in that place
“Offer Price”	HK\$0.16 per Offer Share
“Offer Share(s)”	new Consolidated Share(s) proposed to be offered to the Open Offer Qualifying Shareholders pursuant to the Open Offer

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## DEFINITIONS

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“Open Offer”	the proposed issue by the Company, by way of Open Offer, of one (1) Offer Share for every three (3) Consolidated Shares held as at the Open Offer Record Time at the Offer Price, payable in full on acceptance
“Open Offer Qualifying Shareholder(s)”	the Shareholder(s), whose name(s) appear on the register of members of the Company as at the Open Offer Record Time, other than the Non-Qualifying Shareholder(s)
“Open Offer Record Time”	4:30 p.m. on Thursday, 21 January, 2021, being the record time to determine entitlements to the Open Offer
“Overseas Shareholder(s)”	the Shareholder(s) whose registered address(es) as shown on the register of members of the Company as at the Open Offer Record Time, or the Clawback Record Time (as the case may be), is or are in any place other than Hong Kong
“Placee(s)”	the placee(s) to be procured by the Placing Agent to purchase the relevant Capitalisation Shares pursuant to the Placing Agreement
“Placing”	the placing of up to 937,500,000 Capitalisation Shares (being a portion of the Capitalisation Shares which would otherwise be allotted and issued to eSun under the Loan Capitalisation Agreement)
“Placing Agent”	Get Nice Securities Limited, a corporation licensed to carry on business in Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management) under the SFO
“Placing Agreement”	the placing agreement dated 6 November, 2020 entered into among the Company, eSun and the Placing Agent in relation to the Placing
“Posting Date”	the date on which the Prospectus Documents are proposed to be sent to the Open Offer Qualifying Shareholders or the Prospectus to the Non-Qualifying Shareholders (as the case may be), being Monday, 1 February, 2021, or such other date as may be agreed between the Company and the Underwriter



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## DEFINITIONS

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“Potential Acquisition”	the potential acquisition by the Company of the entire issued share capital of VS Media
“Potential Placing”	the possible placing of the new Shares by a placing agent to Independent Third Party(ies)
“Potential Transactions”	the Recapitalisation Proposal, the Potential Acquisition and the Potential Placing
“PRC”	the People’s Republic of China and for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Prospective Vendors”	the parties who together own the entire issued share capital of VS Media
“Prospectus”	the Open Offer prospectus to be despatched to the Open Offer Qualifying Shareholders and, for information only, to the Non-Qualifying Shareholders
“Prospectus Documents”	the Prospectus, the Application Form(s) and the Excess Application Form(s)
“Recapitalisation Proposal”	the proposed recapitalisation of the Company to be implemented by means of (i) the Share Consolidation; (ii) the Change in Board Lot Size; (iii) the Increase in Authorised Share Capital; (iv) the Loan Capitalisation, including the Clawback Offer and the Placing; and (v) the Open Offer
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held at which resolution(s) will be proposed to consider, and, if thought fit, to approve, among other things, the proposed Share Consolidation, the Increase in Authorised Share Capital, the Loan Capitalisation, the Open Offer and the proposed issue of the Fee Shares
“Share Consolidation”	the consolidation of every ten (10) issued and unissued Existing Shares of HK\$0.01 each into one (1) Consolidated Share of HK\$0.1 each
“Share(s)”	the Existing Share(s) and, or, the Consolidated Share(s), as the case may be

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## DEFINITIONS

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“Share Registrar”	Computershare Hong Kong Investor Services Limited, the Company’s branch share registrar and transfer office in Hong Kong
“Shareholder(s)”	the duly registered holder(s) of Shares
“Specific Mandates”	the specific mandates proposed to be granted to the Directors at the SGM for the allotment and issue of the Capitalisation Shares, the Offer Shares, and the Fee Shares, each a “Specific Mandate”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules and the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC
“Underwriter”	Get Nice Securities Limited, a corporation licensed to carry on business in Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management) under the SFO
“Underwriting Agreement”	the underwriting agreement dated 6 November, 2020 entered into between the Company and the Underwriter in relation to the Open Offer
“Underwritten Shares”	assuming all Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, 404,886,665 Offer Shares will be underwritten by the Underwriter (excluding 562,148,562 Offer Shares that are subject to the Irrevocable Undertaking), and assuming no Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, 335,596,666 Offer Shares will be underwritten by the Underwriter (excluding 631,438,561 Offer Shares that are subject to the Irrevocable Undertaking), pursuant to the terms and conditions of the Underwriting Agreement

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## DEFINITIONS

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“VS Media”	VSM Holdings Limited, a private company incorporated in the British Virgin Islands
“VS Media Group”	VS Media and its subsidiaries
“%”	per cent

*In the event of inconsistency, the English text of this circular, the accompanying form of proxy and the health declaration form shall prevail over the Chinese text.*

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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The Underwriter reserves the right (but shall not be obliged to do so) to rescind or terminate the arrangements set out in the Underwriting Agreement by notice in writing given by it to the Company at any time prior to the Latest Time for Termination, if in the sole and absolute opinion of the Underwriter acting in good faith:

- (i) the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever, whether in Hong Kong or elsewhere, which may materially adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and, or after the date hereof) of a political, military, financial, economic, currency or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which materially adversely affects the business or the financial or trading position or prospects of the Group as a whole or materially adversely prejudices the success of the Open Offer or otherwise makes it inexpedient or inadvisable for the Company or the Underwriter to proceed with the Open Offer; or
  - (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, in the absolute opinion of the Underwriter, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
- (ii) any material adverse change in market conditions or combination of circumstances in Hong Kong or elsewhere (including without limitation to suspension or material restriction or trading in securities) occurs which may adversely and materially affect the success of the Open Offer.

**If the Underwriter gives notice of termination to the Company pursuant to the terms of the Underwriting Agreement, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and neither party shall have any claim against the other party in respect of any matter or thing arising out of or in connection with the Underwriting Agreement (save for any antecedent breaches thereof). If the Underwriter exercises its rights to terminate the Underwriting Agreement, the Open Offer will not proceed.**

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## LETTER FROM THE BOARD

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### Media Asia Group Holdings Limited

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8075)**

***Executive Directors***

Dr. Lam Kin Ngok, Peter (*Chairman*)  
Mr. Chan Chi Kwong  
Mr. Lui Siu Tsuen, Richard  
Mr. Yip Chai Tuck

***Independent Non-executive Directors***

Mr. Au Hoi Fung  
Mr. Ng Chi Ho, Dennis  
Mr. Poon Kwok Hing, Albert

***Registered office***

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

***Head Office and***

***Principal place of business***

11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

30 November, 2020

*To the Shareholders*

Dear Sir or Madam,

- (I) PROPOSED RECAPITALISATION PROPOSAL INVOLVING**  
**(a) SHARE CONSOLIDATION;**  
**(b) INCREASE IN AUTHORISED SHARE CAPITAL;**  
**(c) CONNECTED TRANSACTION — LOAN CAPITALISATION INVOLVING**  
**ISSUE OF SHARES UNDER SPECIFIC MANDATE; AND**  
**(d) OPEN OFFER ON THE BASIS OF ONE (1) OFFER SHARE**  
**FOR EVERY THREE (3) CONSOLIDATED SHARES HELD AT**  
**OPEN OFFER RECORD TIME;**  
**(II) ISSUE OF FEE SHARES UNDER SPECIFIC MANDATE;**  
**AND**  
**(III) NOTICE OF SPECIAL GENERAL MEETING**

**I. INTRODUCTION**

Reference is made to the Announcement in relation to, among others, the Recapitalisation Proposal and the issue of Fee Shares under Specific Mandate.

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## LETTER FROM THE BOARD

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Following a strategic review of the business, financial condition and the potential expansion of its operations in media and entertainment with a particular emphasis on the management and development of branding and product commercialisation opportunities for the artistes which it manages, the Board has concluded that the Company should undertake a recapitalisation plan. This plan, if implemented in full, will result in the elimination of substantially all of the eSun Shareholder's Loans due to eSun, a substantial increase in the Company's equity capital base, an introduction of new investors and a raising of new funds to sustain its existing operations and proposed business plans for growth.

The principal elements of the Recapitalisation Proposal are as follows:

**(a) Proposed Share Consolidation**

The Board proposes to implement the Share Consolidation on the basis that every ten (10) issued and unissued Existing Shares will be consolidated into one (1) Consolidated Share. The Share Consolidation is conditional upon, among other things, the approval of the Shareholders by way of an ordinary resolution at the SGM. Please refer to the section headed "II. PROPOSED SHARE CONSOLIDATION" below for details.

**(b) Proposed Change in Board Lot Size**

The Board proposes that the board lot size of the Shares for trading on the Stock Exchange will be increased from 4,000 Existing Shares to 12,000 Consolidated Shares conditional upon the Share Consolidation becoming effective. Please refer to the section headed "III. PROPOSED CHANGE IN BOARD LOT SIZE" below for details.

**(c) Proposed Increase in Authorised Share Capital**

Conditional upon the Share Consolidation becoming effective, the Board proposes the Increase in Authorised Share Capital from HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares to HK\$1,000,000,000 divided into 10,000,000,000 Consolidated Shares by creating an additional 4,000,000,000 unissued Consolidated Shares, subject to the approval of the Shareholders by way of an ordinary resolution at the SGM. Please refer to the section headed "IV. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL" below for details.

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## LETTER FROM THE BOARD

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**(d) Proposed Loan Capitalisation**

The Company has been considering options to recapitalise the Company and repay the eSun Shareholder's Loans in the aggregate outstanding principal amount of HK\$430 million as at 31 October, 2020. Pursuant to the Loan Capitalisation Agreement, the Company proposed to capitalise substantially all of the eSun Shareholder's Loans, in the aggregate principal amount of HK\$430 million, by allotting and issuing the Capitalisation Shares to eSun or at its direction to the Clawback Qualifying Shareholders under the Clawback Offer and the Places under the Placing. Please refer to the section headed "V. PROPOSED LOAN CAPITALISATION" below for details.

**(e) Proposed Clawback Offer by eSun**

In order to provide the Clawback Qualifying Shareholders with an opportunity to reduce the dilutive impact of the Loan Capitalisation on their shareholdings in the Company and to continue to participate in and share the growth of the business of the Company, eSun will offer 207,869,997 Clawback Offer Shares, which constitute approximately 7.7% of the Capitalisation Shares, to the Clawback Qualifying Shareholders on a pro rata basis of three (3) Clawback Offer Shares for every one (1) Consolidated Share held by the Clawback Qualifying Shareholders as at the Clawback Record Time at HK\$0.16 per Clawback Offer Share. The price at which the Clawback Offer Shares would be offered will be equal to the issue price of the Capitalisation Shares under the Loan Capitalisation Agreement.

**(f) Placing of Capitalisation Shares**

In order to maintain a public float of not less than 25% of the issued Shares, it is proposed that in addition to the Clawback Offer, eSun will, pursuant to the Placing Agreement, direct a portion of the Capitalisation Shares, otherwise due to be issued to it or members of the eSun Group, instead to be placed, through the Placing Agent on a best effort basis, to at least six Places, at the price of HK\$0.16 per Capitalisation Share (which is the same as the price per Capitalisation Share under the Loan Capitalisation and the Clawback Offer), payable to eSun. These persons will be persons, independent of and not connected with the Group, the eSun Group, the Lai Sun Group or their respective associates, as defined in the GEM Listing Rules and the Listing Rules. As a result of the placement of a portion of the new Shares to be issued under the Loan Capitalisation, eSun will, upon the completion of the Loan Capitalisation (including the Clawback Offer and the Placing), directly and indirectly hold less than 75% of the issued share capital of the Company even if no Shareholder accepts any Shares under the Clawback Offer.

For further information about the abovementioned proposed Clawback Offer by eSun and the Placing to be made by eSun, please refer to the Announcement and the circular published by eSun dated 30 November, 2020.

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## LETTER FROM THE BOARD

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**(g) Proposed Open Offer**

After the completion of the Loan Capitalisation (including the Clawback Offer and the Placing), the Company proposes to raise up to approximately HK\$154.7 million before expense by way of an Open Offer of 967,035,227 Offer Shares at the Offer Price of HK\$0.16 per Offer Share on the basis of one (1) Offer Share for every three (3) Consolidated Shares held by the Open Offer Qualifying Shareholders as at the Open Offer Record Time and payable in full on acceptance. Please refer to the section headed “VIII. PROPOSED OPEN OFFER” below for details.

The Recapitalisation Proposal will put the Company in a position to acquire synergistic and complementary businesses to increase the scale of its business and its growth potential. In this regard, the Board has identified VS Media Group, which is engaged primarily in the social e-commerce, influencer marketing, short-form content sponsorship and licensing business, as a potential acquisition target. On 6 November, 2020 (after trading hours), the Company and VS Media entered into the Acquisition Term Sheet in relation to the Potential Acquisition. It should be noted that there is no certainty that a formal agreement will be negotiated successfully, and no agreement will be entered into unless the Loan Capitalisation has been completed. While no legally binding acquisition terms have been agreed, it is expected that the acquisition consideration will be in the form of new Consolidated Shares and that such an issue of Consolidated Shares will not result in any change in the controlling shareholder of the Company, and eSun will continue to remain as the controlling Shareholder of the Company.

Please refer to the Announcement and the section headed “XIV. POTENTIAL ACQUISITION” of this circular for details of the Potential Acquisition and the principal terms of the Acquisition Term Sheet. As the Potential Acquisition, should it proceed, will only take place after the completion of the Loan Capitalisation, it is expected to constitute a major transaction of the Company under Chapter 19 of the GEM Listing Rules. If the Company proceeds with the Potential Acquisition, it will enter into legally binding agreement(s) with the Prospective Vendors. Further announcement(s) will be made by the Company in compliance with the GEM Listing Rules as and when appropriate.

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Consolidation, the Change in Board Lot Size, the Increase in Authorised Share Capital, the Loan Capitalisation, the Open Offer, and the issue of Fee Shares under the Specific Mandate; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Loan Capitalisation and the Open Offer, and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Loan Capitalisation and the Open Offer, and the transactions contemplated thereunder; (iv) the financial information and other general information of the Group; and (v) the notice of SGM.



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## LETTER FROM THE BOARD

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### II. PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation on the basis that every ten (10) issued and unissued Existing Shares will be consolidated into one (1) Consolidated Share.

#### **Conditions precedent to the Share Consolidation**

The implementation of the Share Consolidation is conditional upon the following conditions:

- (i) the passing by the Shareholders of an ordinary resolution at the SGM to approve the Share Consolidation; and
- (ii) the GEM Listing Committee granting approval for the listing of, and permission to deal in, the Consolidated Shares upon the Share Consolidation becoming effective.

The Share Consolidation will become effective on the next business day immediately after the conditions of the Share Consolidation above are fulfilled.

#### **Effects of the Share Consolidation**

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$600,000,000 divided into 60,000,000,000 Existing Shares, of which 2,136,056,825 Existing Shares have been allotted and issued as fully paid or credited as fully paid.

Assuming that no further Shares are issued or repurchased between the Latest Practicable Date and up to and including the effective date of the Share Consolidation, immediately after the Share Consolidation, the authorised share capital of the Company shall become HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares of par value of HK\$0.10 each, of which 213,605,682 Consolidated Shares will be in issue and fully paid or credited as fully paid.

Upon the Share Consolidation becoming effective, the Consolidated Shares will rank pari passu in all respects with each other.

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

Fractional Consolidated Shares will be disregarded and will not be issued by the Company to the Shareholders. Any fractional entitlement to the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company.

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## LETTER FROM THE BOARD

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### **Odd lot matching and parallel trading arrangements**

In order to alleviate the difficulties arising from the existence of odd lots of the Shares as a result of the Share Consolidation, the Company has appointed Prudential Brokerage Limited as its agent to provide matching services, on a best effort basis, to the Shareholders who wish to top up or sell their holdings of odd lots of the Shares during the period from 9:00 a.m. on Thursday, 7 January, 2021 to 4:10 p.m. on Wednesday, 27 January, 2021, both days inclusive. Holders of the Shares in odd lots represented by the Existing Share Certificates who wish to take advantage of this facility either to dispose of their odd lots of the Shares or to top up their odd lots to a full new board lot may directly or through their broker contact Mr. Sam Ng of Prudential Brokerage Limited at 9/F, World-wide House, 19 Des Voeux Road Central, Central, Hong Kong (telephone number (852) 2143 3999) during 9:00 a.m. to 4:10 p.m. within such period.

Holders of the Shares in odd lots should note that successful matching of the sale and purchase of odd lots of the Shares is not guaranteed. Shareholders are recommended to consult their professional advisers if they are in doubt about the above facility.

### **Exchange of New Share Certificates**

In respect of the Share Consolidation, the Shareholders may submit their Existing Share Certificates in the colour of blue to the Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in exchange for the New Share Certificates in the colour of purple free of charge during the business hours (i.e. 9:00 a.m. to 4:30 p.m.) from Tuesday, 22 December, 2020 to Friday, 29 January, 2021 (both days inclusive). It is expected that New Share Certificates will be available for collection from the Share Registrar by the Shareholders within 10 business days after delivery of the Existing Share Certificates to the Share Registrar for exchange purpose.

After Friday, 29 January, 2021, exchange of Existing Share Certificates for New Share Certificates can only be made at a cost 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, whichever number of share certificates involved is higher. All Existing Share Certificates will continue to be good evidence of legal title to such Shares and may be exchanged for New Share Certificates at any time but will not be accepted for delivery, trading and settlement purposes.

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## LETTER FROM THE BOARD

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### III. PROPOSED CHANGE IN BOARD LOT SIZE

As at the Latest Practicable Date, the Shares are traded in board lots of 4,000 Existing Shares. The Board further proposes to change the board lot size for trading on the Stock Exchange from 4,000 Existing Shares to 12,000 Consolidated Shares conditional upon the Share Consolidation becoming effective.

Based on the closing price of HK\$0.019 per Existing Share (equivalent to the theoretical closing price of HK\$0.190 per Consolidated Share) as at the Last Trading Day, (i) the value of each existing board lot of 4,000 Existing Shares is HK\$76; (ii) the value of each board lot of 400 Consolidated Shares would be HK\$76 assuming the Share Consolidation becoming effective; and (iii) the estimated market value per board lot of 12,000 Consolidated Shares would be HK\$2,280 assuming that the Change in Board Lot Size had also been effective.

Based on the closing price of HK\$0.027 per Existing Share (equivalent to the theoretical closing price of HK\$0.27 per Consolidated Share) as at the Latest Practicable Date, (i) the value of each existing board lot of 4,000 Existing Shares is HK\$108; (ii) the value of each board lot of 400 Consolidated Shares would be HK\$108 assuming the Share Consolidation becoming effective; and (iii) the estimated market value per board lot of 12,000 Consolidated Shares would be HK\$3,240 assuming that the Change in Board Lot Size had also been effective.

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

### IV. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$600,000,000 divided into 60,000,000,000 Shares of HK\$0.01 each, of which 2,136,056,825 Shares have been allotted and issued as fully paid or credited as fully paid. Assuming that no further Shares are issued or repurchased between the Latest Practicable Date and up to and including the effective date of the Share Consolidation, immediately after the Share Consolidation, the authorised share capital of the Company shall become HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares of par value of HK\$0.10 each, of which 213,605,682 Consolidated Shares will be in issue and fully paid or credited as fully paid.

Conditional upon the Share Consolidation becoming effective, the Board further proposes the Increase in Authorised Share Capital from HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares to HK\$1,000,000,000 divided into 10,000,000,000 Consolidated Shares by creating an additional 4,000,000,000 unissued Consolidated Shares, subject to the approval of the Shareholders by way of an ordinary resolution at the SGM.

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## LETTER FROM THE BOARD

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### V. PROPOSED LOAN CAPITALISATION

As at the Latest Practicable Date, eSun has extended loans in an aggregate principal amount of HK\$430 million to the Company, the terms of which are summarised below.

On 1 November, 2019, the Company, as borrower, entered into a loan agreement with eSun, as lender, in relation to the eSun 1st Shareholder's Loan, pursuant to which eSun provided the Company an unsecured loan in the principal amount of HK\$50,000,000, which is interest-bearing at a rate of 3-month HIBOR plus 2.8% per annum and repayable on 31 October, 2022, to fund its ongoing working capital requirements.

On 11 June, 2020, the Company, as borrower, entered into a loan agreement with eSun, as lender, in relation to the eSun 2nd Shareholder's Loan, pursuant to which eSun provided the Company an unsecured loan in the principal amount of HK\$300,000,000, which is interest-bearing at a rate of 3-month HIBOR plus 2.8% per annum and repayable on 10 June, 2023. This was used to repay the Company's then existing shareholder's loans in the principal amounts of HK\$100,000,000 and HK\$200,000,000 due to eSun and Hibright, respectively.

On 20 October, 2020, the Company, as borrower, entered into a loan agreement with eSun, as lender, in relation to the eSun 3rd Shareholder's Loan, pursuant to which eSun provided the Company an unsecured loan in the principal amount of HK\$80,000,000, which is interest-bearing at a rate of 3-month HIBOR plus 2.8% per annum and repayable on 19 October, 2023 to finance the general working capital of the Group.

Following a review of the audited financial results of the Company, which recorded (i) a loss attributable to owners of the Company of approximately HK\$178 million for the year ended 31 July, 2020, with the cash and cash balance of approximately HK\$318 million as at 31 July, 2020; (ii) the equity attributable to owners of the Company decreasing from approximately HK\$898 million as at 31 July, 2015 to approximately HK\$40 million as at 31 July, 2020; and (iii) the gearing ratio of the Company (represented by the total borrowings to shareholders' equity attributable to the owners of the Company) increasing from 27.0% as at 31 July, 2015 to 870% as at 31 July, 2020, the Board has been considering options to recapitalise the Company and repay the Loan Capitalisation Amount. Please refer to the section headed "XII. REASONS FOR THE RECAPITALISATION PROPOSAL — Proposed Loan Capitalisation, Clawback Offer and the Placing" for further details.

On 6 November, 2020 (after trading hours), the Company and eSun entered into the Loan Capitalisation Agreement, pursuant to which the Company has conditionally agreed to allot and issue the Capitalisation Shares to eSun, or any persons as it may direct, at the Capitalisation Price of HK\$0.16 per Capitalisation Share in consideration of the cancellation by way of setting-off against the Loan Capitalisation Amount. Interest accruing under the eSun Shareholder's Loans up to and including the date of the completion of the Loan Capitalisation shall be separately paid by the Company to eSun upon the completion of the Loan Capitalisation. For reference purpose, the total outstanding interest accrued under the eSun Shareholder's Loans as at 31 October, 2020 was approximately HK\$0.1 million.

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## LETTER FROM THE BOARD

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The principal terms of the Loan Capitalisation Agreement are as follows:

**Date:** 6 November, 2020 (after trading hours)

**Parties:** (i) the Company; and  
(ii) eSun

**Capitalisation Shares:** 2,687,500,000 new Consolidated Shares, which the Company has conditionally agreed to allot and issue, and eSun conditionally agreed to subscribe for, at the Capitalisation Price for the capitalisation of the eSun Shareholder's Loans. The aggregate consideration for the allotment and issue of the Capitalisation Shares will be settled by setting-off against the Loan Capitalisation Amount. Upon the allotment and issue of the Capitalisation Shares and payment of the outstanding accrued interest in respect of the eSun Shareholder's Loans in full at completion, the liabilities and obligations of the Company under the eSun Shareholder's Loans will be discharged.

Assuming that there will be no change in the issued share capital of the Company between the Latest Practicable Date and completion of the Loan Capitalisation (other than changes as a result of the Share Consolidation becoming effective), the Capitalisation Shares represent:

- (i) approximately 1,258.2% of the total issued Shares upon the Share Consolidation becoming effective, being 213,605,682 Consolidated Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date); and
- (ii) approximately 92.6% of the total issued Shares upon the Share Consolidation becoming effective, as enlarged by the allotment and issue of the Capitalisation Shares.

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## LETTER FROM THE BOARD

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**Arrangements for  
Clawback Offer  
and Placing:**

A portion of the Capitalisation Shares may be directed by eSun to be allotted and issued to the Clawback Qualifying Shareholders and the Placees pursuant to the Clawback Offer and the Placing Agreement, respectively. The actual number of the Capitalisation Shares subject to the Placing will not be dependent on the actual number of Clawback Offer Shares accepted under the Clawback Offer. The Placees will subscribe for up to a total of 937,500,000 Capitalisation Shares irrespective of the result of the Clawback Offer. The Clawback Offer and the Placing are described in the Announcement and the circular published by eSun dated 30 November, 2020.

**Capitalisation Price:**

The Capitalisation Price of HK\$0.16 per Capitalisation Share represents:

- (i) a discount of approximately 15.8% to the theoretical closing price of HK\$0.190 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on 30 October, 2020, being the last trading day prior to the date of board meetings of the Company and eSun approving the Loan Capitalisation (including the Clawback Offer and the Placing);
- (ii) a discount of approximately 15.8% to the theoretical closing price of HK\$0.190 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 17.5% to the theoretical average closing price of HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing prices of the Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 16.2% of the theoretical diluted price of approximately HK\$0.163 per Consolidated Share (after taking into account the effect of the Share Consolidation) to the benchmarked price

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## LETTER FROM THE BOARD

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of HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.019 per Existing Share and the average closing prices of the Existing Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day);

- (v) a discount of approximately 40.7% to the theoretical closing price of HK\$0.27 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.027 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a discount of approximately 15.1% to the theoretical audited consolidated net asset value per Share of approximately HK\$0.188 (after taking into account the effect of the Share Consolidation) based on the latest published consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$40.2 million as at 31 July, 2020 and 2,136,056,825 Existing Shares in issue on the Latest Practicable Date.

The Capitalisation Shares have an aggregate nominal value of HK\$268,750,000.

The Capitalisation Price was arrived at after arm's length negotiations between the Company and eSun with reference to the prevailing market price of the Shares, the Group's historical performance and present financial position as well as current market conditions. The Directors (including the members of the Independent Board Committee, whose views have been set out in the letter from the Independent Board Committee in this circular after taking into account of the advice of the Independent Financial Adviser), taking into account of the above, and the Company's ability to repay the Loan Capitalisation Amount, and the factors set out in the section "XII. REASONS FOR THE RECAPITALISATION PROPOSAL — Proposed Loan Capitalisation, Clawback Offer and the Placing", consider that the Capitalisation Price and the terms of the Loan Capitalisation Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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**Conditions precedent:**

The completion of the Loan Capitalisation is conditional upon fulfilment of the following conditions precedent:

- (i) the Share Consolidation and the Increase in Authorised Share Capital being approved at the SGM and becoming effective;
- (ii) the passing by the Independent Shareholders of the necessary resolution(s) at the SGM to approve the Loan Capitalisation;
- (iii) the passing by the shareholders of eSun (other than those who are required to abstain from voting according to the Listing Rules or other applicable laws and regulations, if any), of the necessary resolution(s) to approve the Loan Capitalisation;
- (iv) the grant by the GEM Listing Committee of, and permission to deal in, the Capitalisation Shares;
- (v) notification from the Placing Agent that, irrespective of the outcome of the Clawback Offer, it has procured or can procure Placees for all or a sufficient number of the Capitalisation Shares on terms that immediately after the completion of the Loan Capitalisation, not less than 25% of the issued share capital of the Company (as enlarged by the Loan Capitalisation) will be held by the public as required by the GEM Listing Rules; and
- (vi) the passing by the Independent Shareholders of a resolution at the SGM to approve the Open Offer.

Save for condition (vi) which can be waived by the Company, none of the above conditions can be waived. If the above conditions are not fulfilled (or, as applicable, waived) on or before 5 May, 2021 (or such other date as the Company and eSun may agree), the Loan Capitalisation Agreement will terminate and all rights and obligations under the Loan Capitalisation Agreement will cease, save for any rights and obligations accrued before the termination. The Clawback Offer, the Placing and the Open Offer will also not proceed if the Loan Capitalisation Agreement is terminated.



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## LETTER FROM THE BOARD

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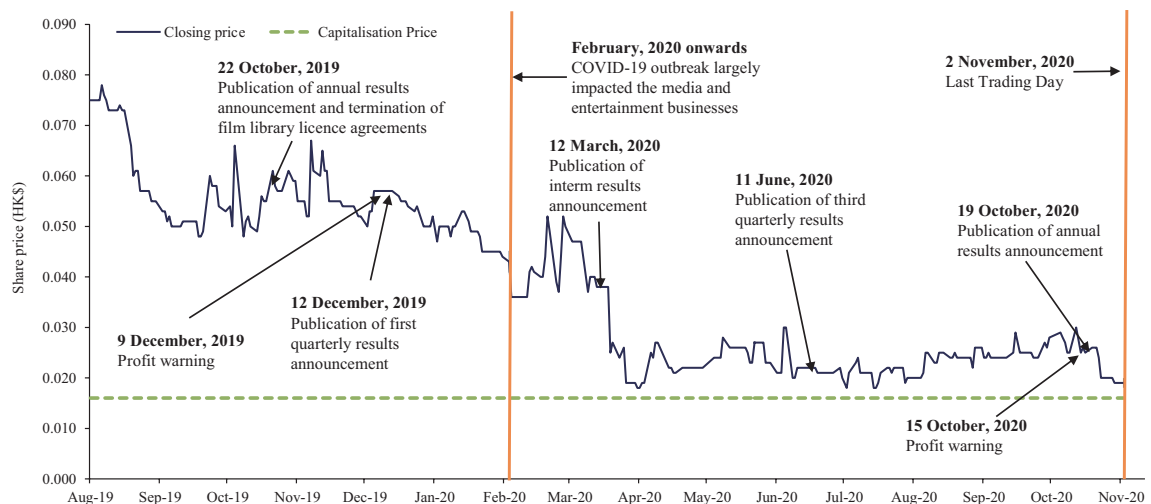
**Completion:** The completion of the Loan Capitalisation shall take place within five (5) business days after the fulfilment (or waiver, as the case may be) of the conditions precedent (or such other date to be agreed by the parties), and is expected to be on the same day of the completion of the Clawback Offer and the Placing.

**Ranking:** The Capitalisation Shares when allotted and issued shall rank pari passu in all respects with the Shares in issue on the date of their allotment and issue, including as to the rights to receive all dividends and distributions which may be declared made or paid after the completion date of the Loan Capitalisation Agreement and will be issued free and clear of all liens, encumbrances, equities or other third party rights.

### Basis of determination of the Capitalisation Price

As discussed in the section headed “Capitalisation Price” above, the Capitalisation Price was arrived at after arm’s length negotiations between the Company and eSun with reference to the prevailing market price of the Shares, the Group’s historical performance and present financial position, as well as current market conditions. The management of the Company has therefore reviewed the following figures and rationale to justify the basis of the Capitalisation Price:

#### *Market price of the Shares under the prevailing market conditions*



Source: Bloomberg

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## LETTER FROM THE BOARD

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The Shares have been traded thinly and closing on the Stock Exchange in a rather volatile manner between HK\$0.078 and HK\$0.018 during the 12 months ended 31 July, 2020 and up to 2 November, 2020 (being the Last Trading Day). The prolonged impact on the global economy brought by the COVID-19 pandemic has seriously affected financial markets and investment sentiments. In particular, the outbreak of COVID-19 has weakened entertainment consumption in Hong Kong and the PRC, with the closure of cinemas and events being postponed or cancelled due to public health concerns. Given that the Group's principal businesses are in media and entertainment, its businesses have been seriously affected. As evident from the graph above, during the past 12 months leading to the Last Trading Day, the share price of the Company fell to its lowest level of HK\$0.018 during the outbreak of COVID-19 from its highest of HK\$0.078 in August, 2019 prior to the outbreak of COVID-19. The closing price of the Shares hit its lowest level of HK\$0.018 five times during the outbreak of COVID-19, on 31 March, 2020, 1 April, 2020, 2 July, 2020, 14 July, 2020 and 15 July, 2020. In addition, the share price of the Company hit its intraday lowest price of HK\$0.016 on 3 April, 2020 and 2 July, 2020.

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## LETTER FROM THE BOARD

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### *Trading volume of the Shares*

The table below shows the average daily trading volume of the Shares and the percentage of the average daily trading volume to the public float of the Company between August, 2019 and November, 2020 (up to the Last Trading Day):

<b>Months</b>	<b>Average daily trading volume of the Shares (in number of Shares)</b> <i>(Note 1)</i>	<b>Percentage of average daily trading volume of the Shares to the average public float of the Company</b> <i>(Note 2)</i>
<b>2019</b>		
August	209,253	0.03%
September	543,659	0.08%
October	311,181	0.04%
November	35,581	0.01%
December	17,224	0.00%
<b>2020</b>		
January	88,800	0.01%
February	446,263	0.06%
March	1,553,168	0.22%
April	351,091	0.05%
May	383,988	0.06%
June	1,140,983	0.16%
July	1,501,132	0.22%
August	1,065,600	0.15%
September	543,659	0.08%
October	1,467,783	0.21%
November (up to the Last Trading Day)	4,044,000	0.58%
	<b>Median</b>	0.07%
	<b>Mean</b>	0.12%
	<b>Maximum</b>	0.58%
	<b>Minimum</b>	0.00%

*Notes:*

1. *Average daily trading volume is calculated by dividing the total trading volume traded for the month, or period, by the number of trading days in the respective month, or period.*
2. *The calculation is calculated by dividing the average daily trading volume for the month, or period, by the total number of Shares in issue at the end of each month, or period.*

## LETTER FROM THE BOARD

As seen in the table above, the median of the average daily trading volume of the Shares between August, 2019 and November, 2020 (up to the Last Trading Day) remained low at less than 0.07% of the public float of the Company. The public float of the Company comprised 692,899,988 Existing Shares, representing 32.4% of the issued Shares as at the Latest Practicable Date. The low level of liquidity in the Shares would indicate that any sale of a large number of Shares through the market would be difficult to accomplish in a short period of time without adversely affecting the Share price.

### *Financial position of the Group*

The table below shows the discount of the average monthly price of the Shares to the NAV.

Month	Average daily trading price for the month <i>HK\$</i>	NAV <i>HK\$ '000</i>	Total number of issued Shares	NAV per Share <i>HK\$</i>	Premium/ (Discount) of average daily trading price for the month to NAV per Share %
<b>2019</b>					
August	0.067	218,790 <sup>Note 1</sup>	2,136,056,825	0.102	-34.5%
September	0.025	218,790 <sup>Note 1</sup>	2,136,056,825	0.102	-75.5%
October	0.056	207,391 <sup>Note 2</sup>	2,136,056,825	0.097	-42.8%
November	0.056	207,391 <sup>Note 2</sup>	2,136,056,825	0.097	-42.0%
December	0.055	207,391 <sup>Note 2</sup>	2,136,056,825	0.097	-43.8%
<b>2020</b>					
January	0.048	177,530 <sup>Note 3</sup>	2,136,056,825	0.083	-41.7%
February	0.042	177,530 <sup>Note 3</sup>	2,136,056,825	0.083	-50.1%
March	0.034	177,530 <sup>Note 3</sup>	2,136,056,825	0.083	-59.2%
April	0.022	146,843 <sup>Note 4</sup>	2,136,056,825	0.069	-67.8%
May	0.025	146,843 <sup>Note 4</sup>	2,136,056,825	0.069	-63.6%
June	0.022	146,843 <sup>Note 4</sup>	2,136,056,825	0.069	-67.9%
July	0.021	40,237 <sup>Note 5</sup>	2,136,056,825	0.019	10.0%
August	0.024	40,237 <sup>Note 5</sup>	2,136,056,825	0.019	27.1%
September	0.025	40,237 <sup>Note 5</sup>	2,136,056,825	0.019	33.0%
October	0.024	40,237 <sup>Note 5</sup>	2,136,056,825	0.019	29.8%
November (up to the Last Trading Day)	0.019	40,237 <sup>Note 5</sup>	2,136,056,825	0.019	0.9%
				<b>Median</b>	-42.4%
				<b>Mean</b>	-30.5%
				<b>Maximum</b>	33.0%
				<b>Minimum</b>	-75.5%

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## LETTER FROM THE BOARD

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*Notes:*

1. *The calculation is based on dividing the audited net asset value as at 31 July, 2019 by the number of Shares in issue as at 31 July, 2019.*
2. *The calculation is based on dividing the unaudited net asset value as at 31 October, 2019 by the number of Shares in issue as at 31 October, 2019.*
3. *The calculation is based on dividing the unaudited net asset value as at 31 January, 2020 by the number of Shares in issue as at 31 January, 2020.*
4. *The calculation is based on dividing the unaudited net asset value as at 30 April, 2020 by the number of Shares in issue as at 30 April, 2020.*
5. *The calculation is based on dividing the audited net asset value as at 31 July, 2020 by the number of Shares in issue as at 31 July, 2020.*
6. *As at 31 July 2020, the NAV amounted to approximately HK\$40.2 million, representing a decrease of approximately 81.6% from HK\$218.8 million in 2019. As a result, the NAV per Share decreased from HK10.2 Cents as at 31 July, 2019 to HK1.9 Cents as at 31 July, 2020.*
7. *The average daily trading price for the month and NAV per Share are rounded to the nearest 3 decimal places.*
8. *The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.*

As seen in the table above, the median discount of the average daily trading price of the Shares to NAV per Share was approximately 42.4% between August, 2019 and November, 2020 (up to the Last Trading Day). The median discount of the average daily trading price of the Shares to NAV per Share was larger than the current 15.1% discount based on the Capitalisation Price of HK\$0.16 per Consolidated Share.

In view of the above, the Capitalisation Price was determined by the Directors with reference to:

- (i) the fluctuation and decline in the recent market price of the Shares, the adverse impact of global economy, and the impact on the media and entertainment industry in Hong Kong and the PRC brought on by COVID-19;
- (ii) the lowest traded Share price of HK\$0.016 during the period after the outbreak of COVID-19 from February, 2020 onwards;
- (iii) the low liquidity of the average daily trading volume of the Shares between August, 2019 and November, 2020 (up to the Last Trading Day); and
- (iv) the discount of the average daily trading price of the Shares to NAV per Share based on the Capitalisation Price of HK\$0.16 per Consolidated Shares is lower than the median discount of approximately 42.4% of NAV per Share to the average daily trading price between August, 2019 and November, 2020 (up to the Last Trading Day).

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## LETTER FROM THE BOARD

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### **Specific Mandate**

The 2,687,500,000 Capitalisation Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

### **Application for listing**

An application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Capitalisation Shares.

## **VI. CLAWBACK OFFER BY eSUN**

In order to provide the Clawback Qualifying Shareholders with an opportunity to reduce the dilutive impact of the Loan Capitalisation on their shareholdings in the Company, and to continue to participate in and share the growth in the business of the Company alongside eSun under the Loan Capitalisation, eSun will conditionally offer 207,869,997 Clawback Offer Shares, which constitute approximately 7.7% of the Capitalisation Shares, to the Clawback Qualifying Shareholders on a pro rata basis of three (3) Clawback Offer Shares for every one (1) Consolidated Share held by the Clawback Qualifying Shareholders as at the Clawback Record Time at HK\$0.16 per Clawback Offer Share, or such lesser number as the Clawback Qualifying Shareholders concerned wish to subscribe. Clawback Qualifying Shareholders who wish to apply for the Clawback Offer Shares should complete and lodge the Clawback Application Form in accordance with the instructions printed therein, together with the remittance for the aggregate offer price and the buyer's ad valorem stamp duty payable by the Clawback Qualifying Shareholders in respect of such number of Clawback Offer Shares being applied for, with the Share Registrar no later than 4:00 p.m. on Thursday, 7 January, 2021. Further details on how to apply for the Clawback Offer Shares will be set out in the clawback prospectus to be issued by the Company and eSun, and the Clawback Application Form. The price at which the Clawback Offer Shares would be offered will be equal to the issue price of the Capitalisation Shares under the Loan Capitalisation Agreement.

The reasons for carrying out the Loan Capitalisation and the Clawback Offer are set out in more detail in the section headed "XII. REASONS FOR THE RECAPITALISATION PROPOSAL — Proposed Loan Capitalisation, Clawback Offer and the Placing" in this circular. In particular, in view of the Company's current financial position and the possibility of further deterioration to its finances amid the COVID-19 pandemic, the Directors considered that there is an urgent need to settle the eSun Shareholder's Loans prior to their maturities to improve the Company's financial position and reduce its cash burn rate, and after considering options, concluded that the Loan Capitalisation is the most beneficial way of doing so.

The Board has taken into account the interests of the public Shareholders and the dilutive impact of the Loan Capitalisation on their shareholdings in the Company, and considered that the Clawback Offer is the most appropriate mechanism to address this as it enables the public Shareholders to subscribe for the Capitalisation Shares at the same price as they will be issued to eSun under the Loan Capitalisation. In negotiating an appropriate entitlement ratio for the Clawback Offer, the Directors took into consideration the following:

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## LETTER FROM THE BOARD

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- (i) the Loan Capitalisation has a larger dilutive impact as compared to the Open Offer and in view of the public float requirements under the GEM Listing Rules, the Directors are of the view that a higher entitlement ratio should apply to the Clawback Offer in order to benefit those public Shareholders willing to invest in reducing the dilutive impact of these corporate exercises; and
- (ii) as the theoretical diluted price of the Loan Capitalisation of approximately HK\$0.163 per Consolidated Share is higher than the Clawback Offer Price of HK\$0.16 per Consolidated Share, while a higher entitlement ratio for the Clawback Offer may increase the return of the public Shareholders (assuming they take up their entitlements) and reduce the dilutive impact to the public Shareholders, however, an entitlement ratio for the Clawback Offer higher than the current entitlement ratio could have a detrimental effect to eSun's control over the Company upon the completion of the Loan Capitalisation.

Taking into account the above, the entitlement ratio for the Clawback Offer was arrived at after arm's length negotiations between the Company and eSun having regard to (i) the fact that a portion of the Capitalisation Shares will be placed out to Placees in order to ensure that the Company will be able to comply with the public float requirements under the GEM Listing Rules; (ii) eSun's objective of maintaining control over the Company upon completion of the Loan Capitalisation, the Clawback Offer and the Placing; and (iii) the desire of the Company to provide its public Shareholders with an opportunity to mitigate the dilutive impact of the Loan Capitalisation on their shareholdings in the Company, and continue to participate in the growth of the Company; and after balancing the foregoing factors, the entitlement ratio was set at three (3) Clawback Offer Shares for every one (1) Consolidated Share for the Clawback Offer (being in whole numbers to facilitate the administration).

No new capital will be introduced to the Company through the Loan Capitalisation, the Clawback Offer and the Placing, but new capital will be raised through the Open Offer. The Loan Capitalisation will have the effect of improving the financial position of the Group. If the Clawback Qualifying Shareholders do not participate in the Clawback Offer, their shareholdings in the Company will be diluted upon the completion of the Loan Capitalisation, but to the extent they are Open Offer Qualifying Shareholders, they would still have the opportunity to subscribe for more Shares through excess application under the Open Offer. The Directors have therefore also considered the potential dilutive impact of the Loan Capitalisation on the shareholdings of the public Shareholders if they fully subscribe for the Clawback Offer and the Open Offer as mentioned above, and balanced such considerations against the Company's need for resources to sustain the healthy growth of its businesses. Accordingly, the Directors are of the view that the Clawback Offer (including the entitlement ratio of the Clawback Offer) is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Please refer to the Announcement and the circular published by eSun dated 30 November, 2020 for further details of the Clawback Offer.

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## LETTER FROM THE BOARD

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### VII. PLACING OF CAPITALISATION SHARES

In order to ensure that the public float requirements under the GEM Listing Rules will be complied with even in the scenario where the Clawback Offer is not accepted by any Clawback Qualifying Shareholder, the Company, eSun and the Placing Agent entered into the Placing Agreement on 6 November, 2020, pursuant to which eSun intends to place, through the Placing Agent, on a best effort basis, up to a total of 937,500,000 Capitalisation Shares, representing approximately 34.9% of the Capitalisation Shares otherwise to be allotted and issued to eSun under the Loan Capitalisation, to at least six Placees at the price of HK\$0.16 per Capitalisation Share. Placees who are Open Offer Qualifying Shareholders will also be eligible to participate in the Open Offer.

The Placing Agent is in the process of identifying Placees in relation to the Placing. As at the Latest Practicable Date, the Placing Agent has not entered into any agreements with any Placees. It should be noted that, under the Loan Capitalisation Agreement, the Loan Capitalisation is conditional upon the Placing Agent, irrespective of the outcome of the Clawback Offer, notifying the Company that it has procured or can procure Placees for all or a sufficient number of the Capitalisation Shares on terms that immediately after the completion of the Loan Capitalisation, not less than 25% of the issued share capital of the Company (as enlarged by the Loan Capitalisation) will be held by the public as required by the GEM Listing Rules. Therefore, if such condition is not fulfilled, the Loan Capitalisation, Clawback Offer and Placing will not complete, and the Company will in any event continue to meet the minimum public float requirements under the GEM Listing Rules.

Please refer to the Announcement and the circular published by eSun dated 30 November, 2020 for further details of the Placing.

#### **Effects of the Loan Capitalisation, Clawback Offer and Placing on eSun**

After the completion of the Loan Capitalisation, Clawback Offer and Placing, eSun will continue to exercise control in the Company, and the Company will continue to be a subsidiary of eSun, LSD and LSG. Therefore, the Company will continue to be consolidated into the consolidated accounts of eSun, LSD and LSG.

Assuming that the Clawback Offer is fully accepted by the Clawback Qualifying Shareholders and the relevant Capitalisation Shares are placed out in full by the Placing Agent, upon the completion of the Loan Capitalisation, the Clawback Offer and the Placing, eSun will receive approximately HK\$183.3 million under the Clawback Offer and the Placing, and its shareholding in the Company will decrease from approximately 67.6% as at the Latest Practicable Date to approximately 58.1%.

Assuming that the Clawback Offer is not accepted by any Clawback Qualifying Shareholder and the relevant Capitalisation Shares are subscribed by the Placees in full, upon the completion of the Loan Capitalisation, the Clawback Offer and the Placing, eSun will receive approximately HK\$150 million under the Placing, and its shareholding in the Company will decrease from approximately 67.6% as at the Latest Practicable Date to approximately 65.3%.



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## LETTER FROM THE BOARD

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### VIII. PROPOSED OPEN OFFER

The Open Offer is proposed to raise gross proceeds of approximately HK\$154.7 million to provide the Group with working capital and will take place only after the Share Consolidation, the Change in Board Lot Size, the Increase in Authorised Share Capital, the Loan Capitalisation, the Clawback Offer and the Placing have been completed. Open Offer Qualifying Shareholders may apply for any number of Offer Shares, but are assured of allocations only up to the numbers in their assured allotments. Allocations of Offer Shares to those who apply for more than their assured allotments will be made on a fair and equitable basis at the discretion of the Directors. Please refer to the section headed “Application for excess Offer Shares” below for details.

The Open Offer is fully underwritten. Details of the Open Offer are as follows:

<b>Basis of the Open Offer</b>	:	one (1) Offer Share for every three (3) Consolidated Shares held by the Open Offer Qualifying Shareholders as at the Open Offer Record Time
<b>Offer Price</b>	:	HK\$0.16 per Offer Share
<b>Number of Existing Shares in issue as at the Latest Practicable Date</b>	:	2,136,056,825 Existing Shares
<b>Number of Consolidated Shares in issue upon the Share Consolidation becoming effective</b>	:	213,605,682 Consolidated Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Share Consolidation, assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the effective date of the Share Consolidation)
<b>Number of Consolidated Shares in issue immediately prior to the Open Offer Record Time</b>	:	2,901,105,682 Consolidated Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Share Consolidation, assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares)
<b>Number of Offer Shares to be issued under the Open Offer</b>	:	967,035,227 Offer Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Share Consolidation, and assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares)
<b>Aggregate nominal value of the Offer Shares</b>	:	HK\$96,703,523

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## LETTER FROM THE BOARD

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- Number of Shares in issue immediately following the completion of the Open Offer** : 3,868,140,909 Consolidated Shares (assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares)
- Number of Underwritten Shares** : assuming all Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, the number of Underwritten Shares will be 404,886,665 Offer Shares (assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares), being the total number of the Offer Shares less 562,148,562 Offer Shares subject to the Irrevocable Undertaking
- assuming no Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, the number of Underwritten Shares will be 335,596,666 Offer Shares (assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares), being the total number of the Offer Shares less 631,438,561 Offer Shares subject to the Irrevocable Undertaking
- Underwriter** : Get Nice Securities Limited
- Gross proceeds from the Open Offer before expenses** : approximately HK\$154.7 million (assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the the Open Offer Record Time, other than the issue of the Capitalisation Shares)
- Net price of each Offer Share (i.e. issue price less cost and expenses incurred in the Open Offer)** : approximately HK\$0.155 per Offer Share

As at the Latest Practicable Date, the Company has no outstanding options, convertible securities or warrants which confer rights to subscribe for the Shares.

### Conditions of the Open Offer

The Open Offer is conditional upon the Underwriting Agreement becoming unconditional and not being terminated. Please refer to the section headed “IX. UNDERWRITING ARRANGEMENT — Conditions of the Underwriting Agreement” below for details.

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## LETTER FROM THE BOARD

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If the conditions of the Underwriting Agreement are not satisfied (or waived, as the case may be) at or prior to the Latest Time for Termination, or such other date as the Company and the Underwriter may agree, the Open Offer will not proceed.

### **Open Offer Qualifying Shareholders**

The Open Offer is only available to the Open Offer Qualifying Shareholders and will not be available to the Non-Qualifying Shareholders. The Company will send the Prospectus Documents to the Open Offer Qualifying Shareholders only. For the Non-Qualifying Shareholders, the Company will send copies of the Prospectus to them for their information only, and no Application Forms or Excess Application Forms will be sent to the Non-Qualifying Shareholders.

To qualify for the Open Offer, a Shareholder:

- (i) must be registered as a member of the Company as at the Open Offer Record Time; and
- (ii) must not be a Non-Qualifying Shareholder.

Shareholders whose Shares are held by nominee companies should note that the Board will regard a nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Shareholders with their Shares held by nominee companies are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Open Offer Record Time.

In order to be registered as members of the Company as at the Open Offer Record Time, any transfer of Shares (together with the relevant share certificates) must be lodged with the Share Registrar for registration by 4:30 p.m. on Thursday, 21 January, 2021. The address of the Share Registrar, Computershare Hong Kong Investor Services Limited, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

### **Rights of Overseas Shareholders**

The Prospectus Documents to be issued in connection with the Open Offer 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 Open Offer. Based on the register of Shareholders of the Company as at the Latest Practicable Date, there were two Overseas Shareholders with registered addresses in Japan who held in aggregate 2,363 Shares.

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## LETTER FROM THE BOARD

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The Company has made enquiries as to the laws of Japan in respect of extending the Open Offer to the Overseas Shareholders in Japan, and has been advised that under the laws of Japan, there are no regulatory restrictions or requirement of any regulatory body or stock exchange with respect to extending the Open Offer to the Shareholders located in Japan. Accordingly, the Open Offer will be extended to the Overseas Shareholders having registered addresses in Japan. The Company will continue to ascertain whether there are any other Overseas Shareholders in any other jurisdictions as at the Open Offer Record Time. The Company will make further enquiries as necessary regarding the legality and feasibility of extending the Open Offer to such Overseas Shareholder(s). If, based on the advice sought, the Company considers that it is necessary or expedient not to offer the Offer Shares to the Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange of that place, the Open Offer will not be extended to such Overseas Shareholder(s). The results of the enquiries and the basis of exclusion of such Overseas Shareholders (if any) will be included in the Prospectus. The Company will send copies of the Prospectus to the Non-Qualifying Shareholder(s) for their information only, but will not send any Application Form(s) or Excess Application Form(s) to them.

Overseas Shareholders should note that they may or may not be entitled to the Open Offer, subject to the results of enquiries made by the Directors. Accordingly, Overseas Shareholders should exercise caution when dealing in the Shares.

### **Application for excess Offer Shares**

Open Offer Qualifying Shareholders shall be entitled to apply for entitlements of Offer Shares which are not taken up by other Open Offer Qualifying Shareholders in excess of their own assured allotments but are not assured of being allocated any Offer Shares in excess of those in their assured allotments. Applications for excess Offer Shares may be made by completing the Excess Application Forms and lodging the same with a separate remittance for the excess Offer Shares being applied for. The Directors will allocate the excess Offer Shares (if any) in excess of assured entitlement at their discretion, but on a fair and equitable basis, to the Open Offer Qualifying Shareholders who have applied for excess Offer Shares. In determining the basis on which excess Offer Shares will be allocated, consideration will be given to the number of excess Offer Shares applied for compared to the number of Shares held as at the Open Offer Record Time so that the basis of allocation will not favour large applications from Shareholders with smaller holdings to the disadvantage of Shareholders with large shareholdings. Further, multiple applications from the same Shareholder or where there is evidence that the shareholding has been split as at or shortly before the Open Offer Record Time will be rejected. No preference will be given to topping-up odd lots to whole board lots. Shareholders who have been offered odd lots of the Offer Shares should note that there is no guarantee that such odd lots of the Offer Shares will be topped up to create whole board lots pursuant to applications for excess Offer Shares.

Any remaining Offer Shares not applied for by the Open Offer Qualifying Shareholders will be taken up by the Underwriter pursuant to the Underwriting Agreement.

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## LETTER FROM THE BOARD

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Persons holding their Shares through a nominee company should note that the Board will regard a nominee company (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company under the allocation of excess Offer Shares. Persons holding their Shares through a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Open Offer Record Time. Excess application from the Open Offer Qualifying Shareholders (including registered nominee company) will be accepted by the Company even if their assured entitlement of the Offer Shares is not subscribed for in full.

### **Offer Price**

The Offer Price of the Offer Shares is HK\$0.16 per Offer Share, payable in full upon application of the relevant assured entitlement of the Offer Shares or, where applicable, upon application for excess Offer Shares under the Open Offer.

The Offer Price is the same as the price per Consolidated Share for the Loan Capitalisation, the Clawback Offer and the Placing, and represents:

- (i) a discount of approximately 15.8% to the theoretical closing price of HK\$0.19 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on 30 October, 2020, being the trading date prior to the date of board meetings of the Company and eSun approving the Open Offer;
- (ii) a discount of approximately 15.8% to the theoretical closing price of HK\$0.19 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 17.5% to the theoretical average closing price of approximately HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing prices of the Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 26.9% to the theoretical average closing price of approximately HK\$0.219 per Share (after taking into account the effect of the Share Consolidation) based on the average closing prices of the Existing Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;
- (v) a discount of approximately 12.3% to the theoretical ex-entitlement price of approximately HK\$0.183 per Share (after taking into account the effect of the Share Consolidation and completion of the Loan Capitalisation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;

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## LETTER FROM THE BOARD

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- (vi) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 16.6% of the theoretical diluted price of approximately HK\$0.162 per Consolidated Share (after taking into account the effects of the Share Consolidation and Loan Capitalisation) to the benchmarked price of HK\$0.194 per Consolidated Share (after taking into account the effects of the Share Consolidation and Loan Capitalisation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.019 per Existing Share and the average closing prices of the Existing Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day);
- (vii) a discount of approximately 40.7% to the theoretical closing price of HK\$0.27 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.027 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (viii) a discount of approximately 15.1% to the theoretical audited consolidated net asset value per Share of approximately HK\$0.188 (after taking into account the effect of the Share Consolidation) based on the latest published consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$40.2 million as at 31 July, 2020 and 2,136,056,825 Existing Shares in issue on the Latest Practicable Date.

As the Open Offer forms part of the Recapitalisation Proposal, the Offer Price is the same as the Capitalisation Price for the Loan Capitalisation. Therefore, the basis of determination of the Offer Price is fundamentally the same as that of the Capitalisation Price, which was arrived at by the Directors after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares, the financial market conditions, and the financial position of the Group. Please refer to the section headed "V. PROPOSED LOAN CAPITALISATION — Capitalisation Price" above for further details. Furthermore, the basis of determination of the Offer Price also takes into consideration of the reasons as detailed under the section headed "XII. REASONS FOR THE RECAPITALISATION PROPOSAL — Proposed Open Offer" in this circular.

The Offer Shares will be offered to all Open Offer Qualifying Shareholders and each Open Offer Qualifying Shareholder will be entitled to apply for up to all the Offer Shares in his, or her, or its assured allotment at the same price in proportion to his, or her, or its shareholding in the Company held on the Open Offer Record Time. The Directors (including the members of the Independent Board Committee whose views have been set out in the letter from the Independent Board Committee in this circular after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Open Offer, including the Offer Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

After deducting all relevant expenses relating to the Open Offer, the net proceeds from the Open Offer will be approximately HK\$150.2 million.

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## LETTER FROM THE BOARD

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### **Effect of the Open Offer on eSun**

Assuming that (i) the Clawback Offer is accepted in full by the Clawback Qualifying Shareholders; (ii) the relevant Capitalisation Shares are subscribed for in full by the Placees; and (iii) the Open Offer is accepted by the Open Offer Qualifying Shareholders in full on a pro rata basis, eSun will, pursuant to the Irrevocable Undertaking, subscribe for 562,148,562 Offer Shares (representing approximately 14.5% of the Company's total issued Shares as enlarged by the issue of the Offer Shares) for an aggregate consideration of HK\$89.9 million.

### **Status of the Offer Shares**

The Offer Shares, when allotted, issued and fully paid, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares, including the right to receive all dividends and distributions which may be declared, made or paid on or after such date.

### **Fractional entitlements of the Offer Shares**

Entitlement to Offer Shares will be rounded down to the nearest whole number. Fractional entitlements to the Offer Shares will not be issued, but will be aggregated and taken up by the Underwriter pursuant to the Underwriting Agreement.

### **Certificates of the Offer Shares and refund cheques for the Open Offer**

Subject to fulfilment of the conditions of the Open Offer, certificates for the fully-paid Offer Shares are expected to be despatched on or before Thursday, 25 February, 2021 to those entitled thereto by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares (if any) or in the case if the Open Offer is terminated are also expected to be posted on or about Thursday, 25 February, 2021 by ordinary post at the own risk of the Shareholders.

### **The Irrevocable Undertaking**

As at the Latest Practicable Date, eSun is beneficially interested in 1,443,156,837 Existing Shares, representing approximately 67.6% of the existing issued share capital of the Company.

Pursuant to the Irrevocable Undertaking, eSun has irrevocably undertaken to the Company that it (i) shall remain as the beneficial owner of the Shares held by it upon the completion of the Loan Capitalisation through to the Latest Time for Acceptance; (ii) shall take up or procure to take up such number of the Offer Shares to be provisionally allotted to it under the Open Offer to which it will be entitled, being up to a maximum of 631,438,561 Offer Shares (based on the number of Shares held by it as at the date of the Irrevocable Undertaking and its potential maximum shareholding upon the completion of the Loan Capitalisation), pursuant to the terms of the Open Offer; and (iii) shall procure that its application in respect of all its Offer Shares will be lodged with the Share Registrar, or the Company, with payment in full thereof, by no later than the Latest Time for Acceptance.

Save as disclosed above, the Company has not received any other irrevocable commitments to accept or reject the Open Offer as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### **Application for listing**

The Company will apply to the GEM Listing Committee for the listing of, and permission to deal in, the Offer Shares. The Offer Shares are expected to have the same board lot size as the Consolidated Shares, i.e. 12,000 Consolidated Shares in one board lot.

### **Offer Shares will be eligible for admission into CCASS**

Subject to the grant of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares 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 Offer Shares 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 stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Dealings in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy and other applicable fees and charges in Hong Kong.

## **IX. UNDERWRITING ARRANGEMENT**

On 6 November, 2020 (after trading hours), the Company and the Underwriter entered into the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite by way of subscription of, or procuring subscribers to subscribe for, up to 404,886,665 Offer Shares (assuming no further issue of new Consolidated Share(s) and no repurchase of Consolidated Share(s) by the Company on or before the Open Offer Record Time).

The principal terms of the Underwriting Agreement are summarised below:

- Date:** 6 November, 2020 (after trading hours)
- Parties:**
- (i) The Company; and
  - (ii) Get Nice Securities Limited, being the Underwriter to the proposed Open Offer.



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## LETTER FROM THE BOARD

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The Underwriter is a corporation licensed to carry on business in Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management) under the SFO and its ordinary course of business includes underwriting of securities, and complies with the requirement under Rule 10.24A(1) of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) are Independent Third Parties.

**Number of Underwritten  
Shares:**

Assuming all Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, 404,886,665 Consolidated Shares (assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares), being the total number of the Offer Shares less 562,148,562 Offer Shares that are subject to the Irrevocable Undertaking.

Assuming no Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, 335,596,666 Offer Shares (assuming no change in the number of Shares in issue from the Latest Practicable Date up to and including the Open Offer Record Time, other than the issue of the Capitalisation Shares), being the total number of the Offer Shares less 631,438,561 Offer Shares that are subject to the Irrevocable Undertaking.

In the event of the Underwriter being called upon to subscribe for or procure subscribers for the Underwritten Shares, the Underwriter shall use its best endeavours to ensure that (a) each of the subscribers of the Underwritten Shares procured by it or any sub-underwriter (if any) shall be a third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected (as defined in the GEM Listing Rules) with the Company, any of the directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules); (b) no such subscriber shall be procured if allotment and issue of any Offer Shares to it would result in it and persons acting in concert with it, when aggregated with the total number of Shares already held by them (if any), holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Open Offer; and (c) the public float requirements under Rule 11.23(7) of the GEM Listing Rules be fulfilled by the Company upon completion of the Open Offer.

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## LETTER FROM THE BOARD

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On 6 November, 2020, the Underwriter entered into a sub-underwriting agreement with a sub-underwriter in relation to 27,000,000 Offer Shares, representing approximately 6.7% of the Underwritten Shares (assuming all Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders) and 0.7% (as enlarged by the issue of the Capitalisation Shares and the Offer Shares) of the Company's issued Shares. Assuming no Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, the 27,000,000 Offer Shares represent approximately 8.0% of the Underwritten Shares and approximately 0.7% (as enlarged by the issue of the Capitalisation Shares and the Offer Shares) of the Company's issued Shares.

**Commission:** 2.5% of the aggregate Offer Price of the Underwritten Shares

The terms of the Underwriting Agreement (including the commission rate) were determined after arm's length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Open Offer, and the current and expected market conditions.

The Directors (including the members of the Independent Board Committee whose views have been set out in the letter from the Independent Board Committee in this circular after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Underwriting Agreement, including the commission rate, are fair and reasonable, and the transactions contemplated under the Underwriting Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### Conditions of the Underwriting Agreement

The Underwriting Agreement is conditional upon the fulfilment or waiver, where permitted, of the following conditions:

- (i) the passing of the necessary resolution(s) by the Shareholders (other than those who are required to abstain from voting according to the GEM Listing Rules or other applicable laws and regulations) at the SGM to approve the Open Offer and the Underwriting Agreement, and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Offer Shares);
- (ii) the completion of the Share Consolidation, the Change in Board Lot Size, the Increase in Authorised Share Capital, the Loan Capitalisation, the Clawback Offer and the Placing;
- (iii) the delivery to the Stock Exchange for authorisation and the registration by and filing with the Registrar of Companies in Hong Kong of the Prospectus Documents (and all other documents required to be attached thereto) in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance not later than the Posting Date;

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## LETTER FROM THE BOARD

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- (iv) the posting of copies of the Prospectus Documents to the Open Offer Qualifying Shareholders and the Prospectus and a letter in the agreed form to the Non-Qualifying Shareholders (if any) for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer, in each case, on or before the Posting Date;
- (v) the GEM Listing Committee granting or agreeing to grant (subject to allotment) the listing of, and permission to deal in, the Offer Shares and such listing and permission to deal not being withdrawn or revoked by no later than the first day of their dealings;
- (vi) the Shares remaining listed on GEM at all times prior to the Latest Time for Termination and the listing of the Shares not having been withdrawn or the trading for the Shares not having been suspended for a consecutive period of more than five (5) trading days;
- (vii) the Bermuda Monetary Authority granting its consent (if required) to the issue of the Offer Shares on or before the Latest Time for Termination or such other time as the Underwriter may agree with the Company in writing;
- (viii) the compliance with and performance of all the undertaking and obligations of the Company under the terms of the Underwriting Agreement;
- (ix) the issue of the Offer Shares and the obligations of the Underwriter to underwrite under the Underwriting Agreement not being prohibited by any statute, order, rule, directive or regulation promulgated after the date of the Underwriting Agreement by any legislative, executive or regulatory body or authority of Hong Kong and, or Bermuda;
- (x) the Underwriting Agreement not being terminated or rescinded by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- (xi) the warranties given by the Company under the Underwriting Agreement remaining true and accurate in all material respects; and
- (xii) the compliance with and performance of all undertakings and obligations of eSun under the Irrevocable Undertaking.

The Company shall use its reasonable endeavours to procure the fulfilment of the conditions above (other than the conditions in (ix), (x) and (xii)). The Underwriter shall use its reasonable endeavours to procure the fulfilment of the condition in (x) above. Other than the conditions set out in (vi), (viii) and (xi) which may be waived by the Underwriter and the condition set out in (xii) which may be waived by the Company, none of the conditions set out above are capable of being waived by any party. If the conditions above are not duly fulfilled (or waived, as the case may be) by the Latest Time for Termination, all liabilities of the parties under the Underwriting Agreement will cease and no party shall have any further obligations, or any claim against the other for costs, damages, compensation or otherwise, save in respect of any antecedent breach of the Underwriting Agreement.

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## LETTER FROM THE BOARD

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### Termination of the Underwriting Agreement

Terms in relation to the termination of the Underwriting Agreement are summarised in the section headed “TERMINATION OF THE UNDERWRITING AGREEMENT” in this circular.

### X. WARNING OF THE RISKS OF DEALING IN THE SHARES

**THE OPEN OFFER IS SUBJECT TO CERTAIN CONDITIONS INCLUDING BUT NOT LIMITED TO THE APPROVAL OF THE OPEN OFFER BY THE INDEPENDENT SHAREHOLDERS AT THE SGM. IF THE APPROVAL OF THE OPEN OFFER BY THE INDEPENDENT SHAREHOLDERS AT THE SGM IS NOT OBTAINED, THE OPEN OFFER WILL NOT PROCEED.**

**ANY SHAREHOLDER OR OTHER PERSON CONTEMPLATING TRANSFERRING, SELLING OR PURCHASING SHARES IS ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES. ANY PERSON WHO IS IN ANY DOUBT ABOUT HIS, OR HER, OR ITS POSITION OR ANY ACTION TO BE TAKEN IS RECOMMENDED TO CONSULT HIS, OR HER, OR ITS OWN PROFESSIONAL ADVISER(S). ANY SHAREHOLDER OR OTHER PERSON DEALING IN THE SHARES UP TO THE DATE ON WHICH ALL THE CONDITIONS TO WHICH THE OPEN OFFER IS SUBJECT TO ARE FULFILLED WILL ACCORDINGLY BEAR THE RISK THAT THE OPEN OFFER MAY NOT PROCEED.**

### XI. EFFECT ON SHAREHOLDING STRUCTURE

- (i) Set out below is the shareholding structure of the Company immediately before and after the Share Consolidation becoming effective:

Name of Shareholder	As at the Latest Practicable Date		Immediately upon the Share Consolidation becoming effective but before the completion of the Loan Capitalisation	
	No. of Shares	%	No. of Shares	%
eSun	1,443,156,837	67.6	144,315,683	67.6
Placees	—	0.0	—	0.0
Other public Shareholders	692,899,988	32.4	69,289,999	32.4
<b>Total</b>	<b>2,136,056,825</b>	<b>100.0</b>	<b>213,605,682</b>	<b>100.0</b>

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## LETTER FROM THE BOARD

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- (ii) Set out below is the shareholding structure of the Company immediately after the completion of the Loan Capitalisation, the Clawback Offer and the Placing:

Name of Shareholder	Scenario 1		Scenario 2	
	Upon the completion of the Loan Capitalisation, Clawback Offer (assuming all Clawback Qualifying Shareholders take up the Clawback Offer Shares) and the Placing		Upon the completion of the Loan Capitalisation, Clawback Offer (assuming no Clawback Qualifying Shareholders take up the Clawback Offer Shares) and the Placing	
	No. of Shares	%	No. of Shares	%
eSun	1,686,445,686	58.1	1,894,315,683	65.3
Placees	937,500,000	32.3	937,500,000	32.3
Other public Shareholders	277,159,996	9.6	69,289,999	2.4
<b>Total</b>	<b><u>2,901,105,682</u></b>	<b><u>100.0</u></b>	<b><u>2,901,105,682</u></b>	<b><u>100.0</u></b>

Notes:

- A portion of the Capitalisation Shares is intended to be directed by eSun to be allotted and issued to the Clawback Qualifying Shareholders and the Placees pursuant to the Clawback Offer and the Placing Agreement, respectively. One of the conditions to the completion of the Loan Capitalisation is the notification from the Placing Agent that irrespective of the outcome of the Clawback Offer, it has procured or can procure Placees for all or a sufficient number of the Capitalisation Shares on terms that immediately after the completion of the Loan Capitalisation, not less than 25% of the issued share capital of the Company (as enlarged by the Loan Capitalisation) will be held by the public as required by the GEM Listing Rules. Accordingly, the Directors will seek to ensure that the public float requirements under Rule 11.23(7) of the GEM Listing Rules will be complied with, and in the event that such condition cannot be fulfilled in accordance with the Loan Capitalisation Agreement, the Loan Capitalisation will not proceed.*
- The percentage figures have been subject to rounding adjustments. Any discrepancies between totals and sums of amounts listed herein are due to rounding adjustments.*

## LETTER FROM THE BOARD

- (iii) Set out below are the possible changes in the shareholding structure of the Company immediately before and after the completion of the Open Offer under the scenarios where (a) all Clawback Qualifying Shareholders take up the Clawback Offer Shares; and (b) no Clawback Qualifying Shareholders take up the Clawback Offer Shares, for illustrative purpose only:

- (a) all Clawback Qualifying Shareholders take up the Clawback Offer Shares (Scenario 1):

Name of Shareholder	Upon the completion of Loan Capitalisation, Clawback Offer (assuming all Clawback Qualifying Shareholders take up the Clawback Offer Shares) and the Placing and immediately prior to the completion of the Open Offer		Upon the completion of the Open Offer			
	No. of Shares	%	Immediately upon the Open Offer completion (assuming full acceptance by the Open Offer Qualifying Shareholders under the Open Offer)		Immediately upon the Open Offer completion (assuming no acceptance by the Open Offer Qualifying Shareholders (other than eSun) under the Open Offer)	
			No. of Shares	%	No. of Shares	%
eSun	1,686,445,686	58.1	2,248,594,248	58.1	2,248,594,248	58.1
Placees	937,500,000	32.3	1,250,000,000	32.3	937,500,000	24.2
Other public Shareholders	277,159,996	9.6	369,546,661	9.6	277,159,996	7.2
Underwriter, sub-underwriter(s) and, or subscriber(s) procured by them (Notes 1, 2 and 3)	—	0.0	—	0.0	404,886,665	10.5
<b>Total</b>	<b>2,901,105,682</b>	<b>100.0</b>	<b>3,868,140,909</b>	<b>100.0</b>	<b>3,868,140,909</b>	<b>100.0</b>

- (b) no Clawback Qualifying Shareholders take up the Clawback Offer Shares (Scenario 2):

Name of Shareholder	Upon the completion of the Loan Capitalisation including the Clawback Offer (assuming no Clawback Qualifying Shareholders take up the Clawback Offer Shares) and the Placing and immediately prior to the completion of the Open Offer		Upon the completion of the Open Offer			
	No. of Shares	%	Immediately upon the Open Offer completion (assuming full acceptance by the Open Offer Qualifying Shareholders under the Open Offer)		Immediately upon the Open Offer completion (assuming no acceptance by the Open Offer Qualifying Shareholders (other than eSun) under the Open Offer)	
			No. of Shares	%	No. of Shares	%
eSun	1,894,315,683	65.3	2,525,754,244	65.3	2,525,754,244	65.3
Placees	937,500,000	32.3	1,250,000,000	32.3	937,500,000	24.2
Other public Shareholders	69,289,999	2.4	92,386,665	2.4	69,289,999	1.8
Underwriter, sub-underwriter(s) and, or subscriber(s) procured by them (Notes 1, 2 and 3)	—	0.0	—	0.0	335,596,666	8.7
<b>Total</b>	<b>2,901,105,682</b>	<b>100.0</b>	<b>3,868,140,909</b>	<b>100.0</b>	<b>3,868,140,909</b>	<b>100.0</b>

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## LETTER FROM THE BOARD

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Notes:

- (1) *In the event of the Underwriter being called upon to subscribe for or procure subscribers for the Underwritten Shares, the Underwriter shall use its best endeavours to ensure that (a) each of the subscribers of the Underwritten Shares procured by it or any sub-underwriter (if any) shall be a third party independent of, not acting in concert (within the meaning of the Takeovers Code) with and not connected (as defined in the GEM Listing Rules) with the Company, any of the directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules); (b) no such subscriber shall be procured if allotment and issue of any Offer Shares to it would result in it and persons acting in concert with it, when aggregated with the total number of Shares already held by them (if any), holding 30% or more of the enlarged issued share capital of the Company immediately after completion of the Open Offer; and (c) the public float requirements under Rule 11.23(7) of the GEM Listing Rules be fulfilled by the Company upon completion of the Open Offer.*
- (2) *On 6 November, 2020, the Underwriter entered into a sub-underwriting agreement with a sub-underwriter in relation to 27,000,000 Offer Shares, representing approximately 6.7% of the Underwritten Shares (assuming all Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders) and 0.7% (as enlarged by the issue of the Capitalisation Shares and the Offer Shares) of the Company's issued Shares. Assuming no Clawback Offer Shares have been taken up by the Clawback Qualifying Shareholders, the 27,000,000 Offer Shares represent approximately 8.0% of the Underwritten Shares and 0.7% (as enlarged by the issue of the Capitalisation Shares and the Offer Shares) of the Company's issued Shares.*
- (3) *The sub-underwriter is a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO, and its ordinary course of business includes underwriting of securities, and complies with the requirement under Rule 10.24A(1) of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, the sub-underwriter and its ultimate beneficial owner(s) are Independent Third Parties.*

## XII. REASONS FOR THE RECAPITALISATION PROPOSAL

### **Proposed Share Consolidation, Increase in Authorised Share Capital and Change in Board Lot Size**

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.

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## LETTER FROM THE BOARD

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In respect of the proposed Change in Board Lot Size, according 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 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 Date, the closing price of each Existing Share was HK\$0.019, and with a board lot size of 4,000 Existing Shares, the Existing Shares were trading at under HK\$2,000 per board lot.

The Existing Shares have been constantly traded below HK\$1.00 for the past few years. In order to reduce transaction and registration costs incurred by the Shareholders and investors of the Company, the Board proposes to implement the Share Consolidation. It is expected that the Share Consolidation, together with the Change in Board Lot Size, will increase the value of each board lot of the Consolidated Shares to more than HK\$2,000.

Save for the Potential Transactions, as at the Latest Practicable Date, the Company has no plans to carry out further fund-raising activities or other corporate actions which may affect the trading in its Shares (such as further share consolidation, subdivision, or change in board lot size) within 12 months from the date of this circular.

On this basis, the Board has considered different possible basis of share consolidation and sizes of new board lot and concluded that the Share Consolidation and the Change in Board Lot Size will (i) provide the Company with greater flexibility to raise funds via the Open Offer, so as to minimise the odd lot of Shares for those Open Offer Qualifying Shareholders taking up the Offer Shares; and (ii) facilitate the convenience of trading of the Shares in the future, as it is an integral multiple of the existing board lot.

The Increase in Authorised Share Capital is necessary for the implementation of the Loan Capitalisation and the Open Offer.

The Board is of the opinion that the Share Consolidation, the Increase in Authorised Share Capital and the Change in Board Lot Size are in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE BOARD

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### Proposed Loan Capitalisation, Clawback Offer and the Placing

The Group has been loss-making for the past five financial years, and accordingly, the equity attributable to owners of the Company has decreased from approximately HK\$898 million as at 31 July, 2015 to approximately HK\$40 million as at 31 July, 2020. On the debt position, the Company issued convertible notes with aggregate face value of approximately HK\$317 million during the year ended 31 July, 2015, and the liability component of the convertible notes as at 31 July, 2015 was approximately HK\$242 million. The convertible notes were fully redeemed by the Company in 2018, which was financed by loans in the amount of HK\$300 million from members of the Lai Sun Group. To support the business and operations of the Group, eSun has in the past advanced a number of shareholder's loans to the Company, which were made available to the Group pursuant to the loan agreements described in the section headed "V. PROPOSED LOAN CAPITALISATION" above. The aggregate principal amounts of the eSun Shareholder's Loans amounted to HK\$350 million and HK\$430 million as at 31 July, 2020 and 31 October, 2020 respectively. As such, the gearing ratio of the Company (represented by the total borrowings to shareholders' equity attributable to the owners of the Company) increased from 27.0% as at 31 July, 2015 to 870% as at 31 July, 2020. Set out below is a summary of the Group's debt profile as at 31 October, 2020:

Type of debt	Counterparty	Outstanding amount as at 31 October, 2020 <i>HK\$ million</i>	Due Date	Interest rate
eSun Shareholder's Loans	eSun	430	— HK\$50 million due on 31 October, 2022 — HK\$300 million due on 10 June, 2023 — HK\$80 million due on 19 October, 2023	3 month — HIBOR + 2.8% per annum
Lease liabilities	Various landlords and lessors	13	— HK\$7 million due within 1 year from 31 July, 2020 — HK\$5.6 million due within 2 years from 31 July, 2020 — HK\$0.4 million due within 3 years from 31 July, 2020	Ranged from 3.3% to 5.6% per annum <sup>(Note)</sup>

*Note: The figures represented imputed interest rate arising from the recognition of lease liabilities at the commencement date of the relevant leases at the present value of lease payments to be made over the lease term, using the Group's incremental borrowing rate.*

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## LETTER FROM THE BOARD

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The recent outbreak of COVID-19 since February, 2020 has upended the film and entertainment industry in Hong Kong and the PRC. Lockdown measures have hit the film and entertainment industry with cinemas in Hong Kong and the PRC closed for extensive periods, and those that remained open recorded a drastic drop in the number of audiences and box office revenue due to public health concerns. In addition, the development and release of films, drama, and concert projects as well as external commercial engagements in artiste and event management businesses have declined and been postponed. For the Company, the event management business under its media and entertainment segment has been hit particularly hard, with only 39 shows by artistes being organised and invested in to generate approximately HK\$68 million in revenue for the year ended 31 July, 2020, as compared to 109 shows and approximately HK\$299 million in revenue for the year ended 31 July, 2019. Overall, the Company recorded a loss attributable to owners of the Company of approximately HK\$178 million for the year ended 31 July, 2020, with cash and cash equivalent amounting to approximately HK\$318 million, the equity attributable to owners of the Company amounting to approximately HK\$40 million as at 31 July, 2020; and the gearing ratio (represented by the total borrowings to shareholders' equity attributable to the owners of the Company) of 870% as at 31 July, 2020.

In addition, the film and television program production business of the Company is a cash intensive business which requires a substantial level of cash flow. The Directors are of the view that the cash burn rate of the Group is approximately HK\$13.0 million per month, with the finance costs from the eSun Shareholder's Loans contributing to approximately HK\$1.5 million per month.

Following a review of the audited financial results of the Company and taking into account of the factors above, and in view of the possibility of further deterioration of the Company's financial position amid the COVID-19 pandemic, the Directors consider that there is an urgent need to settle the eSun Shareholder's Loans by way of Loan Capitalisation prior to their maturities to improve the Company's financial position and reduce its cash burn rate.

In considering the source of repayment of the eSun Shareholder's Loans, the management of the Company believes that it is essential to maintain sufficient cash and liquidity to allow sufficient buffer to weather the current difficult times, and allow additional resources to position the Group for future business developments. In particular, the net assets of the Company amounted to approximately HK\$25.0 million as at 31 July, 2020, which represented a decrease of approximately 87.9% compared to the net assets of approximately HK\$207.2 million as at 31 July, 2019. The Group's current liabilities amounted to approximately HK\$499.0 million as at 31 July, 2020, which mainly comprises of accruals and other payables amounting to approximately HK\$252.5 million and deposits received amounting to approximately HK\$226.4 million. Such current liabilities are due within one year. Although the current assets amounted to approximately HK\$817.8 million, of which approximately (i) HK\$313.4 million related to films and television programs under production and film investments; (ii) HK\$116.3 million of prepayment, deposits and other receivable mainly consisting of prepayments, deposits and advances for artiste management, music production, and film and television program production; and (iii) HK\$22.2 million related to the Group's investment in entertainment events are not expected to be converted into cash in the short-term due to (i) the strict crowd control and social distancing rules issued by the governments

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## LETTER FROM THE BOARD

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of various countries leading to closures of cinemas which caused delays in releasing films; and (ii) the postponement of concerts and shows of the Group due to public health concerns. With regards to the cash balance of the Company of approximately HK\$313 million as at 31 October, 2020, the Company expects to incur approximately HK\$30 million in settlement of accruals and other payables by the first quarter of 2021, approximately HK\$60 million on 5 film projects under production by the first half of 2021, approximately HK\$133 million in overhead costs (such as staff costs, rental expenses, building management fees, and legal and professional fees) in the next 12 months from the date of this circular, and maintain a cash buffer of approximately HK\$90 million for an additional 6 months of overhead costs and payment of contingencies. It is after taking into account such factors that the Company decided that it was not in the interest of the Company to utilise its internal cash resources to settle the eSun Shareholder's Loans, but rather, it would be more beneficial to seek to eliminate substantially all the indebtedness of the Company to eSun through the Loan Capitalisation.

Apart from the Loan Capitalisation, the Company has considered alternative methods to repay the eSun Shareholder's Loans, including a large scale placing of new Shares, a large scale open offer or rights issue, and obtaining new bank loans to raise sufficient new capital to repay the Loan Capitalisation Amount. The Company took into the consideration that (i) there may not be sufficient market demand to cover the Loan Capitalisation Amount by share placement or underwriting for an open offer or rights issue (and as such the Open Offer proposed could only raise approximately HK\$150 million); (ii) the net proceeds from the Open Offer are for the purpose as stated in the section headed "XIII. USE OF PROCEEDS OF THE RECAPITALISATION PROPOSAL" in this circular; (iii) the deterioration of gearing position (870% as at 31 July, 2020) and incurring of high interest expense by the Company if it obtains additional interest-bearing financing such as bank loans; and (iv) the Loan Capitalisation would improve the gearing level of the Company, which would help the Company obtain and negotiate more favourable terms for new banking facilities in the future, the Directors consider that the Loan Capitalisation is a more desirable solution for the Group to settle the eSun Shareholder's Loans.

Under the Loan Capitalisation Agreement, the eSun Shareholder's Loans amounting as at 31 October, 2020 to an aggregate principal amount of HK\$430 million, will be capitalised by the issue of new Shares, thereby eliminating substantially all the indebtedness of the Company to eSun. This will substantially increase the equity capital base of the Company which will place it in a much stronger position to borrow from commercial banks at competitive rates of interest and to expand its business through strategic acquisitions, which the Company believes will have a positive impact on the revenues, cash flows and profits of the Company. According to the section titled "UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP" in Appendix II to this circular, the consolidated net tangible liabilities attributable to the Shareholders as at 31 July, 2020 was approximately HK\$281.7 million. Upon completion of the Loan Capitalisation, the cash position of the Company will remain the same and the total liabilities of the Company is expected to decrease by approximately HK\$427 million. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders will be approximately HK\$145.3 million after taking into account the Loan Capitalisation. As a result, it is expected that there will be no gearing ratio as there will be no borrowings after the completion of the Loan Capitalisation.

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## LETTER FROM THE BOARD

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The Placing alongside the Loan Capitalisation will enable the Company to maintain a minimum public float of 25% of its issued Shares. The Placees will be independent from, and not connected with, the Group and any of its respective associates, as defined in the GEM Listing Rules.

In order that the Shareholders will not be disadvantaged by the Loan Capitalisation, it is proposed to make the Clawback Offer so that the public Shareholders will be able to increase their investment interest in the Company by effectively acquiring Shares at the same price as they will be allotted and issued to eSun, or any persons as it may direct (pursuant to the Loan Capitalisation) and to the Placees (pursuant to the Placing).

Although the allotment and issue of the Capitalisation Shares will have a dilutive impact on the shareholdings of the existing public Shareholders, having considered that (i) the Capitalisation Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will reduce the gearing ratio, and enlarge the capital base and enhance the net asset position of the Company; (ii) the Loan Capitalisation enables the Company to settle its existing liabilities without utilising financial resources and avoid cash outflow; (iii) the Company can save any future interest expenses arising from the eSun Shareholder's Loans; and (iv) the Clawback Offer to be made by eSun to the public Shareholders for them to increase their shareholding interest in the Company by effectively acquiring Shares at the same price as they will be allotted and issued to eSun or members of the eSun Group (pursuant to the Loan Capitalisation) and to the Placees (pursuant to the Placing), the Directors are of the view that the Loan Capitalisation (including the Clawback Offer and the Placing) is in the interests of the Company and the Shareholders as a whole.

### **Proposed Open Offer**

Under the Loan Capitalisation, Clawback Offer and the Placing, no new capital is being introduced into the Company. While the Loan Capitalisation will have the effect of improving the financial position of the Group, the Group still requires funds for its business and operations. In view of the funding requirements of the Group, the Board has considered various means of fund-raising, such as debt financing, or bank borrowings, rights issue and placing of new Shares, before deciding on the Open Offer.

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## LETTER FROM THE BOARD

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The Company has considered the pros and cons of different fund-raising options:

<b>Fund-raising alternatives</b>	<b>Reason(s) for not adopting the fund-raising alternatives</b>
(i) Debt financing	The Company has enquired with several commercial banks and financial institutions regarding the possibility and feasibility of granting new credit lines to the Group. After discussions with such banks and financial institutions, the Company concluded it would be difficult to obtain additional debt financing on terms acceptable to the Company after taking into account the Group's (i) operating condition; (ii) financial position; and (iii) that other than the intangible assets and interests in an associate, the Group does not have any other significant assets to offer as collateral. Further, the Board considered that debt financing is not desirable at this stage as the expected finance costs for such borrowings are high and additional borrowings will increase the Group's liabilities, which will result in the deterioration in the gearing position of the Group.
(ii) Placing of new Shares	The Board is of the view that in comparison to a placing of new Shares, the Open Offer is pre-emptive in nature, allowing Open Offer Qualifying Shareholders to maintain their respective pro rata shareholding, through their participation in the Open Offer, in the Company's future potential growth and development without the burden of the eSun Shareholder's Loans.
(iii) Rights issue	The Board has considered a rights issue as an alternative option for fund-raising, taking into account of the flexibility of the Shareholders being able to sell their entitled nil-paid rights if they do not wish to take up the entitlements. However, conducting a rights issue would involve extra administrative work and incur extra cost as compared to conducting the Open Offer, especially in respect of the trading arrangements in relation to the nil-paid rights in a rights issue. The Company therefore would expend additional time and cost to implement the trading arrangements. Furthermore, considering the relatively low trading price of the Shares, it is not desirable to conduct rights issue as price of nil-paid right shares might be close to HK\$0.01. Even though an open offer does not allow the trading of rights entitlements, an open offer is preferred as it is more cost effective and efficient in this case.

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## LETTER FROM THE BOARD

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For the above reasons, the Directors consider that fund-raising through the Open Offer is an appropriate fund-raising method and is in the interests of the Company and the Shareholders as a whole.

### **Potential Placing under specific mandate**

As at the Latest Practicable Date, subject to the completion of the Loan Capitalisation, it is the intention of the Company to carry out the Potential Placing within the coming 12 months from the date of this circular, and the Company will enter into the relevant agreement(s) in this regard as and when terms have been agreed with the placing agent.

In the event that the Loan Capitalisation is approved and implemented, and the Potential Acquisition proceeds, the Directors wish to have the flexibility to place further Consolidated Shares to new investors under the Potential Placing, at the same price as the Consolidated Shares to be issued under the Loan Capitalisation and the Open Offer. Accordingly, a resolution will be proposed at a special general meeting to grant a specific mandate to the Directors to issue up to 625,000,000 Consolidated Shares based upon the minimum issue price of HK\$0.16 per Consolidated Share, which Consolidated Shares will not be entitled to participate in the Open Offer and will not be issued before the Open Offer Record Time.

The specific mandate sought will be for a period that will expire three (3) months after the date of a special general meeting to be convened.

The proceeds deriving from the Potential Placing, in the gross amount of approximately HK\$100 million assuming the mandate is used to its fullest extent, and based upon the minimum issue price of HK\$0.16 per Consolidated Share, will be used for funding the development of new film and television projects, other new business development and opportunities, and general working capital of the Company.

As at the Latest Practicable Date, no arrangements have been made to issue Shares under the specific mandate being sought in relation to the Potential Placing and no placing agreement in this regard has been entered into by the Company. In the event that arrangements are made to place further Shares under the specific mandate being sought in relation to the Potential Placing, the Board will make further announcement(s), as and when necessary, in compliance with the GEM Listing Rules. Accordingly, the Company will issue a separate circular regarding the specific mandate for the Potential Placing at the relevant time in compliance with the GEM Listing Rules.

### **XIII. USE OF PROCEEDS OF THE RECAPITALISATION PROPOSAL**

It is estimated that the Company will raise gross proceeds of approximately HK\$154.7 million from the Open Offer and the relevant expenses would be approximately HK\$4.5 million, which include underwriting commission (assuming none of the Offer Shares are taken up save for those subject to Irrevocable Undertaking) and professional fees payable to financial advisers, legal advisers, financial printer and other parties involved in the Open Offer.

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## LETTER FROM THE BOARD

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The estimated net proceeds from the Open Offer will accordingly be approximately HK\$150.2 million (equivalent to a net price of approximately HK\$0.155 per Offer Share). In line with the aforesaid business objectives stated in the section headed “XII. REASONS FOR THE RECAPITALISATION PROPOSAL — Proposed Open Offer”, the Group intends to utilise the net proceeds from the Open Offer as follows:

- (i) approximately HK\$99.0 million (or approximately 65.9% of the total net proceeds) for funding the film projects under development by the Company which is expected to be utilised in the next 12 months from the date of this circular:

<b>Film projects under development</b>	<b>Estimated cash outflow up to December, 2021</b> <i>HK\$ million</i>	<b>Target date of principal photography</b> <sup>(Note)</sup>	<b>Target release date</b> <sup>(Note)</sup>
Film Project 1	40	Second quarter, 2021	Third quarter, 2022
Film Project 2	30	Third quarter, 2021	Fourth quarter, 2022
Film Project 3	29	Third quarter, 2021	Fourth quarter, 2022

*Note: The target dates for principal photography and release are tentative and subject to change, depending on factors including but not limited to the impact of the COVID-19 situation, if it is prolonged, on filming, production and release timetable.*

- (ii) approximately HK\$51.2 million (or approximately 34.1% of the total net proceeds) for funding new prospective activities and investment opportunities such as the further development of the VS Media Group, should the Potential Acquisition proceed, within 12 months upon the completion of the Potential Acquisition as follows:
- a. approximately HK\$31.2 million for general working capital of the VS Media Group, including but not limited to the further development of and support to VS Media Group’s campaign and advertising businesses, and new growth potentials in e-commerce segment which could create synergy with the Group’s existing businesses; and
- b. approximately HK\$20.0 million for the repayment of liabilities of the VS Media Group.

According to the Acquisition Term Sheet, it is proposed that the consideration payable to the non-management shareholders of VS Media in respect of the Potential Acquisition would be in the form of new Consolidated Shares, while 65% of the consideration payable to the management shareholders of VS Media will be settled in the form of new Consolidated Shares upon closing of the Potential Acquisition, and the remaining 35% of the consideration payable to the management shareholders of VS Media will be settled by way of cash and, or allotment and issue of new Shares over a two-year time frame from the completion of the Potential Acquisition in the form of an earn-out. Accordingly, no cash outflow will be made in the coming 12 months from the date of this circular for the Potential Acquisition, which will minimise the liquidity risk. Please refer to the section headed “XIV. POTENTIAL ACQUISITION” below for the principal terms of the Acquisition Term Sheet.

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## LETTER FROM THE BOARD

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In the event that the Potential Acquisition does not proceed, the amount of net proceeds from the Open Offer intended to be applied towards the further development of the VS Media Group totalling approximately HK\$51.2 million will instead be used for the following purposes:

- (i) approximately HK\$25.3 million for investing in a film project (Film Project 4) in production by another film studio, subject to further negotiations between the Company and the film studio, the future impact of COVID-19 and the materialisation of the Potential Acquisition; and
- (ii) approximately HK\$25.9 million for funding a film project (Film Project 5) under preliminary development by the Company, the development of which is subject to the future impact of COVID-19 and the materialisation of the Potential Acquisition, with the target date of principal photography and target release date in fourth quarter, 2021 and fourth quarter, 2022, respectively.

#### XIV. POTENTIAL ACQUISITION

As disclosed in the Announcement, on 6 November, 2020 (after trading hours), the Company and VS Media entered into the Acquisition Term Sheet in relation to the Potential Acquisition. Definitive agreement(s) in respect of the Potential Acquisition, should it proceed, will only be entered into after the completion of the Loan Capitalisation. The expected completion date of the Potential Acquisition will be after the completion of the Open Offer. Principal terms of the Acquisition Term Sheet are summarised below.

**Date:** 6 November, 2020 (after trading hours)

**Parties:** (i) The Company; and  
(ii) VS Media

**Prospective Vendors:** The Prospective Vendors comprise the owners of VS Media, currently 14 shareholders, some being management and employees of the VS Media Group (led by Ms. Ivy Wong, founder of the VS Media Group) and others being strategic or professional investors.

To the best knowledge, information, and belief of the Directors, having made all reasonable enquiries, the Prospective Vendors and their respective ultimate beneficial owner(s) are Independent Third Parties.

**Target company:** VS Media, the private holding company of the VS Media Group.



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## LETTER FROM THE BOARD

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**Consideration:**

Anticipated to be in the order of HK\$280 million for 100% of the equity interest in VS Media Group (subject to such net debt and working capital adjustments as the parties shall agree, but on the provisional expectation that the Company would acquire shareholder's loans of approximately HK\$20 million, factored in as part of the consideration referenced above).

Immediately prior to closing, approximately 63% of the equity interest in VS Media will be held by non-management shareholders, who would expect to receive the entire consideration due to them on closing, in the form of new Shares, to be issued at a price of HK\$0.16 per Consolidated Share, which Consolidated Shares will not be entitled to participate in the Open Offer and will not be issued before the Open Offer Record Time.

The balance of the equity interest in VS Media would be held by its management shareholders. Of the consideration due to these management shareholders, it is proposed that they should receive:

- (i) 65% of that consideration on closing, also in the form of new Consolidated Shares, to be issued at a price of HK\$0.16 per Consolidated Share; and
- (ii) 35% of that consideration, subject to an upward or downward adjustment, in the form of an earn-out that will depend upon the performance of the VS Media Group measured by reference to certain revenue and earnings before interest, taxes, depreciation, and amortisation measures to be agreed between the parties, over a two-year time frame but, for guidance purposes, not expected to result in an aggregate overall consideration for 100% of the equity interest in VS Media in excess of approximately HK\$300 million (subject to net debt and working capital adjustment).

It is envisaged that the earn-out consideration will be settled by way of cash and, or allotment and issue of new Shares (at the applicable market price of the Shares at the time of finalising the earn-out), the proportions of which shall be at the absolute discretion of the Company.

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## LETTER FROM THE BOARD

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For guidance purposes only, assuming that the management shareholders of VS Media were to be paid the maximum amount of the earn-out consideration, all in the form of new Shares issued at a price of HK\$0.16 per Consolidated Share, the Prospective Vendors would be issued with Consolidated Shares in aggregate equivalent to (i) approximately 45.8% of the Company's issued share capital after completion of the Recapitalisation Proposal, including for these purposes, the allotment of the Fee Shares; and (ii) approximately 31.4% of the Company's issued share capital as further enlarged by the issue of such new Consolidated Shares to the Prospective Vendors themselves.

**Lock up:**

The new Shares to be issued to the non-management shareholders of VS Media as consideration will be subject to a 12-month moratorium on sale, transfer or disposal, commencing with effect from closing (subject to the right of the Company to waive the same on such terms or conditions prescribed by the Company).

**Conditions precedent:**

Closing of the Potential Acquisition would be subject to, inter alia, the execution of definitive agreement(s) by the Company and the Prospective Vendors which will only be executed after the completion of the Loan Capitalisation and is expected to contain the following conditions precedent:

- (i) completion of all legal, business, technical, tax and financial due diligence on the VS Media Group to the satisfaction of the Company;
- (ii) the Company having obtained a business valuation from an independent expert supporting the valuation of VS Media for the purpose of the Potential Acquisition, in form and content satisfactory to the Company;
- (iii) the Company having obtained all relevant Shareholders' and regulatory approvals for the Potential Acquisition;
- (iv) the Company having completed the Recapitalisation Proposal;

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## LETTER FROM THE BOARD

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- (v) the Prospective Vendors agreeing to waive or forego any and all rights of redemption, pre-emption, rights of first offer, or refusal, co-sale rights etc. or similar concerning their respective shares in VS Media and, or providing all necessary waivers, approvals, confirmations and, or consents, and, or termination of any existing agreements between VS Media and the Prospective Vendors, to give effect to the Potential Acquisition, in each case to the satisfaction of the Company; and
- (vi) no material adverse changes in the business, financial condition, assets and debt and cash balances of the Company except those required in the normal course of business and agreed to by the parties in the definitive agreement.

The Company may waive any of the conditions set out above (other than the condition set out in (iii) above).

**Key management:**

It is proposed that Ms. Ivy Wong will remain as chief executive officer of VS Media Group, which would, after closing, be managed and operated as a business division of the Company, on terms to be agreed.

**Exclusivity period:**

VS Media has agreed to grant to the Company an exclusivity period starting from the date of the Acquisition Term Sheet until the earlier of (i) the end of a period of 90 days from the date of the Acquisition Term Sheet; and (ii) notice of termination of negotiations with respect to the Potential Acquisition delivered by the Company to VS Media, during which, they will not engage in discussion or negotiation with or provide any information to any third party regarding any equity or debt funding to or sale of VS Media without the prior written consent of the Company.

**Non-binding nature:**

The Acquisition Term Sheet:

- (i) only constitutes an indication of interest regarding the Potential Acquisition; and
- (ii) does not create a binding obligation, fiduciary relationship, or joint venture between the parties, other than with respect to the obligations regarding the exclusivity period, confidentiality, fees and expenses, and governing laws.

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## LETTER FROM THE BOARD

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**The Directors wish to emphasise that the Acquisition Term Sheet is not legally binding (other than the provisions relating to exclusivity, confidentiality and governing law). The terms of the Potential Acquisition are subject to further negotiations and execution of definitive agreement(s) between the Company and the Prospective Vendors, and no such definitive agreement(s) have been entered into as at the date of this circular. Definitive agreement(s) in respect of the Potential Acquisition will only be entered into after completion of the Loan Capitalisation and will be conditional upon, among others, the completion of the Recapitalisation Proposal in full. As such, the Potential Acquisition may or may not proceed.**

### **XV. EQUITY FUND-RAISING ACTIVITY IN THE PAST TWELVE MONTHS**

The Company has not conducted any equity fund-raising activities in the past 12 months immediately preceding the Latest Practicable Date.

### **XVI. GEM LISTING RULES IMPLICATIONS**

#### **Proposed Loan Capitalisation**

LSG, LSD and eSun are holding companies of the Company, and hence connected persons of the Company under the GEM Listing Rules. Accordingly, the Loan Capitalisation between the Company and eSun constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the GEM Listing Rules.

As at the Latest Practicable Date, eSun is interested in 1,443,156,837 Existing Shares, representing approximately 67.6% of the total number of the issued Shares. Given that eSun has a material interest in the Loan Capitalisation, eSun is therefore required to abstain from voting on the relevant resolution(s) to be proposed at the SGM to approve the Loan Capitalisation. Dr. Peter Lam has abstained from voting on the Board resolution(s) for approving the Loan Capitalisation and the transactions contemplated thereunder. Save as disclosed above, no other Director has a material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolution(s) in relation to the aforesaid matters.

The Company has established the Independent Board Committee to advise the Independent Shareholders, and the Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### **Proposed Open Offer**

In accordance with Rule 10.39 of the GEM Listing Rules, as the Offer Shares are not issued pursuant to the general mandate of the Company, the Open Offer must be made conditional on Independent Shareholders' approval at the SGM and, pursuant to Rule 10.39(1) of the GEM Listing Rules, 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 shall abstain from voting in favour of the resolution(s) in relation to the Open Offer. As at the Latest Practicable Date, eSun is interested in 1,443,156,837 Existing Shares, representing approximately 67.6% of the total number of the issued Shares and is a controlling shareholder of the Company, and shall abstain from voting in respect of the resolution relating to the Open Offer.

### **XVII. THE ISSUE OF SHARES UNDER SPECIFIC MANDATE IN RELATION TO ADVISORY SERVICE OF FINANCIAL ADVISER**

The Company has appointed the Financial Adviser to advise on and assist in formulating and overseeing the Potential Transactions. On 24 September, 2020, the Company entered into an engagement letter with the Financial Adviser, pursuant to which the Advisory Fee of HK\$400,000, being a portion of the total advisory fee payable to the Financial Adviser, upon election by the Financial Adviser, shall be settled, if the Open Offer is proceeded with, by the allotment and issue of the Fee Shares at the same price as the Offer Shares. Should the Financial Adviser make such election, it is expected that the Fee Shares would be allotted and issued to the Financial Adviser around the time of the despatch of a circular to the Shareholders in connection with the Potential Acquisition. Based on the issue price per Fee Share of HK\$0.16 per Consolidated Share, the amount of 2,500,000 Fee Shares will be allotted and issued. The Board is of the view that the appointment of the Financial Adviser as the Company's financial adviser can facilitate the formulation and execution of the Potential Transactions.

The Advisory Fee was determined after arm's length negotiations between the Company and the Financial Adviser on normal commercial terms taking into account the complexity and duration of the Potential Transactions. Considering the share price performance of the Company, the financial position of the Company, the issue price of the Fee Shares and the Offer Price, the Directors consider that allotment and issue of the Fee Shares to settle the Advisory Fee are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Financial Adviser and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. As at the Latest Practicable Date, the Financial Adviser does not hold any Shares and has not made any decisions regarding the payment method of the Advisory Fee.

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## LETTER FROM THE BOARD

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### Fee Shares

Subject to the approval of the Shareholders in the SGM and the Stock Exchange granting the listing of, and permission to deal in, the Fee Shares, in the event that the Financial Adviser elects to accept Fee Shares as settlement of the Advisory Fee, the Fee Shares will be allotted and issued by the Company to the Financial Adviser around the time of the despatch of a circular to the Shareholders in connection with the Potential Acquisition. Based on an issue price per Fee Share of HK\$0.16 per Consolidated Share, 2,500,000 Fee Shares will be allotted and issued. Assuming there is no other change in the issued share capital of the Company save for the allotment and issue of the Capitalisation Shares and the Offer Shares, the 2,500,000 Fee Shares represent:

- (i) approximately 1.2% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 0.1% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares, the Offer Shares and the Fee Shares.

The issue price of the Fee Shares at HK\$0.16 per Fee Share represents:

- (i) a discount of approximately 15.8% to the theoretical closing price of HK\$0.19 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 17.5% to the theoretical average closing price of HK\$0.194 per Share (after taking into account the effect of the Share Consolidation) based on the closing price of approximately HK\$0.019 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 40.7% to the theoretical closing price of HK\$0.27 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.027 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a discount of approximately 15.1% to the theoretical audited consolidated net asset value per Share of approximately HK\$0.188 (after taking into account the effect of the Share Consolidation) based on the latest published consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$40.2 million and 2,136,056,825 Existing Shares in issue on the Latest Practicable Date.

The Fee Shares will rank pari passu in all respects with the Shares then in issue as at the date of the issuance. An application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Fee Shares. The Fee Shares will be allotted and issued under a specific mandate proposed to be sought from the Shareholders at the SGM.

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## LETTER FROM THE BOARD

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### XVIII. INFORMATION ABOUT THE LAI SUN LISTCOS

#### **LSG**

LSG is a company incorporated in Hong Kong with limited liability, the issued shares of which are listed and traded on the Main Board. LSG and its subsidiaries are principally engaged in property investment, property development, investment in and operation of hotels and restaurants, media and entertainment, music production and distribution, films, video format products and television programmes production and distribution, cinema operation, cultural, leisure, entertainment and related facilities and investment holding. As at the Latest Practicable Date, LSG owns approximately 56.13% of the total issued shares of LSD.

#### **LSD**

LSD is a company incorporated in Hong Kong with limited liability, the issued shares of which are listed and traded on the Main Board. LSD and its subsidiaries are principally engaged in property investment, property development, investment in and operation of hotels and restaurants, media and entertainment, music production and distribution, films, video format products and television programmes production and distribution, cinema operation, cultural, leisure, entertainment and related facilities and investment holding. As at the Latest Practicable Date, LSD owns approximately 74.62% of the total issued shares of eSun.

#### **eSun**

eSun is an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board. eSun acts as an investment holding company and the principle activities of its subsidiaries include the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programmes, films and video format products and cinema operation. As at the Latest Practicable Date, eSun owns approximately 67.6% of the total issued Shares.

#### **The Company**

The Company is an exempted company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed and traded on GEM. The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in film production and distribution, organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

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## LETTER FROM THE BOARD

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### **XIX. ESTABLISHMENT OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER**

The Company has established the Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Au Hoi Fung, Mr. Ng Chi Ho, Dennis and Mr. Poon Kwok Hing, Albert, to advise the Independent Shareholders in respect of the Loan Capitalisation and the Open Offer, and the transactions contemplated thereunder and as to the voting action therefor.

Reference is made to the announcement made by the Company dated 10 November, 2020. Altus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation and the Open Offer, and the transactions contemplated thereunder. The appointment of Altus Capital has been approved by the Independent Board Committee.

### **XX. ACTION TO BE TAKEN BY SHAREHOLDERS**

Shareholders (whether or not able to attend the SGM) are requested to complete and return the proxy form (the “**Proxy Form**”) in accordance with the instructions printed thereon and deposit with Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the Proxy Form will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should they elect to do so. In such event, the relevant Proxy Form will be deemed to be revoked. Please note that this paragraph is only applicable to Shareholders whose Shares are registered in the branch register of shareholders in Hong Kong.

In light of the COVID-19 situation in Hong Kong, your attention is drawn to the section headed “Precautionary Measures for the SGM in Hong Kong” set out on inside cover page of this circular for further information. The resolutions proposed to be approved at the SGM will be taken by poll and an announcement on the outcome of the SGM will be made by the Company following the SGM.

### **XXI. DESPATCH OF THE PROSPECTUS DOCUMENTS**

Subject to the Loan Capitalisation, the Open Offer and the Underwriting Agreement being approved by the Independent Shareholders at the SGM, the Prospectus Documents setting out details of the proposed Open Offer are expected to be despatched to the Open Offer Qualifying Shareholders on or about Monday, 1 February, 2021. The Company will send the Prospectus to the Non-Qualifying Shareholders for information only.



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## LETTER FROM THE BOARD

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### XXII. SGM

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM in respect of the Share Consolidation, the Increase in Authorised Share Capital, and the issue of Fee Shares.

A notice convening the SGM to be held at Grand Ballroom 5, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Friday, 18 December, 2020 at 8:45 a.m. is set out on pages SGM-1 to SGM-6 of this circular for the purpose of considering and if, thought fit, passing the relevant resolutions approving the Share Consolidation, the Increase in Authorised Share Capital, the Loan Capitalisation, the Open Offer, the issue of the Fee Shares and the transactions contemplated thereunder by the Shareholders and the Independent Shareholders (as the case may be).

In order to be eligible to attend and vote at the SGM, all unregistered holders of the Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 14 December, 2020. Any unregistered holders of the Shares who have not lodged the relevant transfer documents and share certificates before the aforesaid time will not be entitled to attend and vote at the SGM.

The Proxy Form for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed Proxy Form in accordance with the instructions printed thereon and deposit the same at the office of the Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the Proxy Form will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in that event, your Proxy Form will be deemed to have been revoked.

#### **Voting by way of poll**

Pursuant to Rule 17.47(4) of the GEM Listing Rules, save for resolutions which relate purely to a procedural or administrative matter to be voted by a show of hands, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, all resolutions to be proposed at the SGM will be taken by way of poll by the Shareholders. Bye-law 66 of the Company's bye-laws provides that on a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative shall have one vote for every Share held by that Shareholder. An explanation of the detailed procedures of conducting a poll will be provided to the Shareholders at the SGM. The Company will publish an announcement on the poll results on the respective websites of the GEM at [www.hkgem.com](http://www.hkgem.com) and the Company at [www.mediaasia.com](http://www.mediaasia.com) after the conclusion of the SGM.

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## LETTER FROM THE BOARD

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### XXIII. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 71 to 72 of this circular which contains its recommendation to the Independent Shareholders in relation to the Loan Capitalisation and the Open Offer, and the transactions contemplated thereunder and the letter from the Independent Financial Adviser set out on pages 73 to 108 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Directors (including the members of the Independent Board Committee whose views have been set out in the letter from the Independent Board Committee in this circular in respect of the Loan Capitalisation and the Open Offer) consider that:

- (i) the Share Consolidation, Increase in Authorised Share Capital, Loan Capitalisation, the terms of the Open Offer, the Underwriting Agreement, and the issue of Fee Shares under Specific Mandate are fair and reasonable so far as the Shareholders are concerned; and
- (ii) the Share Consolidation, Increase in Authorised Share Capital, Loan Capitalisation, Open Offer, the Underwriting Agreement, the issue of Fee Shares under Specific Mandate and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the members of the Independent Board Committee whose views have been set out in the letter from the Independent Board Committee in this circular in respect of the Loan Capitalisation and the Open Offer) recommend the Shareholders or Independent Shareholders (as the case may be) to vote in favour of the resolutions to be proposed at the SGM to approve, among other things, the Share Consolidation, the Increase in Authorised Share Capital, the Loan Capitalisation, the Open Offer, the Underwriting Agreement, and the transactions contemplated thereunder.

### XXIV. ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**Media Asia Group Holdings Limited**  
**Lam Kin Ngok, Peter**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders in connection with the Loan Capitalisation and the Open Offer, and the transactions contemplated thereunder for inclusion in this circular.*



### **Media Asia Group Holdings Limited**

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8075)**

30 November, 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**(I) CONNECTED TRANSACTION — LOAN CAPITALISATION INVOLVING  
ISSUE OF SHARES UNDER SPECIFIC MANDATE; AND  
(II) OPEN OFFER ON THE BASIS OF ONE (1) OFFER SHARE  
FOR EVERY THREE (3) CONSOLIDATED SHARES HELD AT  
OPEN OFFER RECORD TIME**

We refer to the circular of the Company dated 30 November, 2020 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether (i) the terms of the Loan Capitalisation and Open Offer are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the Loan Capitalisation and Open Offer, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Altus Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Having taken into account the terms of the Loan Capitalisation and Open Offer and the advice from Altus Capital Limited (together with the principal factors and reasons considered in arriving such advice), we are of the opinion that (i) the terms of the Loan Capitalisation, the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the Loan Capitalisation and Open Offer, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Accordingly, we recommend you to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Loan Capitalisation and the Open Offer (including the Underwriting Agreement) and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

**The Independent Board Committee**

**Mr. Au Hoi Fung**

**Mr. Ng Chi Ho, Dennis    Mr. Poon Kwok Hing, Albert**

*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice from, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to a connected transaction with regard to a loan capitalisation involving issue of shares under specific mandate and an open offer, which has been prepared for the purpose of incorporation in this circular.*

# ALTUS

Altus Capital Limited  
21 Wing Wo Street  
Central, Hong Kong

30 November 2020

*To the Independent Board Committee and the Independent Shareholders*

### **Media Asia Group Holdings Limited**

11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon  
Hong Kong

Dear Sirs,

### **(1) CONNECTED TRANSACTION IN RELATION TO LOAN CAPITALISATION INVOLVING ISSUE OF SHARES UNDER SPECIFIC MANDATE AND (2) OPEN OFFER**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Loan Capitalisation Agreement, the Open Offer and the transactions contemplated thereunder. Details of transactions are set out in the “Letter from the Board” contained in the circular of the Company dated 30 November 2020 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

On 6 November 2020, the Company and eSun entered into the Loan Capitalisation Agreement, pursuant to which the Company has conditionally agreed to allot and issue the Capitalisation Shares to eSun, or any persons as it may direct, at the Capitalisation Price of HK\$0.16 per Consolidated Share in consideration of the cancellation by way of setting-off against the Loan Capitalisation Amount of HK\$430 million under the eSun Shareholder’s Loans. The Capitalisation Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Out of the Capitalisation Shares proposed to be allotted and issued to eSun, or any persons as it may direct, approximately 7.7% of such Capitalisation Shares will be offered to the Clawback Qualifying Shareholders and up to another 34.9% of such Capitalisation Shares are proposed to be placed to at least six Places pursuant to the Clawback Offer and the Placing Agreement, respectively. The actual number of the Capitalisation Shares subject to the Placing will not be dependent on the actual number of Clawback Offer Shares accepted under the Clawback Offer. The Places will subscribe for up to a total of 937,500,000 Capitalisation Shares irrespective of the result of the Clawback Offer.

After the completion of the Loan Capitalisation (including the Clawback Offer and the Placing), the Company proposes to raise up to approximately HK\$154.7 million before expenses by way of an Open Offer of 967,035,227 Offer Shares at the Offer Price of HK\$0.16 per Offer Share on the basis of one (1) Offer Share for every three (3) Consolidated Shares held by the Open Offer Qualifying Shareholders as at the Open Offer Record Time and payable in full on acceptance.

### LISTING RULES IMPLICATIONS

#### Loan Capitalisation

As at the Latest Practicable Date, eSun is interested in 1,443,156,837 Existing Shares, representing approximately 67.56% of the total number of the issued Shares and is the controlling shareholder of the Company, and hence a connected person of the Company under the GEM Listing Rules. Accordingly, the Loan Capitalisation between the Company and eSun constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules, and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the GEM Listing Rules.

As at the Latest Practicable Date, eSun is interested in 1,443,156,837 Existing Shares representing approximately 67.56% of the total number of issued Shares. Given that eSun has a material interest in the Loan Capitalisation, eSun is therefore required to abstain from voting on the relevant resolution(s) to be proposed at the SGM to approve the Loan Capitalisation. Dr. Peter Lam, being the ultimate controlling shareholder of eSun and the Chairman and an executive director of the Company, also abstained from voting on the Board resolution(s) for approving the Loan Capitalisation and the transactions contemplated thereunder. Save as disclosed above, no other Director has a material interest in the Loan Capitalisation Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolution(s) in relation to the aforesaid matters.

#### Open Offer

In accordance with Rule 10.39 of the GEM Listing Rules, as the Offer Shares are not issued pursuant to the general mandate of the Company, the Open Offer must be made conditional on Independent Shareholders' approval at the SGM and, pursuant to Rule 10.39(1) of the GEM Listing Rules, 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 shall abstain from voting in favour of the resolution(s) in relation to the Open Offer. As at the Latest Practicable Date, eSun is interested in 1,443,156,837 Existing Shares, representing approximately 67.56% of the total number of the issued Shares and is the controlling shareholder of the Company, and shall abstain from voting in respect of the resolution relating to the Open Offer.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Au Hoi Fung, Mr. Ng Chi Ho, Dennis and Mr. Poon Kwok Hing, Albert, has been established to advise the Independent Shareholders as to (i) whether the terms of the Loan Capitalisation and the Open Offer are fair and reasonable; (ii) whether the Loan Capitalisation and the Open Offer are in the interests of the Company and the Shareholders as a whole; (iii) whether the Loan Capitalisation is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iv) how the Independent Shareholders should vote in respect of the resolutions to be proposed at the SGM to approve the Loan Capitalisation and the Open Offer.

### THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the Loan Capitalisation and the Open Offer are fair and reasonable; (ii) whether the Loan Capitalisation and the Open Offer are in the interests of the Company and the Shareholders as a whole; (iii) whether the Loan Capitalisation is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iv) how the Independent Shareholders should vote in respect of the resolutions to be proposed at the SGM to approve the Loan Capitalisation and the Open Offer.

We have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 17.96 of the GEM Listing Rules, and given that remuneration for our engagement to opine on the terms of the proposed Loan Capitalisation and the proposed Open Offer is at market level and not conditional upon successful passing of the resolution(s) to be proposed at the SGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

### BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the Loan Capitalisation Agreement; (ii) the relevant loan agreements relating to eSun's Shareholder's Loans to the Company; (iii) the Underwriting Agreement; (iv) the annual report of the Company for the year ended 31 July 2020 (the "2020 Annual Report"); and (v) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "Management"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the Latest Practicable Date. The Directors collectively and individually accept full responsibility, including 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 the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have considered the principal factors and reasons set out below:

#### 1. Background information of the Group and eSun

##### 1.1 *The Group*

The Group is the media and entertainment arm of the Lai Sun Group. The principal activity of the Company is investment holding and its subsidiaries are engaged in (i) film production and distribution; (ii) organisation, management and production of concerts and live performances; (iii) artiste management; (iv) production and distribution of television programs; (v) music production and publishing; (vi) licensing of media content; and (vii) provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

##### 1.2 *eSun*

eSun is a member of the Lai Sun Group and is an investment holding company. Its subsidiaries are principally engaged in the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programs, films and video format products and cinema operation. eSun and its subsidiaries are also involved in property investment and development in the PRC before the completion of the disposal of its entire equity interest in Lai Fung on 14 May 2020. The Company has become a subsidiary of eSun since 9 June 2011. eSun holds about 67.56% of the total issued Shares as at the Latest Practicable Date.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Financial information of the Group

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 July 2020 and 2019 as extracted from the 2020 Annual Report.

*Extract of the consolidated income statement*

	<b>For the year ended 31 July</b>	
	<b>2019</b>	<b>2020</b>
	<b>(“FY2019”)</b>	<b>(“FY2020”)</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
	<i>(audited)</i>	<i>(audited)</i>
Revenue	573,732	364,773
— Entertainment event income	298,767	68,372
— Music sales, publishing and licensing	28,666	31,079
— Artiste management fee income	8,806	5,345
— Distribution commission, license fee income from sale of film and TV	237,493	259,977
Cost of sales	(536,421)	(320,887)
Gross profit	37,311	43,886
Other income	10,519	9,542
Marketing expenses	(20,469)	(24,047)
Administrative expenses	(142,167)	(138,419)
Other operating expenses, net	(7,956)	(60,588)
Loss from operating activities	(122,762)	(169,626)
Finance costs	(15,786)	(17,756)
Share of profits/(losses) of joint ventures and an associate, net	(3,721)	50
Loss before tax	(142,269)	(187,332)
Income tax credit/(expense)	(2,637)	61
Loss for the year	(144,906)	(187,271)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Extract of the consolidated statement of financial position*

	As at 31 July	
	2019	2020
	HK\$ '000	HK\$ '000
	(audited)	(audited)
Total non-current assets	96,449	61,555
Total current assets	988,797	817,782
— Cash and cash equivalents	334,996	317,692
Total assets	1,085,246	879,337
Total liabilities	878,087	854,331
— Accruals and other payables	300,257	252,547
— Deposits received	262,533	226,431
— Loans from an intermediate holding company and a fellow subsidiary	300,000	350,000
Total equity	207,159	25,006
Equity attributable to Shareholders	218,790	40,237
Net gearing	137%	870%

Source: 2020 Annual Report

### ***FY2020 compared to FY2019***

In FY2020, total revenue decreased to approximately HK\$364.8 million from approximately HK\$573.7 million in FY2019, representing a year-on-year decrease of approximately 36.4%. A significant proportion of the Group's total revenue generally comes from entertainment event income, which decreased substantially from approximately HK\$298.8 million in FY2019 to approximately HK\$68.4 million in FY2020, representing a year-on-year decrease of approximately 77.1%. This significant drop in entertainment event income explains the Group's total revenue decrease from FY2019 to FY2020.

The Group's entertainment event segment suffered due to the outbreak of COVID-19, which weakened the entertainment consumption in the PRC and local markets. During FY2020, the Group invested in and organised 39 shows as compared to 109 shows in 2019 and hence, the aforementioned revenue from this segment substantially decreased.

The Group recorded an approximately 8.4% revenue growth in the music sales, publishing and licensing segment, increasing from approximately HK\$28.7 million in FY2019 to approximately HK\$31.1 million in FY2020. The Group released nine albums in FY2020 as compared to 14 albums in FY2019. Despite releasing fewer albums during FY2020, the Group recorded more revenue in terms of album sales, license income and distribution commission income from music publishing and licensing.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The artiste management segment experienced a decrease in revenue from approximately HK\$8.8 million in FY2019 to approximately HK\$5.3 million in FY2020. Such decrease mainly resulted from the impact of the COVID-19 pandemic environment as well as drop in the Group's number of artistes under management from 27 artistes in FY2019 to 23 artistes in FY2020.

The Group experienced revenue growth in their film and TV segment of approximately 9.5% from approximately HK\$237.5 million in FY2019 to approximately HK\$260.0 million in FY2020. There were five films produced in FY2020, which generated revenue of approximately HK\$141.0 million, compared to two films produced in FY2019, which generated license fee income and distribution commission income of approximately HK\$50.8 million. During FY2020, the Group recorded a revenue of approximately HK\$119.0 million from TV programs as compared to approximately HK\$186.7 million in FY2019; in comparison, the Group's revenue from films was relatively stronger.

While the Group recorded a gross profit of approximately HK\$43.9 million, representing an increase of approximately 17.6% from the gross profit in FY2019 of approximately HK\$37.3 million, the Group recorded a loss for the year of approximately HK\$187.3 million in FY2020, representing an increase of approximately 29.2% from the loss for the year in FY2019 of approximately HK\$144.9 million. This was attributable to the increase in marketing expenses, other operating expenses, as well as the finance costs in FY2020.

Marketing expenses increased from approximately HK\$20.5 million in FY2019 to approximately HK\$24.0 million in FY2020, mainly attributable to marketing for the five films that were released during FY2020, as compared to only two films in FY2019. Other operating expenses in FY2020 mainly included (i) impairment loss of right-of-use assets and property, plant and equipment; (ii) impairment loss of films and TV programs under production; (iii) impairment loss of advances and other receivables; and (iv) exchange loss arising from the depreciation of Renminbi.

Finance costs increased to approximately HK\$17.8 million in FY2020 from approximately HK\$15.8 million in FY2019. The increase in finance costs was mainly due to the additional loan from eSun and interest on lease liabilities upon the adoption of HKFRS 16 from 1 August 2019.

### ***31 July 2020 compared to 31 July 2019***

As at 31 July 2020, the Group's net assets amounted to approximately HK\$25.0 million, which decreased significantly by approximately 87.9% from approximately HK\$207.2 million as at 31 July 2019. Cash and cash equivalents decreased from approximately HK\$335.0 million as at 31 July 2019 to approximately HK\$317.7 million as at 31 July 2020. The Group's deterioration in financial position was mainly due to its recorded loss for the year of approximately HK\$187.3 million during FY2020.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group recorded a loan from an intermediate holding company amounted to HK\$350.0 million as at 31 July 2020, as compared to the loan from an intermediate holding company and a fellow subsidiary of approximately HK\$300.0 million as at 31 July 2019. Accruals, other payables and deposits received of the Group, decreased slightly from approximately HK\$562.8 million as at 31 July 2019 to approximately HK\$479.0 million as at 31 July 2020. Of the accruals, other payables and deposits received balances, the amounts due to fellow subsidiaries, joint ventures and an intermediate holding company amounted to approximately HK\$83.8 million as at 31 July 2020, as compared to approximately HK\$70.1 million as at 31 July 2019; such balances are unsecured, interest-free and repayable on demand.

The Group's gearing ratio (calculated on the basis of the Group's total borrowings over equity attributable to Shareholders) jumped sharply from approximately 137% as at 31 July 2019 to approximately 870% as at 31 July 2020. This significant increase was attributable to the fact that the Group's total equity decreased drastically as a result of its recorded losses during FY2020 as mentioned above.

The Group's cash and cash equivalents decreased from approximately HK\$335.0 million as at 31 July 2019 to approximately HK\$317.7 million as at 31 July 2020.

The Group did not declare dividend for FY2019 and FY2020.

### 3. Outlook of the Group

The economies of the PRC, Hong Kong and Macau have been adversely affected by the outbreak of the COVID-19 pandemic since January 2020. According to the statistics published by the National Bureau of Statistics, the PRC's GDP has declined by 6.8% in the first quarter of 2020 as compared to previous year due to the surge in COVID-19 confirmed cases. In an attempt to stop the spread of the COVID-19 pandemic, strict preventive measures were implemented by the PRC government, including city and regional lockdowns, electronic surveillance, travel bans, social distancing, mandatory quarantine and closure of non-essential businesses. Leisure venues, in particular cinemas and theatres, were forced to close for several months. The effectiveness of such measures were evidenced by a strong rebound, which the PRC's GDP recorded a 3.2% growth and 4.9% growth in the second and third quarter of 2020 respectively, as compared to previous year.

Hong Kong's real GDP experienced its steepest decline on record having contracted 8.9% in the first quarter of 2020 as compared to the previous year, according to the "First Quarter Economic Report 2020" issued by the Hong Kong government. Hong Kong's real GDP further declined and recorded a 9.0% year-on-year decrease in the second quarter of 2020 before the decline narrowed to 3.4% in the third quarter of 2020. In Macau, real GDP shrank by 48.7% year-on-year in the first quarter of 2020 and further worsened to a 67.8% drop year-on-year in the second quarter of 2020, according to data published by the Statistics and Census Service of Macau, reaching a real GDP of approximately MOP34,691 million (equivalent to HK\$33,052.4 million).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As mentioned under the paragraph headed “1.1 The Group” above, the Group is principally engaged in the media and entertainment sector. This sector has been adversely affected by the prolonged social unrest since June 2019 in Hong Kong and further worsened by the outbreak of the COVID-19 pandemic since January 2020. Concerts involving renowned local and Asian artists such as Eason Chan, Jay Chou and Andy Lau were either cancelled or postponed due to the COVID-19 pandemic. Numerous films were forced to cancel their theatrical releases due to temporary closures of cinemas and theatres. According to figures provided by the Hong Kong Box Office Ltd, box office income was approximately HK\$293.2 million in the first six months of 2020, representing a 72% drop from approximately HK\$1,045.9 million as compared to the corresponding period in 2019. Movie and television program productions were disrupted due to lockdown and social distancing measures. The recovery of the media and entertainment sector will largely be dependent on the development of the COVID-19 pandemic.

As discussed with the Management, it is expected that the media and entertainment industry will remain challenging as the COVID-19 pandemic persists. Nonetheless, as the consumer behavior shifts to online as a result of COVID-19 lockdown measures and social distancing policies, the Management believes there are opportunities in online e-commerce and influencer market which the Group can capture and expand into with appropriate acquisition of synergistic businesses.

#### 4. The Proposed Loan Capitalisation and Open Offer

##### 4.1 *Principal terms of the Loan Capitalisation*

###### 4.1.1 *The Capitalisation Price*

The Capitalisation Price of HK\$0.16 was arrived at after arm’s length negotiations between the Company and eSun with reference to the prevailing market price of the Shares, the Group’s historical performance and present financial position, as well as current market conditions. The Capitalisation Price is no more favourable to eSun, a connected person, compared to the price under the Clawback Offer, Placing of Capitalisation Shares and the Offer Price, which are offered to independent third parties. The Capitalisation Price of HK\$0.16 per Capitalisation Share represents:

- (i) a discount of approximately 15.8% to the theoretical closing price of HK\$0.190 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 17.5% to the theoretical average closing price of HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the average closing prices of the Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 16.2% of the theoretical diluted price of approximately HK\$0.163 per Consolidated Share (after taking into account the effect of the Share Consolidation) to the benchmarked price of HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.019 per Existing Share and the average closing prices of the Existing Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day);
- (iv) a discount of approximately 40.7% to the theoretical closing price of HK\$0.27 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.027 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a discount of approximately 15.1% to the theoretical audited consolidated net asset value per Share of approximately HK\$0.188 (after taking into account the effect of the Share Consolidation) based on the latest published consolidated net asset value of the Group attributable to the Shareholders of approximately HK\$40.2 million as at 31 July, 2020 and 2,136,056,825 Existing Shares in issue on the Latest Practicable Date.

### 4.1.2 *Conditions precedent*

The completion of the Loan Capitalisation is conditional upon fulfillment of the following conditions precedent:

- (i) the Share Consolidation and the Increase in Authorised Share Capital of the Company being approved at the SGM and become effective;
- (ii) the passing by the Independent Shareholders of the necessary resolution(s) at the SGM to approve the Loan Capitalisation;
- (iii) the passing by the shareholders of eSun (other than those who are required to abstain from voting according to the Listing Rules or other applicable laws and regulations, if any), of the necessary resolution(s) to approve the Loan Capitalisation;
- (iv) the grant by the GEM listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Capitalisation Shares;
- (v) irrespective of the outcome of the Clawback Offer, the Placing Agent has procured or can procure Placees for all or a sufficient number of the Capitalisation Shares on terms that immediately after the completion of the Loan Capitalisation, not less than 25% of the issued share capital of the Company (as enlarged by the Loan Capitalisation) will be held by the public as required by the GEM Listing Rules; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (vi) the passing by the Independent Shareholders of a resolution at the SGM to approve the Open Offer.

Save for condition (vi) which can be waived by the Company, none of the above conditions can be waived. If the above conditions are not fulfilled (or as applicable, waived) by 5 May 2021 or such other date as the Company and eSun may agree, the Loan Capitalisation Agreement will terminate and all rights and obligations under the Loan Capitalisation Agreement will cease, save for any rights and obligations accrued before the termination. The Clawback Offer, the Placing and the Open Offer will also not proceed if the Loan Capitalisation Agreement is terminated.

The completion of the Loan Capitalisation shall take place within five (5) business days after the fulfilment (or waiver, as the case may be) of the conditions precedent (or such other date to be agreed by the parties), and is expected to be on the same day of the completion of the Clawback Offer and the Placing.

The Capitalisation Shares when allotted and issued shall rank *pari passu* in all respects with the Shares in issue on the date of their allotment and issue, including as to the rights to receive all dividends and distributions which may be declared made or paid after the completion date of the Loan Capitalisation Agreement and will be issued free and clear of all liens, encumbrances, equities or other third party rights.

### ***4.2 Clawback Offer and Placing Arrangement***

Pursuant to the Clawback Offer and Placing Agreement, a portion of the Capitalisation Shares may be directed by eSun to be allotted and issued to the Clawback Qualifying Shareholders and the Placees.

In order to provide the Clawback Qualifying Shareholders with an opportunity to reduce the dilutive impact of the Loan Capitalisation on their shareholdings in the Company and to continue to participate in and share the growth in the business of the Company alongside eSun under the Loan Capitalisation, eSun will conditionally offer 207,869,997 Clawback Offer Shares, which constitute approximately 7.7% of the Capitalisation Shares, to the Clawback Qualifying Shareholders on a pro rate basis of three (3) Clawback Offer Shares for every one (1) Consolidated Share held by the Clawback Qualifying Shareholders as at the Clawback Record Time at HK\$0.16 per Clawback Offer Share, or such lesser number at the Shareholders concerned wish to subscribe. The price at which the Clawback Offer Shares would be offered will be equal to the issue price of the Capitalisation Shares under the Loan Capitalisation Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In order to ensure that the public float requirements under the GEM Listing Rules will be complied with even in the scenario where the Clawback Offer is not accepted by any Clawback Qualifying Shareholder, the Company, eSun and the Placing Agent entered into the Placing Agreement on 6 November 2020, pursuant to which eSun intends to place, through the Placing Agent, on a best effort basis, up to a total 937,500,000 Capitalisation Shares, representing approximately 34.9% of the Capitalisation Shares otherwise to be allotted and issued to eSun under the Loan Capitalisation, to at least six Placees at the price of HK\$0.16 per Capitalisation Share. Placees who are Open Offer Qualifying Shareholders will also be eligible to participate in the Open Offer.

As set out under the section headed “VII. PLACING OF CAPITALISATION SHARES” in the “Letter from the Board” of the Circular, the Placing Agent is in the process of identifying Placees in relation to the Placing. The Loan Capitalisation is conditional upon the Placing Agent has procured or can procure Placees for all or a sufficient number of Capitalisation Shares on terms that immediately after the completion of the Loan Capitalisation, not less than 25% of the issued share capital of the Company (as enlarged by the Loan Capitalisation) will be held by the public as required by the GEM Listing Rules. As such, given the Loan Capitalisation will not be completed unless condition (v) mentioned in the paragraph headed “4.1.2 Conditions precedent” above is met, we are of the view that irrespective of the outcome of the Clawback Offer, the public float after the Loan Capitalisation can be maintained after the completion of the Loan Capitalisation.

### **4.3 *Principal terms of the Open Offer***

The Company proposes to raise up to approximately HK\$154.7 million before expenses by way of an Open Offer of 967,035,227 Offer Shares at the Offer Price of HK\$0.16 per Offer Share on the basis of one (1) Offer Share for every three (3) Consolidated Shares held by the Open Offer Qualifying Shareholders as at the Open Offer Record Time and payable in full on acceptance.

As at the Latest Practicable Date, the Company has no outstanding options, convertible securities or warrants which confer rights to subscribe for the Shares.

#### **4.3.1 *Offer Price***

The Offer Price of the Offer Shares is HK\$0.16 per Consolidated Share, payable in full upon application of the relevant assured entitlement of the Offer Shares.

The Offer Price is the same as the price per Consolidated Share for the Loan Capitalisation, the Clawback Offer and the Placing, and represents:

- (i) a discount of approximately 12.3% to the theoretical ex-entitlement price of approximately HK\$0.183 per Share (after taking into account the effect of the Share Consolidation and completion of the Loan Capitalisation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 16.6% of the theoretical diluted price of approximately HK\$0.162 per Consolidated Share (after taking into account the effects of the Share Consolidation and Loan Capitalisation) to the benchmarked price of HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation and Loan Capitalisation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.019 per Existing Share and the average closing prices of the Existing Shares as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day);
- (iii) a discount of approximately 40.7% to the theoretical closing price of HK\$0.27 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.027 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) a discount of approximately 15.1% to the theoretical audited consolidated net asset value per Share of approximately HK\$0.188 (after taking into account the effect of the Share Consolidation) based on the latest published consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$40.2 million and 2,136,056,825 Existing Shares in issue on the Latest Practicable Date.

As the Open Offer forms part of the Recapitalisation Proposal, the Offer Price is the same as the Capitalisation Price for the Loan Capitalisation. Therefore, the basis of determination of the Offer Price is fundamentally the same as the Capitalisation Price, which was arrived at by the Directors after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares, the financial market conditions, and the financial position of the Group.

After deducting all relevant expenses relating to the Open Offer, the net proceeds from the Open Offer will be approximately HK\$150.2 million.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5. Analysis on the Loan Capitalisation

#### 5.1 *Background to and reason for the Loan Capitalisation*

The relatively low net asset value of approximately HK\$40.2 million attributable to Shareholders as at 31 July 2020 was mainly attributable to the loans extended by eSun of HK\$350 million as at 31 July 2020, which had further increased to HK\$430 million as at the Latest Practicable Date. It is worthy to note that the gearing ratio of the Group (represented by the total borrowings over the equity attributable to the Shareholders) increased from approximately 137% as at 31 July 2019 to approximately 870% as at 31 July 2020, as the Group has continued to fund its operations using loans from eSun while its equity capital base shrank as a result of continued losses.

As stated under paragraph headed “REASONS FOR THE RECAPITALISATION PROPOSAL” in the “Letter from the Board” in the Circular, following a review of the audited financial results of the Company, the Board has been considering options to recapitalise the Company and repay the Loan Capitalisation Amount. Under the Loan Capitalisation Agreement as part of the Recapitalisation Proposal, the eSun Shareholder’s Loans as at the Latest Practicable Date amounting to an aggregate principal amount of HK\$430 million, will be capitalised by the issue of new Shares, thereby eliminating substantially all the indebtedness of the Company to eSun. This will substantially increase the equity capital base of the Company which will place it in a much stronger position to sustain its existing operations and borrow from commercial banks, when necessary, at competitive rates of interest and to expand its business through strategic acquisitions, which the Company believes will have a positive impact on the revenues, cash flows and profits of the Company.

For the principal terms of the Loan Capitalisation, please refer to the paragraph headed “4.1 Principal terms of the Loan Capitalisation” in this letter.

Furthermore, as set out under the paragraph headed “V. PROPOSED LOAN CAPITALISATION” in the “Letter from the Board” of the Circular, the loans from eSun are interest-bearing at a rate of 3-month HIBOR plus 2.8% per annum. For further details on the finance costs on the Group, please refer to the paragraph headed “2. Financial information of the Group” in this letter. As such, the proposed Loan Capitalisation will also achieve interest-saving for the Group going forward.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out under the paragraph headed “REASONS FOR THE RECAPITALISATION PROPOSAL” in the “Letter from the Board”, and the paragraph headed “3. Outlook of the Group” in this letter, the film and entertainment industry had been hit hard by the COVID-19 pandemic, which closed cinemas in Hong Kong and the PRC for extended periods of time, and significantly reduced number of audiences after reopening due to public health concerns. The pandemic also caused delay in development and release of films, drama and concert projects. The event management segment of the Group was also negatively affected as demonstrated by the decrease in number of shows from 109 for FY2019 to merely 39 for FY2020. As such, the revenue contributed by the segment also decreased from approximately HK\$298.8 million for FY2019 to approximately HK\$68.4 million for FY2020.

The market factors above contributed to the decrease of the Group’s revenue from approximately HK\$573.7 million for FY2019 to approximately HK\$364.8 million for FY2020, and the widening loss from approximately HK\$144.9 million for FY2019 to approximately HK\$187.3 million for FY2020.

Furthermore, as film and TV program production business of the Company is a cash intensive business which requires a substantial level of cash flow, notwithstanding the total cash and cash equivalent balance of the Group amounted to approximately HK\$317.7 million as at 31 July 2020, the Board considered that it was not in the interest of the Company to utilise internal cash resources to settle the outstanding shareholder’s loan.

We also noted that the equity base attributable to Shareholders of the Company had declined from approximately HK\$898.4 million as at 31 July 2015, to approximately HK\$40.2 million as at 31 July 2020, mainly due to the loss-making performance of the Group over the past five years. As such, with such a small equity capital base, we concur with the Management that the current funding structure for the Group’s continued operations using predominantly debt may not be sustainable. As discussed under the paragraph headed “3. Outlook of the Group” in this letter, the Management believes and we concur that while the COVID-19 pandemic creates a challenging market for media and entertainment, it also presents opportunities in new forms of online media and entertainment. Hence, a larger equity capital base is required for the Group to set its eyes on the emerging opportunities and business expansions.

It is noted that the eSun Shareholder’s Loans are repayable in October 2022 and June 2023 and there has not been any demand for early repayment from eSun as at the Latest Practicable Date. Nonetheless, considering the challenging operating environment brought about by the persisting COVID-19 pandemic, as well as the deteriorating financial performance of the Group, the Management believes, and we concur, that the necessity of the Loan Capitalisation comes both from the liquidity concern of the Group, and the importance to enlarge its equity capital base to put the Group in a better position to revitalise its operations.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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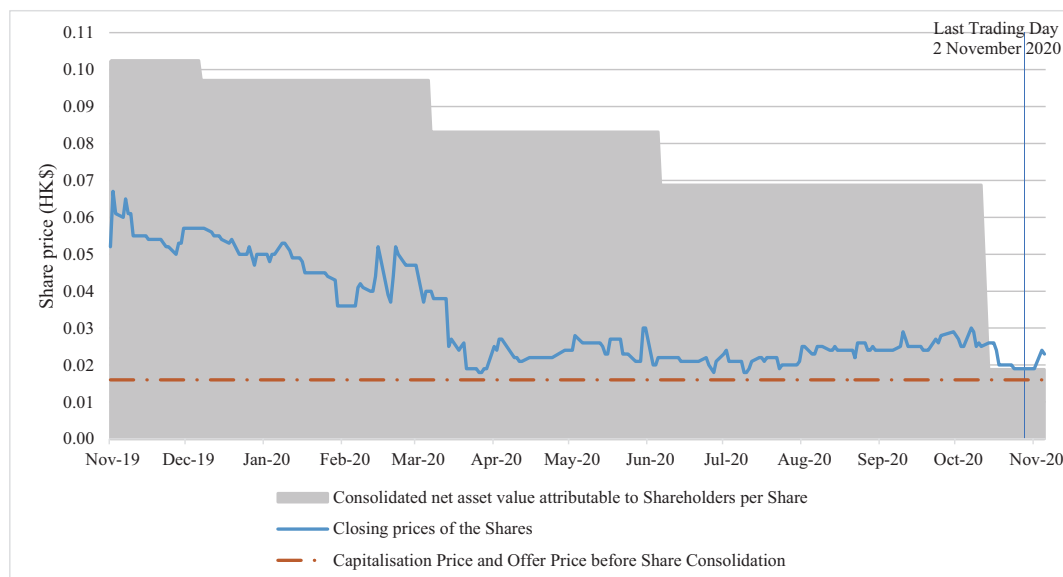
Additionally, we also consider that the Loan Capitalisation will help the Group to substantially reduce the finance costs from the eSun Shareholder's Loans, contributing to approximately HK\$1.5 million per month. As such, from the perspective of cost-saving of the Company, the Management believes, and we concur, that it is in the interests of the Company and its Shareholders as a whole to carry out the Loan Capitalisation at this point in time.

Considering the above, we are of the view that the reason for entering into the Loan Capitalisation as part of the Recapitalisation Proposal, from the perspective of the Group's future sustainability and growth, is fair and reasonable, and is in the interests of the Company and the Shareholders as a whole.

### 5.2 *Historical price of the Shares*

We set out below the graph of the closing prices of the Shares from 6 November 2019 (being 12 months before the Last Trading Day) up to the Latest Practicable Date (the "Review Period") as quoted on the Stock Exchange, the consolidated net asset value attributable to Shareholders per Share and the Capitalisation Price and Offer Price before Share consolidation.

#### Closing prices of the Shares during the Review Period



Source: the website of the Stock Exchange, Bloomberg

Notes:

1. For illustration and comparison purposes, the Capitalisation Price of HK\$0.16 was presented in the above graph on the basis that the proposed Share Consolidation will not happen. As such, the Capitalisation Price of HK\$0.16 is presented in the graph as HK\$0.016.
2. Consolidated net asset value attributable to Shareholders per Share was calculated based on the prevailing latest published net asset value divided by the number of Shares in issue as at each reporting date.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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During the Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.067 recorded on 7 November 2019 and HK\$0.018 recorded on 31 March 2020, 1 April 2020, 2 July 2020, 14 July 2020 and 15 July 2020, and reached its intraday lowest price of HK\$0.016 on 3 April 2020 and 2 July 2020.

The Shares were trading at around HK\$0.05 to HK\$0.06 during the beginning of the Review Period, and had declined to below HK\$0.05 since mid-January 2020 amidst the initial outbreak of COVID-19. The price of the Shares fluctuated during February and the first half of March 2020, but maintained largely within the range of HK\$0.04 to HK\$0.05. The price of the Shares further declined in mid-March 2020 after the announcement of the results of the Company for the six months ended 31 January 2020. During that time, Hong Kong also experienced a spike of COVID-19 cases and the Hong Kong government announced its first lockdown measures by the end of March 2020 including the close of borders and social distancing measures. Since then and up to the Last Trading Day, the Shares were traded largely within the range of HK\$0.02 to HK\$0.03.

As evident from the price of the Shares since the outbreak of COVID-19 in Hong Kong around March 2020, the prolonged impact on the economy by the pandemic, both global and local, has had a notable adverse impact on the media and entertainment industries as films, productions and events are delayed and cinemas are closed.

While the Capitalisation Price represents a discount of approximately 15.8% to the theoretical closing price of HK\$0.19 per Consolidated Share on the Last Trading Day, considering the historical trend of the price of the Shares, as well as the prolonged COVID-19 pandemic in Hong Kong and rest of the world which is expected to continue to affect the media and entertainment industry, and exert downward pressure on the price of the Shares, we are of the view that the Capitalisation Price, from the perspective of a historical Share price analysis, is fair and reasonable.

Notwithstanding that the Capitalisation Price represents a discount to the closing price of the Shares as at the Last Trading Day, it should be noted that the comparison to Share price should not be considered by itself when determining whether the Capitalisation Price is fair and reasonable. Share prices are driven by the market's perception of a company's profit generating ability and investment returns, including its dividend payments. The fact that the Company had been loss making and had not declared any dividend over the past five years are unfavourable to the performance of the Share price and the uncertainty surrounding its future prospects may continue to weigh on the Share price.

Hence, we had also performed an analysis on the consolidated net asset value of the Company in addition to the above share price analysis. We believe the additional analysis on the net asset value of the Company, together with the above share price analysis, shall provide a more comprehensive perspective on the Capitalisation Price.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 5.3 *The consolidated net asset value attributable to Shareholders per Share*

As illustrated in the graph on the closing prices of the Shares during the Review Period above, the Shares were consistently traded below the consolidated net asset value attributable to Shareholders per Share until the announcement of results of the Company for the year ended 31 July 2020 on 19 October 2020. The price of the Shares had since then declined to HK\$0.019, which is similar to the consolidated net asset value attributable to Shareholders per Share of approximately HK\$0.0188.

We refer to the table showing the discount of the average monthly price of the Shares to the net asset value of the Group under the paragraph headed “BASIS OF DETERMINATION OF THE CAPITALISATION PRICE” in the “Letter from the Board” of the Circular. We noted that the average discount of net asset value attributable to Shareholders per Share was approximately 42.4% between August 2019 and July 2020, which was larger than the current 15.1% discount based on the Capitalisation Price of HK\$0.16 per Consolidated Share.

The analysis on the discount of the average monthly price of the Shares to the net asset value of the Group illustrates that the market valuation of the Shares had consistently been at a discount to the net asset value of the Group, and in fact, at a larger discount to the net asset value of the Group as compared to the Capitalisation Price.

To further assess the fairness and reasonableness of the Capitalisation Price, we had also taken into consideration of the market valuation of comparable companies in the same industry. We had performed a price-to-book (the “**P/B Ratio**”) analysis, a commonly used benchmark for valuation of companies, by comparing the implied price-to-book ratio of the Company based on the Capitalisation Price and the price-to-book ratio of the comparable companies (the “**Comparables**”). Given the Group was loss-making during the latest financial year, price-to-earnings ratio is not applicable to our analysis.

We have conducted a search of Comparables based on the following criteria: (i) they are listed on GEM of the Stock Exchange as stated under Rule 2.20 of the GEM Listing Rules, GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached as compared to other companies listed on the Main Board, and the investment community may generally apply different valuation for companies listed on GEM compared to those listed on the Main Board due to the investors’ perception on the investment risk level, market volatility and liquidity; and (ii) their principal businesses include media and entertainment and film, TV program or other entertainment content investment, production, distribution or licensing (with over 50% of their total revenue are contributed by such businesses).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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$$\text{P/B Ratio} = \frac{\text{Price}}{\text{Net asset value per share}}$$

The P/B Ratio demonstrates the relationship between a company's market value and its book value. Different from a comparison of financial performance or financial position, where the absolute value of the net asset value makes a significant difference, a comparison of P/B Ratio concerns less on the absolute value of the net asset value. Furthermore, while the net asset values of Lajin Entertainment Network Group Limited and China Digital Culture (Group) Limited represent 12.1 and 6.7 times of the Group's net asset value, given the small absolute value of the Group's net asset value, we consider that both companies are still in the same category as the Group in terms of net asset size and are fair comparables. Based on the reasons above, and considering the list of Comparables are already exhaustive based on our existing criteria, we consider setting a criterion on net asset size is of little value to our analysis.

Despite the aforesaid criteria, the business, scale of operation, trading prospect, capital structure and mode of operations of the Group are not exactly the same as those of the Comparables, and we have not conducted any in-depth investigation into the business and operations of the Comparables.

Based on our search conducted through published information on the Stock Exchange's website, we have identified four Comparables that match the aforementioned selection criteria. We believe that the list of Comparables is exhaustive and sufficient for us to form a view on the fairness and reasonableness of the Capitalisation Price. Details of the Comparables are summarised below:

Company name	Stock code	Principal business	% of revenue contributed by media and entertainment segment <sup>1</sup>	Net asset value <sup>2</sup> (HK\$ million)	Market capitalisation <sup>3</sup> (HK\$ million)	P/B Ratio <sup>4</sup>
China Digital Culture (Group) Limited	8175	Principally engaged in the culture and entertainment related businesses in the PRC.	82.0%	311.1	123.0	0.40
Lajin Entertainment Network Group Limited	8172	Principally engaged in the media and entertainment businesses in the PRC.	100.0%	525.1	277.8	0.53
Creative China Holdings Limited	8368	Principally engaged in program production and event organisation businesses in the PRC.	93.9%	44.7	79.1	1.77

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Company name	Stock code	Principal business	% of revenue contributed by media and entertainment segment <sup>1</sup>	Net asset value <sup>2</sup> (HK\$ million)	Market capitalisation <sup>3</sup> (HK\$ million)	P/B Ratio <sup>4</sup>
China Creative Digital Entertainment Limited	8078	Principally engaged in the media and entertainment businesses in the PRC.	100.0%	(591.7)	13.0	N/A <sup>5</sup>
					<b>Maximum</b>	1.77
					<b>Minimum</b>	0.40
					<b>Mean</b>	0.90
					<b>Median</b>	0.53
<b>The Company</b>	<b>8075</b>	<b>Principally engaged in the media and entertainment businesses in Hong Kong and the PRC.</b>	<b>100%</b>	<b>40.2</b>	<b>34.2<sup>6</sup></b>	<b>0.85<sup>7</sup></b>

*Source: the website of the Stock Exchange*

*Notes:*

1. % of revenue contributed by media and entertainment segments as reported in the respective companies' latest annual reports.
2. Net asset value refers to the net asset value attributable to the owners of the company in the respective companies' latest annual reports.
3. Market capitalisation is calculated based on the closing share price and number of shares in issue as at the Last Trading Day sourced from the website of the Stock Exchange.
4. P/B Ratio is calculated based on the market capitalisation and net asset value attributable to the owners of the company as described in notes 2 and 3 above.
5. As China Creative Digital Entertainment Limited recorded a net liability as at 30 June 2020, P/B Ratio is not applicable. As such, it was not taken into consideration in the calculation of the mean and media of the P/B Ratios of the Comparables.
6. The implied market capitalisation of the Company is calculated by multiplying the Capitalisation Price with the number of Shares in issue as at the Last Trading Day.
7. The implied P/B Ratio of the Company of approximately 0.85 times is calculated based on the market capitalisation of the Company as described in note 6 above divided by the consolidated net asset value attributable to Shareholders as at 31 July 2020.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As illustrated in the table above, the P/B Ratios of the Comparables ranged from approximately 0.40 times to approximately 1.77 times, with the mean and median being approximately 0.90 times and 0.53 times, respectively. The implied P/B Ratio of the Company (the “**Implied P/B Ratio**”) based on the Capitalisation Price and the consolidated net asset value attributable to Shareholders as at 31 July 2020 was approximately 0.85 times. We noted that the Implied P/B Ratio falls within the range of the P/B Ratios of the Comparables and is comparable to the mean of the Comparables.

Considering the historical discount of the average monthly price of the Shares to the net asset value of the Group, as well as the P/B Ratios of the Comparables, we are of the view that the Capitalisation Price, from the perspective of a net asset value analysis, is fair and reasonable.

It is noteworthy to point out that the consolidated net asset value attributable to Shareholders per Share has been in a declining trend during the Review Period, dropping from approximately HK\$0.102 at the beginning of the Review Period in November 2019 to approximately HK\$0.0188 as at the Last Trading Day. This may be attributable to the challenging operating environment, in particular after the COVID-19 pandemic outbreak, and the declining performance of the Group. This further supports the reason for implementing the Recapitalisation Proposal to enlarge the Group’s equity capital base for future growth and expansion.

### 6. Analysis of the Open Offer

#### 6.1 *Background to and reason for the Open Offer*

As stated under the paragraph headed “REASONS FOR THE RECAPITALISATION PROPOSAL” in the “Letter from the Board”, under the Loan Capitalisation, Clawback Offer and the Placing, no new capital is being introduced into the Company. While the Loan Capitalisation will improve the financial position of the Group and equip the Company with the adequate equity capital base to sustain and expand its business, the Group still requires funds for its business operations and acquisitions.

In view of the funding requirements of the Group, the Board has considered various means of fund-raising, such as debt financing or bank borrowings, rights issue and placing of new Shares, before deciding on the Open Offer. Further analysis on the alternative financing methods are set out below under the paragraph headed “7. Alternative financing methods” of this letter.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out under the paragraph headed “USE OF PROCEEDS OF THE RECAPITALISATION PROPOSAL” in the “Letter from the Board”, the estimated net proceeds from the proposed Open Offer is approximately HK\$150.2 million. The Company intends to utilise the net proceeds from the Open Offer as follows:

- (i) approximately HK\$99.0 million (approximately 65.9% of the total net proceeds) for funding the film projects under development by the Company which is expected to be utilised in the next 12 months as follows; and

<b>Film projects under development</b>	<b>Estimated cash outflow up to December 2021</b> <i>HK\$ million</i>	<b>Target date of principal photography</b> <i>(Note)</i>	<b>Target release date</b> <i>(Note)</i>
Film project 1	40	Second quarter 2021	Third quarter 2022
Film project 2	30	Third quarter 2021	Fourth quarter 2022
Film project 3	29	Third quarter 2021	Fourth quarter 2022

*Note:*

The target dates for principal photography and release are tentative and subject to change on filming and production timetable, depending on factors including but not limited to the impact of the COVID-19 situation, if it is prolonged, on filming and production timetable.

- (ii) approximately HK\$51.2 million (approximately 34.1% of the total net proceeds) for funding new prospective activities and investment opportunities which includes to finance the further development of the VS Media Group should the Potential Acquisition proceed, within 12 months upon the completion of the Potential Acquisition as follows:
- a. approximately HK\$31.2 million for general working capital of the VS Media Group, including but not limited to the further development of and support to VS Media Group’s campaign and advertising businesses, and new growth potentials in e-commerce segment which could create synergy with the Company’s existing businesses; and
- b. approximately HK\$20.0 million for the repayment of liabilities of the VS Media Group.

The Management believes, and we concur, that the Potential Acquisition provides an opportunity for the Group to expand into the emerging online entertainment and add another synergistic segment to the Group’s media and entertainment business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In the event that the Potential Acquisition does not proceed, the amount of net proceeds from the Open Offer intended to be applied towards the further development of the VS Media Group totalling approximately HK\$51.2 million will instead be used for the following purposes:

- approximately HK\$25.3 million for investing in a film project (Film Project 4) in production by another film studio, subject to further negotiations between the Company and the film studio, the future impact of COVID-19 and the materialisation of the Potential Acquisition; and
- approximately HK\$25.9 million for funding a film project (Film Project 5) under preliminary development by the Company, the development of which is subject to the future impact of COVID-19 and the materialisation of the Potential Acquisition, with the target date of principal photography and target release date in fourth quarter 2021 and fourth quarter 2022, respectively.

We understood from the Management that given film and television programmes production business is a cash intensive business which require a substantial level of cash flow, a lower cash balance may deter the Company from even commencing production of films and television programmes. With the backdrop of a challenging market environment and a persisting COVID-19 pandemic which contributed to the continued deterioration of the Group's financial performance, the Management believes, and we concur, that a healthy level of cash is required to keep the production pipeline ongoing. Furthermore, given the cash burn rate of the Company at approximately HK\$13.0 million per month (which translates to approximately HK\$156 million a year, representing approximately 49.1% of the Group's cash balance of approximately HK\$317.7 million as at 31 July 2020), and the fact that the Group had been loss-making for the past five years, the Management believes, and we concur, that the cash balance of the Group may restrain the Group's expansion and development in the medium-to-long term. In assessing whether the allocation of the use of proceeds from the Open Offer is fair and reasonable, we have also reviewed the 2020 Annual Report, and noted that the sum of the administrative expense and finance cost for the year ended 31 July 2020 amounted to approximately HK\$156.2 million (approximately HK\$13.0 million a month). Further, we have also reviewed the Group's budget until the end of 2021, which is in line with the Group's budget for the film production to be funded by the proceeds from the Open Offer. As such, we are of the view that the Group's need of funds, from a perspective of business planning, is reasonable. Therefore, in view of the Group's financial position as well as the challenging market conditions, we are also of the view that from both the liquidity and business expansion points of view, the Group's need of funds is necessary.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out under the paragraph headed “XII. REASONS FOR THE RECAPITALISATION PROPOSAL” in the “Letter from the Board” of the Circular, the Group’s total current liabilities amounted to approximately HK\$499.0 million as at 31 July 2020, which mainly comprises of accruals and other payables and deposits received while the Group’s total current assets amounted to approximately HK\$817.9 million. Of the Group’s total current assets, approximately HK\$313.4 million related to films and television programmes under production and film investments may, in the opinion of the Management, not to be converted into cash in the short term due to (i) the strict crowd control and social distancing rules issued by the governments of various countries leading to closures of cinemas which caused delays in releasing the films; and (ii) the postponement of concerts and shows of the Group due to public health concerns. For illustration purpose excluding the above amount, the Group’s total current assets amounted to approximately HK\$504.5 million, which is barely able to cover the Group’s current liabilities. As such, the Management believes, and we concur, that despite the cash balance of approximately HK\$317.7 million as at 31 July 2020, the Group has funding needs considering its current assets and the market environment.

Additionally, as set out under the paragraph headed “VI. CLAWBACK OFFER BY eSUN” in the “Letter from the Board” of the Circular, the Directors have considered the potential dilution impact of the Loan Capitalisation on the shareholdings of the public Shareholders even if they fully subscribe for the Clawback Offer and the Open Offer as mentioned above, and balanced such considerations with the resources required by the Company to sustain the healthy growth of its businesses. We also considered that the Loan Capitalisation, and the Clawback Offer and the Placing to be carried out right after, as well as the fund-raising by way of the Open Offer are all part of the Recapitalisation Proposal that aims to put the Group back on a more desirable position to continue to sustain and expand its business. As such, we believe the Open Offer, which forms part of the Recapitalisation Proposal and is conditional upon the completion of the Loan Capitalisation, the Clawback Offer and the Placing, from the perspective of the Company’s future sustainability and growth, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. For details regarding the dilution impact, please refer to the paragraph headed “8. Potential dilution effect on the interests of the Shareholders” in this letter.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6.2 *The Offer Price*

The Offer Price of the Offer Shares is HK\$0.16 per Offer Share, which is the same as the price per Consolidated Share for the Loan Capitalisation, the Clawback Offer and the Placing, and represents:

- (i) a discount of approximately 15.8% to the theoretical closing price of HK\$0.19 per Consolidated Share (after taking into account the effect of the Share Consolidation) based on the closing price of HK\$0.019 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a theoretical dilution effect (as defined under Rule 10.44A of the GEM Listing Rules) represented by a discount of approximately 16.6% of the theoretical diluted price of approximately HK\$0.162 per Consolidated Share (after taking into account the effects of the Share Consolidation and Loan Capitalisation) to the benchmarked price of HK\$0.194 per Consolidated Share (after taking into account the effect of the Share Consolidation and Loan Capitalisation) (as defined under Rule 10.44A of the GEM Listing Rules, taking into account the higher of the closing price on the Last Trading Day of HK\$0.019 per Existing Share and the average closing prices of the Existing Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day); and
- (iii) a discount of approximately 15.1% to the theoretical audited consolidated net asset value per Share of approximately HK\$0.188 (after taking into account the effect of the Share Consolidation) based on the latest published consolidated net asset value of the Company attributable to the Shareholders of approximately HK\$40.2 million and 2,136,056,825 Existing Shares in issue on the Latest Practicable Date.

As stated under the paragraph headed “PROPOSED OPEN OFFER” in the “Letter from the Board”, as the Open Offer forms part of the Recapitalisation Proposal, the Offer Price is the same as the Capitalisation Price for the Loan Capitalisation. Therefore, the basis of determination of the Offer Price is fundamentally the same as the Capitalisation Price, which was arrived at by the Directors after arm’s length negotiations between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares, the financial market conditions, and the financial position of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the analysis on the Share price and net asset value attributable to Shareholders of the Company that we performed on the Capitalisation Price above, given the Offer Price is the same as the Capitalisation Price, we are of the view that from a valuation perspective, the Offer Price is also fair and reasonable.

Further to the above analysis, in order to provide a more comprehensive perspective when considering whether the Offer Price is fair and reasonable, we had also conducted a search of recent proposed open offers, but excluding the proposed open offers conducted during a reverse takeover exercise and open offers that are not extended to all shareholders, by the companies listed on the Stock Exchange announced within approximately 24 months prior to the Last Trading Day (the “**Open Offer Review Period**”) to assess the trend of the recent market practice. Based on our research, we identified a total of six open offer comparables (the “**Open Offer Comparables**”) during the Open Offer Review Period.

We noted that the business activities of the Open Offer Comparables may not be directly comparable to the business activities carried out by the Group. We also noted that the terms of the open offers announced by the Comparables may not be directly comparable to the terms of the Open Offer announced by the Group due to the differences in business activities and performances. Although the Comparables included open offers on different basis of entitlement, and involved issuers which engaged in different business or with different financial performance and funding needs from the Company, we consider that the Open Offer Comparables are suitable to serve as a general reference for the purpose of an assessment on the Offer Price, as our analysis is mainly concerned with the comparison of offer price to closing price, theoretical ex-rights price and net asset value, and maximum dilution on the shareholding. Furthermore, the selection of the Open Offer Comparables over the 24-month period represents an exhaustive and reasonable sample size to reflect a true and fair view of the recent market trends for open offers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Date of announcement	Stock code	Company name	Basis of entitlement	Discount of the offer price to the closing price on the last trading day	Theoretical dilution effect <sup>1</sup>	Discount of the offer price to the net asset value per share	Underwriting commission
24 August 2020	2363	Tongda Hong Tai Holdings Limited	1 for 1	13.3%	6.9%	79.4%	nil
27 July 2020	1145	Courage Investment Group Limited	1 for 1	32.6%	17.2%	78.8%	2.0%
27 March 2020	1049	Celestial Asia Securities Holdings Limited	2 for 1	32.6%	21.4%	75.0%	1.0%
28 November 2019	8158	China Regenerative Medicine International Limited	2 for 1	23.1%	15.4%	63.6%	0.8%
18 October 2019	70	Rich Goldman Holdings Limited	9 for 5	28.6%	19.4%	93.0%	nil
29 November 2018	1049	Celestial Asia Securities Holdings Limited	2 for 1	46.0%	22.7%	83.6%	nil
			<b>Mean</b>	29.4%	17.2%	78.9%	
			<b>Median</b>	30.6%	18.3%	79.1%	
			<b>Max</b>	46.0%	22.7%	93.0%	
			<b>Min</b>	13.3%	6.9%	63.6%	
	8075	The Company	1 for 3	15.8% <sup>2</sup>	16.6%	15.1% <sup>3</sup>	2.5%

*Source: the website of the Stock Exchange*

*Notes:*

- Theoretical dilution effect as defined under Rule 7.27B of the Listing Rules or Rule 10.44A of the GEM Listing Rules (as the case may be). Theoretical dilution effect is represented by a discount of the offer price to the theoretical diluted price.
- Calculation based on the theoretical closing price of HK\$0.19 per Consolidated Share (after taking into account the effect of the Share Consolidation).
- Calculation based on the theoretical audited consolidated net asset value of the Company attributable to Shareholders per Share prior to the completion of the Loan Capitalisation (after taking into account the effect of the Share Consolidation).
- The Open Offer is conditional upon the Underwriting Agreement becoming unconditional and not being terminated, which in turn is conditional upon completion of, amongst others, the Loan Capitalisation, the Clawback Offer and the Placing. None of the other Open Offer Comparables are conditional upon the completion of another transaction.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the table above, we noted that all the offer prices of the Open Offer Comparables represent a discount to their respective closing price on last trading days, and the discounts ranged from approximately 13.3% to 46.0% with a mean of approximately 29.4% and median of approximately 30.6%. The discount of the Offer Price on the closing price of the Shares on the Last Trading Day was approximately 15.8%, which was within range and lower than the mean and median of the Open Offer Comparables.

The theoretical dilution effect of the Open Offer Comparables ranged from approximately 6.9% to 22.7%, with a mean of approximately 17.2% and a median of approximately 18.3%. The theoretical dilution effect of the Open Offer is at approximately 16.6%, which is comparable to mean and median of the Open Offer Comparables.

The discount of offer prices of the Open Offer Comparables to their respective net asset value attributable to owners of the company per share ranged from approximately 63.6% to 93.0%, with a mean and median of approximately 78.9% and 79.1% respectively. The discount of the Offer Price to the consolidated net asset value of the Company attributable to Shareholders per Share is approximately 15.1%, which is lower than range of the Open Offer Comparables.

We are of the view that from the perspective of the Open Offer Comparables analysis, the Offer Price is fair and reasonable.

Shareholders should note the potential dilution impact on their shareholdings subsequent to the completion of the Loan Capitalisation and Open Offer. Both the Clawback Offer and Open Offer will offer the opportunity for public Shareholders to reduce the dilution impact. Public Shareholders who wish to mitigate the dilution impact should consider subscribing to the Clawback Offer Shares and the Open Offer (including its excess application). For details regarding the dilution impact, please refer to the paragraph headed “8. Potential dilution effect on the interests of the Shareholders” in this letter.

### **6.3 *The Underwriting Agreement***

As set out under the paragraph headed “UNDERWRITING ARRANGEMENT” in the “Letter from the Board”, the Underwriting Agreement (including the commission rate) was determined after arm’s length negotiations between the Company and the Underwriter with reference to the existing financial position of the Group, the size of the Open Offer, and the current and expected market conditions. Shareholders should note that the Open Offer is conditional upon the Underwriting Agreement becoming unconditional and not being terminated.

We noted that the range of the underwriting commission for the Open Offer Comparables ranged from 0.8% to 2.0%. Despite the underwriting commission of the Open Offer of 2.5% falls outside the aforesaid range, we had also considered the below factors:



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (i) the poor market sentiment as a result of the prolonged impact of the COVID-19 pandemic, and the ongoing economic uncertainty, which negatively affected the investors' confidence and sentiment; and
- (ii) the Open Offer may be less attractive in view of the recent financial performance of the Company, ongoing challenges in the media and entertainment industry, as well as the historical thin trading volume of the Shares.

On balance of the factors above, we consider that the underwriting commission is fair and reasonable.

### 7. Alternative financing methods

In assessing whether the Loan Capitalisation and the Open Offer are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, we had also taken into account whether the Board had considered alternative methods in order to (i) repay the eSun Shareholder's Loans; and (ii) raise funds to carry out its business operations and expansions.

#### 7.1 *Loan Capitalisation*

As stated under the paragraph headed "REASONS FOR THE RECAPITALISATION PROPOSAL" in the "Letter from the Board", the Company has considered alternative methods to repay the eSun Shareholder's Loans, including (i) a large scale placing of new Shares, open offer or rights issue; and (ii) obtaining new bank loans to raise sufficient new capital to repay the Loan Capitalisation Amount.

After taking into the consideration the below factors:

- (i) there may not be sufficient market demand to cover the Loan Capitalisation Amount by share placement or underwriting for open offer, or rights issue (and as such the Open Offer proposed could only raise approximately HK\$150 million);
- (ii) the net proceeds from the Open Offer are for the purpose as stated under the paragraph headed "XIII. USE OF PROCEEDS OF THE RECAPITALISATION PROPOSAL" in the "Letter from the Board" of the Circular;
- (iii) the deterioration of gearing position (870% as at 31 July 2020) and incurring of high interest expense of the Company if it obtains additional interest-bearing financing such as bank loans; and
- (iv) the improvement in gearing level of the Company would help it to obtain and negotiate competitive terms of new banking facilities in the future,

the Directors consider that the Loan Capitalisation is a more desirable solution for the Group to settle the eSun Shareholder's Loans.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In view of (i) the Company's limited equity base capital; (ii) the historical price and liquidity performance of the Shares; and (iii) potential finance costs of obtaining new bank loans; we concur with the Management's view that the Loan Capitalisation represents the best available option for the Company to settle the eSun Shareholder's Loans.

### 7.2 *Open Offer*

We set out below the fund-raising alternatives analysis carried out by the Company contained in the paragraph headed "REASONS FOR THE RECAPITALISATION PROPOSAL" in the "Letter from the Board":

<b>Fund-raising alternatives</b>	<b>Reason(s) for not adopting the fund-raising alternatives</b>
(i) Debt financing	The Company has enquired with several commercial banks and financial institutions regarding the possibility and feasibility of granting new credit lines to the Group. After discussions with such banks and financial institutions, the Company concluded it would be difficult to obtain additional debt financing on terms acceptable to the Company after taking into account the Group's (i) operating condition; (ii) financial position; and (iii) that other than the intangible assets and interests in joint ventures and an associate, the Group does not have any other significant assets to offer as collateral. While the Group also has approximately HK\$317.7 million cash and cash equivalents as at 31 July 2020, such cash would not be practical to set aside and serve as collateral for long-term funding needs. Further, the Board considered that debt financing is not desirable at this stage as the expected finance costs for such borrowings are high and additional borrowings will increase the Group's liabilities, which will result in the deterioration in the gearing position of the Group.
(ii) Placing of new Shares	The Board is of the view that in comparison to a placing of new Shares, the Open Offer is pre-emptive in nature, allowing Qualifying Shareholders to maintain their respective pro rata shareholding, through their participation in the Open Offer, in the Company's future potential growth and development without the burden of the eSun Shareholder's Loans.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(iii) Rights issue

The Board has considered a rights issue as an alternative option for fund-raising, taking into account of the flexibility of the Shareholders being able to sell their entitled nil-paid rights if they do not wish to take up the entitlements. However, conducting a rights issue would involve extra administrative work and incur extra cost as compared to conducting the Open Offer, especially in respect of the trading arrangements in relation to the nil-paid rights in a rights issue. The Company therefore would expend additional time and cost to implement the trading arrangements. Furthermore, considering the relatively low trading price of the Shares, it is not desirable to conduct rights issue as price of nil-paid right shares might be close to HK\$0.01. Even though an open offer does not allow the trading of rights entitlements, an open offer is preferred as it is more cost effective and efficient in this case.

For the above reasons, the Directors consider that fund-raising through the Open Offer is an appropriate fund-raising method and is in the interests of the Company and the Shareholders as a whole.

In view of the Company's financial position and performance and its lack of tangible assets for collateral apart from its own working capital, as well as the purpose of the Recapitalisation Proposal to reduce the Group's liability and improve its equity capital base, we believe that debt financing is not a desirable alternative method for fund-raising at this stage for the Company.

We had also considered that the Open Offer allow the Qualifying Shareholders to maintain their pro rata shareholding through their participation in the Open Offer, which allows the Qualifying Shareholders to continue to participate in the potential growth and development of the Company. We believe that the Open Offer is a more desirable fund-raising method as compared to a placing of new Shares, which does not offer a chance for the Qualifying Shareholders to maintain their shareholding position.

Considering the above, and the additional time and costs relating to a rights issue, we concur with the Management that the Open Offer is the most appropriate fund-raising method for the Company at this stage as part of the Recapitalisation Proposal.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 8. Potential dilution effect on the interests of the Shareholders

We refer the possible shareholding structures of the Company as at the Latest Practicable Date upon the completion of the Recapitalisation Proposal as set out under the paragraph headed “EFFECT ON SHAREHOLDING STRUCTURE” in the “Letter from the Board” of this Circular.

The public Shareholders are holding approximately 32.4% of the issued share capital of the Company as at the Latest Practicable Date. Subject to the acceptances of the Clawback Offer and Open Offer, after the completion of the Recapitalisation Proposal:

- (i) eSun will hold approximately 58.1% to 65.3% of the issued share capital of the Company;
- (ii) the Placees will hold approximately 24.2% to 32.3% of the issued share capital of the Company;
- (iii) the Underwriter, sub-underwriter(s) and/or subscriber(s) procured by then will hold up to approximately 10.5% of the issued share capital of the Company; and
- (iv) other public Shareholders will hold approximately 1.8% to 9.6% of the issued share capital of the Company.

To illustrate the maximum potential dilution of the public Shareholders, assuming no Clawback Qualifying Shareholders take up the Clawback Offer Shares, and no acceptance by the Open Offer Qualifying Shareholders other than eSun under the Open Offer, the shareholding of the public Shareholders will be diluted from approximately 32.4% as at the Latest Practicable Date to approximately 1.8% after the completion of the Recapitalisation Proposal. To illustrate the minimum potential dilution of the public Shareholders, assuming all Clawback Qualifying Shareholders take up the Clawback Offer Shares and full acceptance by the Open Offer Qualifying Shareholders under the Open Offer, the public Shareholders will hold approximately 9.6% of the issued share capital of the Company. We set out below a simple summary table to illustrate the dilution impact on the public Shareholders.

	<b>No Clawback Qualifying Shareholders take up the Clawback Offer Shares</b>	<b>All Clawback Qualifying Shareholders take up the Clawback Offer Shares</b>
No acceptance by the Open Offer Qualifying Shareholders under the Open Offer	1.8%	7.2%
Full acceptance by the Open Offer Qualifying Shareholders under the Open Offer	2.4%	9.6%

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We also observed that the potential dilution impact of the Open Offer (after the Loan Capitalisation) is relatively minimal. Assuming all Clawback Qualifying Shareholders take up the Clawback Offer Shares, and no acceptance by the Open Offer Qualifying Shareholders other than eSun under the Open Offer, the public Shareholders will only be diluted from approximately 9.6% to 7.2% of the issued share capital of the Company.

While the potential dilution impact of the above is mainly attributable to the Loan Capitalisation, we had also considered the below factors:

- (i) the Loan Capitalisation will enlarge the equity capital base of the Company to facilitate future sustainability and growth;
- (ii) no internal cash resources or working capital will be required to facilitate the Loan Capitalisation;
- (iii) the Loan Capitalisation will eliminate the entire eSun Shareholder's Loans and in turn reduce the gearing ratio to nil, and strengthen the financial position of the Group; and
- (iv) a Clawback Offer is in place for public Shareholders to increase their investment interest in the Company at the same price as the Capitalisation Price and the price under the Placing.

On balance of all the factors above, while the potential dilution impact on the public Shareholders after the completion of the Loan Capitalisation and the Open Offer is not desirable, taken into account the poor financial condition of the Group prior to the implementation of the Recapitalisation Proposal, we consider that the dilution impact is acceptable. Importantly, after the completion of the Recapitalisation Proposal, the public Shareholders will own interests albeit a smaller percentage, in a company which financial position and resources for future growth is substantially enhanced.

As set out in the Announcement, the Potential Acquisition of VS Media Group, which is part of the Management's plan to revitalise the business of the Company, will involve a consideration in the order of HK\$280 million, which will be settled in substantially in its entirety by the issuance of new Shares at the price of HK\$0.16 per Consolidated Share. Furthermore, a Potential Placing may also take place to raise gross proceeds of around HK\$100 million, at a price of HK\$0.16 per Consolidated Share. Shareholders should note that a further dilution in their shareholding percentage may occur should the Potential Acquisition and Potential Placing be completed in the future. As the Potential Acquisition and the Potential Placing have not, as of the Latest Practicable Date, been entered into, and do not form part of the Loan Capitalisation and the Open Offer, Shareholders should note that we cannot and have not taken into account the potential impact of said transactions in our analysis.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As stated under the paragraph headed “XII. REASONS FOR THE RECAPITALISATION PROPOSAL” in the “Letter from the Board” of the Circular, save for the Potential Transactions, as at the Latest Practicable Date, the Company has no plans to carry out further fund-raising activities or other corporate actions which may affect the trading in its Shares within 12 months from the date of the Circular. Nonetheless, we wish to remind the Shareholders that any transactions in the future that may result in the enlargement of the share capital of the Company may have a dilutive impact on the shareholding of the Shareholders, Shareholders may have to consider his/her/its own financial capacity whether to hold/buy/sell the Shares. If in doubt, Shareholders should consult their own professional advisers.

### **9. Financial effects of the Loan Capitalisation and Open Offer**

#### **9.1 *Effect on net asset value attributable to Shareholders***

According to the 2020 Annual Report, the consolidated net asset value attributable to Shareholders was approximately HK\$40.2 million as at 31 July 2020. Upon the completion of the Loan Capitalisation, the consolidated net asset value attributable to Shareholders will increase to approximately HK\$467.2 million. After the completion of the Open Offer, the consolidated net asset value attributable to Shareholders will increase to approximately HK\$617.9 million.

#### **9.2 *Effect on liquidity***

According to the 2020 Annual Report, the cash and cash equivalents of the Group as at 31 July 2020 was approximately HK\$317.7 million. Upon the completion of the Loan Capitalisation, the cash and cash equivalents of the Group will remain at the same level. Upon the completion of the Open Offer, the cash and cash equivalents of the Group will increase to approximately HK\$464.9 million by the expected net proceeds from the Open Offer of approximately HK\$150.2 million. The current ratio of the Group will also increase from approximately 1.6 times as at 31 July 2020 to approximately 1.9 times after the completion of the Loan Capitalisation and the Open Offer. As such, the liquidity of the Group will improve upon the completion of the Loan Capitalisation and the Open Offer.

#### **9.3 *Effect on gearing position***

According to the 2020 Annual Report, the gearing ratio of the Group (being the ratio of total borrowings to shareholders' equity attributable to the Shareholders) amounted to approximately 870%. Upon the completion of the Loan Capitalisation, the Group will have no borrowings.

As illustrated above, the short-term financial position of the Group will improve upon the completion of the Loan Capitalisation and the Open Offer. We concur with the Management that the Recapitalisation Proposal will put the Group in a stronger position for future business expansions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having considered the above principal factors and reasons as discussed in detail above, in particular the following:

- (i) the weak financial performance of the Company and the continuously challenging operating environment as a result of the prolonged COVID-19 pandemic;
- (ii) the need to enlarge the Group's equity capital base to facilitate business sustainability and growth;
- (iii) the continued depressed Share price and challenging industry outlook which may further affect the price of the Shares;
- (iv) the Capitalisation Price and Offer Price represent a discount of approximately 15.8% to the theoretical closing price of HK\$0.19 per Consolidated Share on the Last Trading Day;
- (v) the Shares were consistently traded below the consolidated net asset value attributable to Shareholder per Share, with an average discount of approximately 42.4%, which was larger than the 15.1% discount based on the Capitalisation Price and Offer Price;
- (vi) the Implied P/B Ratio falls within range of the P/B Ratios of the Comparables and is comparable to the mean of the Comparables;
- (vii) the Capitalisation Price is no more favourable to eSun, a connected person, compared to the share price under the Clawback Offer, Placing of Capitalisation Shares and the Offer Price, which are offered to independent third parties;
- (viii) the funding needs of the Company for its future sustainability and growth;
- (ix) the comparable discounts that the Offer Price represents to the closing price of the Shares and net asset value attributable to Shareholders per Share, as well as the comparable theoretical dilution effect of the Open Offer to the Open Offer Comparables;
- (x) the favourable discounts that the Offer Price represents to the closing price of the Shares and net asset value attributable to Shareholders per Share taking into consideration the impact from the Loan Capitalisation;
- (xi) dilution effect on the interests of the Shareholders; and
- (xii) financial impact of the Loan Capitalisation and Open Offer, which include the enhancement of the Company's equity capital base, liquidity and gearing;

we are of the view that the terms of the Loan Capitalisation Agreement and the Open Offer, despite not being an ordinary course of business of the Group, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to, and we recommend the Independent Shareholders to, vote in favour of the resolutions to be proposed at the SGM to approve the Loan Capitalisation and the Open Offer.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**

**Jeanny Leung**  
*Executive Director*

**Leo Tam**  
*Assistant Director*

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

*Mr. Leo Tam (“**Mr. Tam**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over five years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*



**1. FINANCIAL INFORMATION OF THE GROUP**

Financial information of the Group for each of financial years ended 31 July, 2018, 31 July, 2019 and 31 July, 2020 together with the relevant notes thereto are disclosed in the following documents which have been published on the website of the Stock Exchange ([www.hkgem.com](http://www.hkgem.com)) and the website of the Company ([www.mediaasia.com](http://www.mediaasia.com)):

- (i) annual report of the Company for the financial year ended 31 July, 2018 published on 30 October, 2018 (pages 46 to 116), which can be accessed via the link at

([www1.hkexnews.hk/listedco/listconews/gem/2018/1030/gln20181030059.pdf](http://www1.hkexnews.hk/listedco/listconews/gem/2018/1030/gln20181030059.pdf))

- (ii) annual report of the Company for the financial year ended 31 July, 2019 published on 30 October, 2019 (pages 49 to 132), which can be accessed via the link at

([www1.hkexnews.hk/listedco/listconews/gem/2019/1030/2019103000526.pdf](http://www1.hkexnews.hk/listedco/listconews/gem/2019/1030/2019103000526.pdf))

- (iii) annual report of the Company for the financial year ended 31 July, 2020 published on 29 October, 2020 (pages 58 to 140), which can be accessed via the link at

([www1.hkexnews.hk/listedco/listconews/gem/2020/1029/2020102900450.pdf](http://www1.hkexnews.hk/listedco/listconews/gem/2020/1029/2020102900450.pdf))

**2. WORKING CAPITAL**

The Directors, after due and careful enquiry, are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the Loan Capitalisation; (ii) the estimated net proceeds from the Open Offer; and (iii) the Group's presently available financial resources, including internally generated funds from operations, the Group has sufficient working capital for its present requirements and for at least 12 months from the date of this circular.

**3. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 October, 2020, being the latest practicable date for ascertaining certain information relating to this indebtedness statement, the carrying amount of the Group's outstanding consolidated total borrowings (after intra-group elimination) was approximately HK\$430 million, representing the eSun Shareholder's Loans.

As at 31 October, 2020, the Group, as a lessee, had lease liabilities for the remainder of the relevant lease terms amounting to approximately HK\$13 million in aggregate (excluding contingent rental arrangement).

Save as aforesaid and apart from intra-group liabilities, the Group did not, as at 31 October, 2020, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

There is no material change in the Group's outstanding indebtedness and contingent liabilities from 31 October, 2020 to the Latest Practicable Date.

#### **4. MATERIAL ADVERSE CHANGE**

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

#### **5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

The Company is the media and entertainment arm of the Lai Sun Group. The principal activity of the Company is investment holding and the principal activities of its subsidiaries include film production and distribution; organisation, management and production of concerts and live performances; artiste management; production and distribution of television programs; music production and publishing; licensing of media contents; provision of consultancy services in planning and management of cultural, entertainment and live performance projects.

As disclosed in the annual report for the year ended 31 July, 2020 of the Company, the outbreak of COVID-19 further weakens the entertainment consumption of the PRC and local markets. To rise to the challenge, the Company will focus on producing high quality projects with proven track record as well as commercial viability and tightening the cost control procedure.

**Film production and distribution, and television programs production and distribution**

The Group continues to invest in original production of quality films with Chinese themes. The Group's recent release "I'm Living It", a feature film produced by Cheang Pou Soi with Miriam Yeung and Aaron Kwok, has achieved satisfactory box office and earned good public praises amid this pandemic environment. The film has received 10 nominations in the 39th Hong Kong Film Awards and congratulations to Cheung Tat Ming who just won the Best Supporting Actor in the 39th Hong Kong Film Awards for his performance in this movie. The Group's current production pipeline include "The Calling of a Bus Driver", a romance comedy film with Ivana Wong and director Patrick Kong, and "Septet: the Story of Hong Kong", an omnibus film produced by seven Hong Kong film masters including Johnnie To, Tsui Hark, Ann Hui, Patrick Tam, Sammo Hung, Yuen Woo-Ping and the memorable Ringo Lam. A 52 episode romance drama series "New Horizon" starring Zheng Kai and Chen Chiao-en, is in the post-production stage. Projects under development include "Modern Dynasty", a 30 episode modern-day drama series tailor-made for Alibaba's Youku platforms. The Group is in discussion with various Chinese portals and video websites for new project development in television drama production.

**Music production and publishing**

The exclusive distribution licence of the Group's music products with Tencent Music Entertainment (Shenzhen) Co., Ltd and Warner Music continue to provide stable income contribution to the Group. The Group is actively looking for new talent in the PRC and further co-operation with Asian artistes with an aim to build up a strong artiste roster.

**Artiste management and events management**

Several concerts of the Group were postponed due to the health concerns. The Group will continue to work with prominent local and Asian artistes for concert promotion and upcoming events including concerts of Tsai Chin, Yoga Lin and Leon Lai are scheduled to be held in 2021 in the hope of recovery of the COVID-19 pandemic situation.

Looking forward, the Company believes that the Group's integrated media platform comprising movies, television programs, music, new media, artiste management and live entertainment puts the Group in a strong position to capture the opportunities of the PRC entertainment market by a balanced and synergistic approach, and the Group will continue to explore cooperation and investment opportunities to enrich its portfolio, broaden its income stream and maximise value for the Shareholders.

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## **APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

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For illustrative purposes only, set out below is the unaudited pro forma adjusted consolidated net tangible assets of the Group, as at 31 July, 2020, after completion of the Loan Capitalisation, the Share Consolidation and the Open Offer, as if the Loan Capitalisation, the Share Consolidation and the Open Offer had taken place on 31 July, 2020. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that it is inherently subject to adjustments and, because of its hypothetical nature, may not give a true picture of the financial position of the Group following the Loan Capitalisation, the Share Consolidation and the Open Offer.

### **1.      UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

#### **Introduction**

The unaudited pro forma statement of adjusted consolidated net tangible assets (the “**Unaudited Pro Forma Financial Information**”) of the Group has been prepared by the Directors in accordance with Rule 7.31 of the GEM Listing Rules to illustrate the effect of the proposed Loan Capitalisation, the Share Consolidation and the Open Offer on the consolidated net tangible assets of the Group as if the Loan Capitalisation, the Share Consolidation and the Open Offer had taken place on 31 July, 2020.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the consolidated net assets of the Group as at 31 July, 2020, as extracted from the published annual report of the Group for the year ended 31 July, 2020, after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Loan Capitalisation, the Share Consolidation and the Open Offer as at the date to which it is made up or at any future date.

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE GROUP**

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	Consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 July, 2020 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated decrease in liabilities from the Loan Capitalisation <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company after the completion of the Loan Capitalisation as at 31 July, 2020 <i>HK\$'000</i> <i>(Note 3)</i>	Estimated net proceeds from the Open Offer <i>HK\$'000</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company after the completion of the Loan Capitalisation and the Open Offer as at 31 July, 2020 <i>HK\$'000</i>
Unaudited consolidated net tangible assets/(liabilities)	(281,735)	427,000	145,265	150,226	295,491
Consolidated net tangible liabilities per Existing Share attributable to owners of the Company, prior to the completion of the Loan Capitalisation and the Open Offer <i>(Note 4)</i>	(HK\$0.13)				
Unaudited pro forma adjusted consolidated net tangible assets per Consolidated Share attributable to owners of the Company, after the completion of the Loan Capitalisation and the Share Consolidation <i>(Note 5)</i>			HK\$0.05		
Unaudited pro forma adjusted consolidated net tangible assets per Consolidated Share attributable to owners of the Company, after the completion of the Loan Capitalisation, the Share Consolidation and the Open Offer <i>(Note 6)</i>					HK\$0.08

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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Notes:

- (1) *The consolidated net tangible liabilities of the Group attributable to owners of the Company as at 31 July, 2020 is based on the consolidated net assets of the Group attributable to owners of the Company as at 31 July, 2020 of approximately HK\$40,237,000, with an adjustment for the intangible assets of approximately HK\$321,972,000, which included film and TV program products of HK\$25,268,000, and films and TV programs under production of HK\$296,704,000, as extracted from the published annual report of the Group for the year ended 31 July, 2020.*
- (2) *The estimated decrease in liabilities from the Loan Capitalisation is based on 2,687,500,000 Capitalisation Shares to be issued to eSun at the Capitalisation Price of HK\$0.16 per Consolidated Share in consideration of the cancellation by way of setting-off against the Loan Capitalisation Amount of HK\$430 million under the eSun Shareholder's Loans and estimated related expenses of approximately HK\$3 million to be incurred.*
- (3) *The estimated net proceeds from the Open Offer of approximately HK\$150.2 million are based on 967,035,227 Offer Shares to be issued (in proportion of 1 Offer Share of every 3 Consolidated Shares held which will be 2,901,105,682 Consolidated Shares as at the Open Offer Record Time) at the Offer Price of HK\$0.16 per Offer Share and after the deduction of estimated related expenses of approximately HK\$4.5 million.*
- (4) *The calculation of consolidated net tangible liabilities per Existing Share attributable to owners of the Company prior to the completion of the Loan Capitalisation and the Open Offer is based on 2,136,056,825 Shares in issue as at 31 July, 2020.*
- (5) *The calculation of unaudited pro forma adjusted consolidated net tangible assets per Consolidated Share attributable to owners of the Company after the completion of the Loan Capitalisation and the Share Consolidation is based on 2,901,105,682 Consolidated Shares which comprise of 213,605,682 Consolidated Shares in issue as if the Share Consolidation (on the basis that every 10 issued Existing Shares to be consolidated into 1 Consolidated Share) had taken place on 31 July, 2020, and 2,687,500,000 Capitalisation Shares to be issued.*
- (6) *The calculation of unaudited pro forma adjusted consolidated net tangible assets per Consolidated Share attributable to owners of the Company after the completion of the Loan Capitalisation, the Share Consolidation and the Open Offer is based on 3,868,140,909 Consolidated Shares which comprise of 213,605,682 Consolidated Shares in issue as if the Share Consolidation (on the basis that every 10 issued Existing Shares to be consolidated into 1 Consolidated Share) had taken place on 31 July, 2020, and 2,687,500,000 Capitalisation Shares and 967,035,227 Offer Shares to be issued.*
- (7) *No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 July, 2020.*

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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*The following is the text of a report, prepared for the sole purpose of inclusion in this circular from the independent reporting accountant, Ernst & Young, Certified Public Accountants.*

### 2.      **INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

#### **To the Directors of Media Asia Group Holdings Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Media Asia Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information (the “**Pro Forma Financial Information**”) consists of the unaudited pro forma consolidated net tangible assets as at 31 July 2020, and related notes as set out in Appendix II of the circular dated 30 November 2020 issued by the Company (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix II of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Share Consolidation, the Loan Capitalisation and the Open Offer as defined in the Circular on the Group’s net tangible assets as at 31 July 2020 as if the transaction had taken place at 31 July 2020. As part of this process, information about the Group’s net tangible liabilities has been extracted by the Directors from the Group’s consolidated financial statements for the year ended 31 July 2020, on which an annual report has been published.

#### **Directors’ responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the 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 (the “**GEM Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (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 fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains 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 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 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 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Share Consolidation, the Loan Capitalisation and the Open Offer on unadjusted financial information of the Group as if 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 transaction would have been as presented.



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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the 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 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 purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

30 November 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 Company. 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 share capital of the Company

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date; (b) immediately following the Share Consolidation and the Increase in Authorised Share Capital becoming effective but before the completion of the Loan Capitalisation and the Open Offer; and (c) upon the completion of the Loan Capitalisation and the Open Offer (assuming no new Shares being issued or repurchased by the Company on or before the Open Offer Record Time) is as follows:

#### (a) As at the Latest Practicable Date

*Authorised share capital:*

	<i>HK\$</i>
<u>60,000,000,000</u> Existing Shares of HK\$0.01 each	<u>600,000,000</u>

*Issued and fully paid:*

<u>2,136,056,825</u> Existing Shares of HK\$0.01 each	<u>21,360,568.25</u>
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#### (b) Immediately following the Share Consolidation and the Increase in Authorised Share Capital becoming effective but before the completion of the Loan Capitalisation and the Open Offer

*Authorised share capital:*

	<i>HK\$</i>
<u>10,000,000,000</u> Consolidated Shares of HK\$0.1 each	<u>1,000,000,000</u>

*Issued and fully paid:*

<u>213,605,682</u> Consolidated Shares of HK\$0.1 each	<u>21,360,568.2</u>
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*(c) Immediately upon completion of the Loan Capitalisation and the Open Offer**Authorised share capital:*

HK\$

<u>10,000,000,000</u>	Consolidated Shares of HK\$0.1 each	<u>1,000,000,000</u>
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*Issued and fully paid:*

213,605,682	Consolidated Shares of HK\$0.1 each	21,360,568.2
2,687,500,000	Capitalisation Shares to be allotted and issued under the Loan Capitalisation of HK\$0.1 each	268,750,000
967,035,227	Offer Shares to be allotted and issued under the Open Offer of HK\$0.1 each	96,703,522.7
<u>3,868,140,909</u>	Consolidated Shares in issue immediately upon the completion of the Loan Capitalisation and the Open Offer of HK\$0.1 each	<u>386,814,090.9</u>

All the issued Shares in the share capital of the Company rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Capitalisation Shares and Offer Shares to be issued will be listed on GEM.

The issued Shares are listed on GEM. None of the securities of the Company is listed or dealt in, and no listing or permission to deal in the securities of the Company is being or is proposed to be sought, on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are or will be waived or agreed to be waived.

### 3. DISCLOSURE OF INTERESTS

#### (i) Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), (i) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

#### (1) Interests in the Company

Name of Director	Long positions in the Existing Shares			Approximate percentage of the total issued Existing Shares (Note 1)
	Number of Existing Shares		Total	
	Corporate interests	Personal interests		
Lam Kin Ngok, Peter	1,443,156,837 (Note 2)	—	1,443,156,837	67.56%

#### (2) Interests in associated corporations

##### (a) LSG

Name of Directors	Long positions in the ordinary shares of LSG ("LSG Shares") and underlying LSG Shares				Approximate percentage of total issued LSG Shares (Note 3)
	Number of LSG Shares		Number of underlying LSG Shares	Total	
	Corporate interests	Personal interests	Personal interests		
Lam Kin Ngok, Peter	114,741,416 (Note 4)	48,802,906	333,333 (Note 5)	163,877,655	41.74%
Lui Siu Tsuen, Richard	—	185,600	—	185,600	0.05%

## (b) LSD

Name of Directors	Long positions in the ordinary shares of LSD (“LSD Shares”) and underlying LSD Shares				Approximate percentage of total issued LSD Shares (Note 6)
	Number of LSD Shares		Number of underlying LSD Shares	Total	
	Corporate interests	Personal interests	Personal interests		
Lam Kin Ngok, Peter	343,593,021 (Note 7)	433,737	417,308 (Note 8)	344,444,066	56.27%
Lui Siu Tsuen, Richard	—	—	104,000 (Note 9)	104,000	0.02%

## (c) eSun

Name of Director	Long positions in the ordinary shares of eSun (“eSun Shares”) and underlying eSun Shares				Approximate percentage of total issued eSun Shares (Note 10)
	Number of eSun Shares		Number of underlying eSun Shares	Total	
	Corporate interests	Personal interests	Personal interests		
Lam Kin Ngok, Peter	1,113,260,072 (Note 11)	2,794,443	—	1,116,054,515	74.81%

## (d) Lai Fung Holdings Limited (“Lai Fung”)

Name of Director	Long positions in the ordinary shares of Lai Fung (“Lai Fung Shares”) and underlying Lai Fung Shares				Approximate percentage of total issued Lai Fung Shares (Note 12)
	Number of Lai Fung Shares		Number of underlying Lai Fung Shares	Total	
	Corporate interests	Personal interests	Personal interests		
Lam Kin Ngok, Peter	180,618,266 (Note 13)	—	321,918 (Note 14)	180,940,184	54.66%

*Notes:*

1. *The total number of issued Existing Shares as at the Latest Practicable Date (that is, 2,136,056,825 Existing Shares) has been used for the calculation of the approximate percentage.*
2. *The Existing Shares were owned by Perfect Sky Holdings Limited (“Perfect Sky”), a wholly-owned subsidiary of eSun. As at the Latest Practicable Date, eSun was indirectly owned as to approximately 74.62% by LSD. LSD was approximately 56.13% directly and indirectly owned by LSG. LSG was approximately 12.43% (excluding share option) owned by Dr. Peter Lam and approximately 29.23% owned by Wisdoman Limited (“Wisdoman”) which was in turn 100% beneficially owned by Dr. Peter Lam. Therefore, Dr. Peter Lam was deemed to be interested in the Existing Shares owned indirectly by eSun as shown in the section headed “Disclosure of Interests — (ii) Substantial Shareholders” below pursuant to Part XV of the SFO.*
3. *The total number of issued LSG Shares as at the Latest Practicable Date (that is, 392,610,623 LSG Shares) has been used for the calculation of the approximate percentage.*
4. *By virtue of his interests in Wisdoman as described in Note 2 above, Dr. Peter Lam was deemed to be interested in such LSG Shares owned directly by Wisdoman.*
5. *On 19 June, 2017, Dr. Peter Lam was granted a share option by LSG to subscribe (after the adjustment for the share consolidation effective on 15 August, 2017 of LSG) for 333,333 LSG Shares at the exercise price of HK\$15 per LSG Share with the exercise period from 19 June, 2017 to 18 June, 2027.*
6. *The total number of issued LSD Shares as at the Latest Practicable Date (that is, 612,089,025 LSD Shares) has been used for the calculation of the approximate percentage.*
7. *By virtue of his deemed controlling shareholding interests in LSG as described in Note 2 above, Dr. Peter Lam was deemed to be interested in such LSD Shares owned directly and indirectly by LSG.*
8. *On 18 January, 2013, Dr. Peter Lam was granted a share option by LSD to subscribe (after the adjustments for the rights issue effective on 17 February, 2016 and share consolidation effective on 15 August, 2017 of LSD) for 417,308 LSD Shares at the exercise price of HK\$16.1 per LSD Share with the exercise period from 18 January 2013 to 17 January, 2023.*
9. *On 18 January, 2013, Mr. Lui was granted a share option by LSD to subscribe (after the adjustments for the rights issue effective on 17 February, 2016 and share consolidation effective on 15 August, 2017 of LSD) for 104,000 LSD Shares at the exercise price of HK\$16.1 per LSD Share with the exercise period from 18 January, 2013 to 17 January, 2023.*
10. *The total number of issued eSun Shares as at the Latest Practicable Date (that is, 1,491,854,598 eSun Shares) has been used for the calculation of the approximate percentage.*
11. *By virtue of his deemed controlling shareholding interests in LSD as described in Note 2 above, Dr. Peter Lam was deemed to be interested in such eSun Shares owned indirectly by LSD.*

12. *The total number of issued Lai Fung Shares as at the Latest Practicable Date (that is, 331,033,443 Lai Fung Shares) has been used for the calculation of the approximate percentage.*
13. *By virtue of his deemed controlling shareholding interests in LSD as described in Note 2 above, Dr. Peter Lam was deemed to be interested in 17,510 Lai Fung Shares held by Transtrend Holdings Limited and 180,600,756 Lai Fung Shares owned by Holy Unicorn Limited, respectively, both being wholly-owned subsidiaries of LSD.*
14. *On 18 January, 2013, Dr. Peter Lam was granted a share option by Lai Fung to subscribe (after the adjustment for the share consolidation effective on 15 August, 2017 of Lai Fung) for 321,918 Lai Fung Shares at the exercise price of HK\$11.4 per Lai Fung Share with the exercise period from 18 January, 2013 to 17 January, 2023.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had, or was deemed to have, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) 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 he was taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

**(ii) Substantial Shareholders**

So far as is known to the Directors, as at the Latest Practicable Date, the interests and short positions of the persons, other than the Directors and chief executive of the Company, in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of the Group, or any other substantial Shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO, were as follows:

## Long position in the Shares

Name of Shareholders	Capacity in which interests are held	Number of Shares	Approximate percentage of total issued Shares
LSG	Interest of controlled corporations	1,443,156,837 <i>(Note 2)</i>	67.56% <i>(Note 1)</i>
LSD	Interest of controlled corporations	1,443,156,837 <i>(Note 2)</i>	67.56% <i>(Note 1)</i>
eSun	Interest of controlled corporation	1,443,156,837 <i>(Note 2)</i>	67.56% <i>(Note 1)</i>
Hung Hon Man	Interest of controlled corporation	404,886,665	10.46% <i>(Note 3)</i>
Honeylink Agents Limited	Interest of controlled corporation	404,886,665	10.46% <i>(Note 3)</i>
Get Nice Holdings Limited	Interest of controlled corporation	404,886,665	10.46% <i>(Note 3)</i>
Get Nice Financial Group Limited	Interest of controlled corporation	404,886,665	10.46% <i>(Note 3)</i>
Get Nice Incorporated	Interest of controlled corporation	404,886,665	10.46% <i>(Note 3)</i>
Get Nice Securities Limited	Underwriter	404,886,665	10.46% <i>(Note 3)</i>

## Notes:

1. The total number of issued Shares as at the Latest Practicable Date (that is, 2,136,056,825 Existing Shares) has been used for the calculation of the approximate percentage.
2. LSG, LSD and eSun were deemed to be interested in the same 1,443,156,837 Existing Shares held by Perfect Sky. Please refer to Note 2 as shown in the section headed "Disclosure of Interests — (i) Directors and chief executives" above for further details.
3. Based on the disclosure of interests notices received by the Company, Hung Hon Man, Honeylink Agents Limited, Get Nice Holdings Limited, Get Nice Financial Group Limited and Get Nice Incorporated were deemed to be interested in the 404,886,665 Consolidated Shares (representing approximately 10.46% of the issued Shares as enlarged by the issue of the Capitalisation Shares and the Offer Shares) held by the Underwriter in respect of the Open Offer.



Save as disclosed above, as at the Latest Practicable Date, none of the Directors was aware of any person (other than the Directors or chief executive of the Company) had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of the Group, or any other substantial Shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### 4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group, which is not determinable by the relevant employing member of the Group within one year without payment of compensation (other than statutory compensation).

#### 5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, eSun and four executive Directors, namely, Dr. Peter Lam as well as Messrs. Chan Chi Kwong, Lui Siu Tsuen, Richard and Yip Chai Tuck (collectively, the "**Interested Directors**") are considered to have interests in businesses which compete or may compete with the businesses of the Group pursuant to the GEM Listing Rules.

The Interested Directors held shareholding interests and, or other interests and, or directorships in companies, or entities in the eSun Group which engage in the businesses including the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programs, films and video format products and cinema operation.

However, the Board is independent from the boards of directors, or governing committees of the aforesaid companies, or entities and none of the Interested Directors can personally control the Board. Further, each of the Interested Directors is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies, or entities.

Save as disclosed above, none of the Directors, the controlling Shareholder and their respective close associates competes or may compete with the businesses of the Group and has or may have any other conflict of interest with the Group.

## 6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) eSun 1st Shareholder's Loan;
- (b) a loan agreement dated 6 May, 2020 (as amended) entered into between the Company (as borrower) and Hibright (as lender) in respect of a term loan facility in the amount of HK\$200,000,000 provided by Hibright to the Company, and the prepayment notice of the Company dated 11 June, 2020 in respect thereof;
- (c) eSun 2nd Shareholder's Loan;
- (d) eSun 3rd Shareholder's Loan;
- (e) the Loan Capitalisation Agreement;
- (f) the Underwriting Agreement; and
- (g) the Placing Agreement.

## 7. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation, arbitration or claim of material importance which is known to the Directors to be pending or threatened against any member of the Group.

## 8. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given their opinions, letters or advices contained in this circular:

<b>Names</b>	<b>Qualifications</b>
Ernst & Young	Certified Public Accountants
Altus Capital Limited	a licensed corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

Each of the Independent Financial Adviser and Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the Independent Financial Adviser and Ernst & Young had any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Independent Financial Adviser and Ernst & Young had any direct or indirect interest in any assets which have been, since 31 July, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), 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.

## 9. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had: (a) any direct or indirect interests in any assets which have been, since 31 July, 2020 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (b) any subsisting material interest in any contract or arrangement which is significant in relation to the business of the Group.

## 10. PARTICULARS OF DIRECTORS

### Executive Directors

**Dr. Lam Kin Ngok, Peter**, *GBS*, aged 63, was appointed the chairman of the Board and an executive director of the Company with effect from 16 June, 2011. He is also the deputy chairman and an executive director of LSG, the chairman and an executive director of LSD and an executive director of Crocodile Garments Limited, the shares of which are listed and traded on the Main Board. Dr. Peter Lam was an executive director of eSun from 15 October, 1996 to 13 February, 2014 and the chairman and executive director of Lai Fung from 25 November, 1993 to 31 October, 2012. He has extensive experience in the property development and investment, hospitality as well as media and entertainment businesses. Dr. Peter Lam holds an Honorary Doctorate from The Hong Kong Academy for Performing Arts and received the Gold Bauhinia Star awarded from the Government of the Hong Kong Special Administrative Region on 1 July, 2015.

Currently, Dr. Peter Lam is the chairman of the Hong Kong Trade Development Council. He is also a standing committee member of the 13th National Committee of the Chinese People's Political Consultative Conference. In addition, Dr. Peter Lam is the chairman of Hong Kong Chamber of Films Limited, a life honorable president of Hong Kong Motion Picture Industry Association Limited, a director of The Real Estate Developers Association of Hong Kong, a trustee of The Better Hong Kong Foundation, a vice chairman of Friends of Hong Kong Association Limited, a director of Hong Kong-Vietnam Chamber of Commerce Limited, an honorary chairman of Federation of HK Jiangsu Community Organisations, the president of Hong Kong Association of Cultural Industries Limited, the chairman of Hong Kong Cultural Development Research Institute Limited, a non-official member of the Trade and Industry Advisory Board and a member of the board of West Kowloon Cultural District Foundation Limited (a wholly-owned subsidiary of West Kowloon Cultural District Authority).

**Mr. Chan Chi Kwong** (“**Mr. Chan**”), aged 60, was appointed an executive director of the Company with effect from 16 June, 2011 and is in charge of media and entertainment operations of the Group. Mr. Chan is a member of the executive committee of the Company. He was elected to become the chairman of International Federation of the Phonographic Industry (Hong Kong Group) Limited since 31 October, 2016. Mr. Chan graduated from the University of Warwick in England with a Bachelor of Science Degree in Management Sciences. He has over 29 years of experience in various media and entertainment fields in the PRC and Hong Kong. Prior to joining the Company, Mr. Chan was the managing director of Warner Music Hong Kong Limited and had served as senior executive of companies like EMI Hong Kong Limited and SCMP.com Limited.

**Mr. Lui Siu Tsuen, Richard** (“**Mr. Lui**”), aged 65, was appointed an executive director of the Company with effect from 16 June, 2011. He is also a member of each of the executive committee, the nomination committee and the remuneration committee of the Company. Mr. Lui is currently an executive director and the chief executive officer of eSun and was an executive director of LSG, LSD and Lai Fung respectively from 1 January, 2011 to 31 October, 2012. In addition, Mr. Lui has been appointed the convenor of Multi-media and Culture Committee of The Chinese Manufacturers' Association of Hong Kong for a term of three years up to 31 December, 2020.

Mr. Lui is currently an independent non-executive director of Prosperity Investment Holdings Limited (the issued shares of which are listed and traded on the Main Board). Prior to joining the Company, Mr. Lui had held senior executive positions in a few Hong Kong and overseas listed companies.

Mr. Lui has over 34 years of experience in property investment, corporate finance and media and entertainment businesses. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Chartered Institute of Management Accountants, United Kingdom. He holds a Master of Business Administration Degree from The University of Adelaide in Australia.

**Mr. Yip Chai Tuck** (“**Mr. Yip**”), aged 46, was appointed an executive director of the Company on 21 July, 2014. He is a member of each of the executive committee, the nomination committee and the remuneration committee of the Company. He is also the chief executive officer of LSG and an executive director of eSun. He has extensive experience in corporate advisory, business development and investment banking. Prior to joining the Company, Mr. Yip was a managing director and head of mergers and acquisitions for the PRC of Goldman Sachs. He had also worked for PCCW Limited, a Hong Kong listed company, as vice president of ventures and mergers and acquisitions, responsible for strategic investments and mergers and acquisitions transactions.

Mr. Yip graduated from Macquarie University, Australia with a Bachelor of Economics and obtained a Master Degree in Applied Finance and Investments from the Financial Services Institute of Australia, of which he is also a fellow member.

#### **Independent Non-executive Directors**

**Mr. Au Hoi Fung** (“**Mr. Au**”), aged 65, was appointed an independent non-executive Director of the Company on 9 July, 2020. He is a member of each of the audit committee, the nomination committee and the remuneration committee of the Company. He graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a Higher Diploma in Accountancy. He is an associate of the Chartered Institute of Management Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Au has more than 40 years of accounting and financial management work experience gained in various corporations in Hong Kong. Currently, he is the vice president (Finance and Administration) and a director of F.O.B. Garments Limited, a sizeable garment trading entity in Hong Kong which he has joined since January, 1994.

**Mr. Ng Chi Ho, Dennis** (“**Mr. Ng**”), aged 62, was appointed an independent non-executive director of the Company with effect from 3 October, 2011. He is currently the chairman of both the audit committee and the remuneration committee, and a member of the nomination committee of the Company. Mr. Ng holds a Bachelor of Commerce Degree from The University of New South Wales, Australia and is a chartered accountant of The Chartered Accountants Australia and New Zealand and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a practising certified public accountant and has extensive experience in auditing, accounting, financial management and corporate affairs.

Mr. Ng is currently an independent non-executive director of China City Infrastructure Group Limited, Kirin Group Holdings Limited and L&A International Holdings Limited and the company secretary of MEIGU Technology Holding Group Limited. He was a non-executive director of My Heart Bodibra Group Limited (from December, 2018 to April, 2019). The issued shares of all the aforesaid companies are listed and traded on the Main Board/GEM of the Stock Exchange.

**Mr. Poon Kwok Hing, Albert** (“**Mr. Poon**”), aged 59, was appointed an independent non-executive director of the Company on 24 April, 2020. He is the chairman of the nomination committee and a member of both the audit committee and the remuneration committee of the Company. He graduated from the University of Bath, United Kingdom with a Master of Science degree in Business Administration. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. Mr. Poon is currently an independent non-executive director of Greater Bay Area Dynamic Growth Holding Limited, Master Glory Group Limited (in liquidation) and Shaw Brothers Holdings Limited. The issued shares of all the aforesaid companies are listed and traded on the Main Board of the Stock Exchange.

## 11. GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company in Hong Kong is located at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.
- (b) The Share Registrar is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Ms. Wong Lai Chun, who is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.
- (d) If there is any inconsistency between this circular and the Chinese translation of this circular, the English text of this circular shall prevail over the Chinese text.

**12. CORPORATE INFORMATION AND THE PARTIES INVOLVED IN THE OPEN OFFER**

<b>Registered office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business</b>	11th Floor Lai Sun Commercial Centre 680 Cheung Sha Wan Road Kowloon, Hong Kong
<b>Authorised representatives</b>	Lui Siu Tsuen, Richard Wong Lai Chun
<b>Company secretary</b>	Wong Lai Chun
<b>Reporting accountant</b>	Ernst & Young, <i>Certified Public Accountants</i>
<b>Principal bankers</b>	DBS Bank (Hong Kong) Limited  Hang Seng Bank Limited  The Hongkong and Shanghai Banking Corporation Limited
<b>Principal share registrar in Bermuda</b>	Conyers Corporate Services (Bermuda) Limited
<b>Branch Share Registrar and Transfer Office in Hong Kong</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
<b>Financial Adviser to the Company</b>	Anglo Chinese Corporate Finance, Limited
<b>Legal adviser to the Company as to Hong Kong law</b>	Reed Smith Richards Butler
<b>Underwriter</b>	Get Nice Securities Limited
<b>Independent Financial Adviser to the Independent Board Committee</b>	Altus Capital Limited

**13. EXPENSES**

The expenses in connection with the Loan Capitalisation and the Open Offer, including the financial adviser fees, printing, registration, translation, legal and accounting fees are estimated to be not less than approximately HK\$7.5 million and are payable by the Company.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours (i.e. from 9:30 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:30 p.m.) on any weekday (excluding any Saturdays, Sundays and public holidays) unless (i) a tropical cyclone warning signal no. 8 or above is hoisted; or (ii) a black rainstorm warning signal is issued, at the principal place of business of the Company in Hong Kong at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong, from the date of this circular and up to and including the date of the SGM:

- (a) the memorandum of continuance and bye-laws of the Company;
- (b) the annual reports of the Company for the three years ended 31 July, 2018, 31 July, 2019 and 31 July, 2020;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 71 and 72 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 73 to 108 of this circular;
- (e) the reporting accountant's report on the unaudited pro forma financial information of the Group issued by Ernst & Young set out in Appendix II of this circular;
- (f) the material contracts referred to in the section headed "6. Material Contracts" of this Appendix III;
- (g) the written consents referred to in the section headed "8. Qualification and Consent of Experts" of this Appendix III; and
- (h) this circular.



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## NOTICE OF SGM

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### Media Asia Group Holdings Limited

*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

**(Stock Code: 8075)**

#### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (the “**SGM**”) of the members (the “**Members**”) of Media Asia Group Holdings Limited (the “**Company**”) will be held at Grand Ballroom 5, Level B, Hong Kong Ocean Park Marriott Hotel, 180 Wong Chuk Hang Road, Aberdeen, Hong Kong on Friday, 18 December, 2020 at 8:45 a.m. for the purpose of considering and, if thought fit, pass the following resolutions each as an ordinary resolution of the Company. The capitalised terms defined in the circular of the Company dated 30 November, 2020 (the “**Circular**”) of which this notice forms part shall have the same meanings when used herein unless otherwise specified:

#### ORDINARY RESOLUTIONS

1. “**THAT**, subject to and conditional upon the granting of approval by the GEM Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the listing of, and permission to deal in, the issued and unissued shares of the Company consolidated in the manner as set out in paragraph (a) of this resolution below (the “**Share Consolidation**”):
  - (a) with effect from the second business day immediately following the day on which this resolution is passed:
    - (i) every ten (10) issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company be consolidated into one (1) consolidated ordinary share of HK\$0.10 (each a “**Consolidated Share**”), and such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions as contained in the memorandum of continuance and bye-laws of the Company;
    - (ii) all fractional Consolidated Shares will be disregarded and not be issued to the shareholders of the Company (the “**Shareholders**”) but all such fractional Consolidated Shares will be aggregated and, if possible, sold for the benefit of the Company on such terms and in such manner as the directors of the Company (the “**Directors**”) think fit; and

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## NOTICE OF SGM

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- (b) any one or more Directors be and are hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company, including under seal where applicable, as the Directors consider necessary, desirable or expedient to give effect to the foregoing arrangement for the Share Consolidation.”
2. “**THAT**, subject to the passing of the resolution numbered 1 above and conditional upon the Share Consolidation becoming effective:
- (a) the authorised share capital of the Company be increased from HK\$600,000,000 divided into 6,000,000,000 Consolidated Shares to HK\$1,000,000,000 divided into 10,000,000,000 Consolidated Shares by the creation of an additional 4,000,000,000 Consolidated Shares (the “**Increase in Authorised Share Capital**”); and
- (b) any one or more Directors be and are hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company, including under seal where applicable, as the Directors consider necessary, desirable or expedient to implement and, or to give effect to or otherwise in connection with the Increase in Authorised Share Capital.”
3. “**THAT**
- (a) the loan capitalisation agreement dated 6 November, 2020 (the “**Loan Capitalisation Agreement**”) (a copy of which has been produced to the meeting marked “A” and initialed by the chairman of the meeting for identification purpose) entered into between the Company and eSun Holdings Limited (“**eSun**”) in relation to the subscription by eSun of 2,687,500,000 new Consolidated Shares (the “**Capitalisation Shares**”) at a price of HK\$0.16 per Capitalisation Share which will be settled by setting-off against a sum of HK\$430,000,000 owing by the Company to eSun, and the transactions contemplated thereunder (including the allotment and issue of a portion of the Capitalisation Shares to qualifying Shareholders under a clawback offer to be carried out by eSun and the allotment and issue of a further portion of the Capitalisation Shares to independent places pursuant to a placing agreement dated 6 November, 2020 entered into between the Company, eSun and Get Nice Securities Limited as the placing agent, the details of which are contained in the circular of the Company dated 30 November, 2020 (the “**Circular**”) and the announcement of the Company dated 6 November, 2020) be and are hereby approved, confirmed and ratified;
- (b) the grant of a specific mandate to the Directors for the allotment and issue of the Capitalisation Shares be and are hereby approved; and
- (c) any one or more Directors be and are hereby authorised to allot and issue the Capitalisation Shares and to do all such acts and things and execute all such documents for and on behalf of the Company, including under seal where applicable, as the Directors consider necessary, desirable or expedient to implement and, or to give effect to or otherwise in connection with the Loan Capitalisation Agreement, the allotment and issue of the Capitalisation Shares or any of the transactions contemplated under or incidental to the Loan Capitalisation Agreement.”

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## NOTICE OF SGM

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4. “**THAT**

- (a) subject to the passing of the ordinary resolutions numbered 1 and 2 above, the Open Offer (as defined below) and the transactions contemplated thereunder be and are hereby approved;
- (b) the allotment and issue of 967,035,227 new Consolidated Shares (assuming no further change in the issued share capital of the Company up to the Record Time (as defined below), other than the Share Consolidation becoming effective and the issue of the Capitalisation Shares) (each an “**Offer Share**”) to the Shareholders (the “**Qualifying Shareholders**”) whose names appear on the register of members of the Company as at 4:30 p.m. on 21 January, 2021 (or such other time and date as the Company may agree with the Underwriter (as defined below)) (the “**Record Time**”), save for the Shareholders whose addresses as at the Record Time are outside of Hong Kong (if any) to whom the Directors, based on the enquiries made by the Directors, consider it necessary or expedient not to offer the Offer Shares on account either of the legal restrictions under the laws of the relevant place(s) of their registered address(es) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in such place(s) (the “**Non-Qualifying Shareholders**”), on the basis of one (1) Offer Share for every three (3) Consolidated Shares held at the Record Time at the subscription price of HK\$0.16 per Offer Share and otherwise on terms and conditions set out in the Circular (the “**Open Offer**”), be and is hereby approved;
- (c) the underwriting agreement dated 6 November, 2020 (the “**Underwriting Agreement**”) entered into between the Company and Get Nice Securities Limited (as underwriter) (the “**Underwriter**”) (a copy of which has been produced to the meeting marked “B” and initialed by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (d) the board of Directors or a committee thereof be and is hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer and to make such arrangements for application by the Qualifying Shareholders for the Offer Shares in excess of their entitlement under the Open Offer and, in particular, the Directors may make such exclusions or other arrangements in relation to any Non-Qualifying Shareholders, and to do all such acts and things or make such arrangements as it considers necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (e) any one or more Directors be and are hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company, including under seal where applicable, as the Directors consider necessary, desirable or expedient to implement and, or to give effect to or otherwise in connection with the Open Offer and the Underwriting Agreement or any of the transactions contemplated thereunder.”

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## NOTICE OF SGM

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5. “**THAT**, subject to all the other resolutions set out in this notice being passed and conditional upon the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Fee Shares (as defined below):
- (a) the Directors be and are hereby granted a specific mandate (the “**Fee Shares Specific Mandate**”) to allot and issue up to 2,500,000 new Consolidated Shares (the “**Fee Shares**”) credited as fully paid at the issue price of HK\$0.16 per Consolidated Share to Anglo Chinese Corporate Finance, Limited (the “**Financial Adviser**”) pursuant to the engagement letter entered into between the Company and the Financial Adviser dated 24 September, 2020, provided that the Fee Shares Specific Mandate shall be in addition to and shall not prejudice the existing general mandate of the Company; and
  - (b) any one or more Directors be and are hereby authorised to do all such acts and things and execute all such documents for and on behalf of the Company, including under seal where applicable, as the Directors consider necessary, desirable or expedient to implement and, or to give effect to or otherwise in connection with the issue of the Fee Shares under the Fee Shares Specific Mandate.”

By order of the Board  
**Media Asia Group Holdings Limited**  
**Wong Lai Chun**  
*Company Secretary*

Hong Kong, 30 November, 2020

*Registered Office:*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Head office and principal place  
of business in Hong Kong:*  
11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon, Hong Kong

*Notes:*

- (1) *A Member entitled to attend and vote at the SGM convened by the above notice (the “**Notice**”) or its adjourned meeting (as the case may be) is entitled to appoint one (or, if he, she or it holds two or more shares of the Company (the “**Shares**”), more than one) proxy to attend the SGM and vote on his/her/its behalf in accordance with the Company’s bye-laws. A proxy need not be a Member. A form of proxy for use at the SGM or its adjournment (as the case may be) is enclosed with the Circular and is also available on the respective websites of GEM of the Stock Exchange (the “**GEM**”) and the Company.*

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## NOTICE OF SGM

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- (2) *To be valid, a form of proxy or a photocopy thereof, duly signed and completed, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy thereof), must be lodged with the branch share registrar of the Company in Hong Kong (the “Share Registrar”), Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or its adjourned meeting (as the case may be) and in default, the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude Members from attending and voting in person at the SGM or at its adjourned meeting (as the case may be) should they so wish. In that event, their form of proxy will be deemed to have been revoked.*
- (3) *To ascertain the entitlements to attend and vote at the SGM, Members must lodge the relevant transfer document(s) and share certificate(s) at the Share Registrar’s office at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 14 December, 2020 for registration.*
- (4) *Where there are joint registered holders of any Share, any one of such joint holders may attend and vote at the SGM or its adjourned meeting (as the case may be), either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto; but if more than one of such joint holders are present at the SGM or its adjourned meeting (as the case may be), personally or by proxy, then one of such holders so present whose name stands first in the register of members/Hong Kong branch register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof.*
- (5) *In compliance with Rule 17.47(4) of the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) and the Company’s bye-laws, voting on all resolutions in respect of the above matters set out in the Notice and any other resolutions properly put to the vote of the SGM will be decided by way of poll.*
- (6) *If a tropical cyclone warning signal no. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time after 6:45 a.m. on the date of the SGM, then the SGM will be proposed to be adjourned. If the SGM is adjourned for less than 14 days, Members will be informed of the date, time and venue of the adjourned SGM by a notice posted on the respective websites of GEM and the Company.*

*If a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is cancelled at or before 6:45 a.m. on the date of the SGM, the SGM will be held as scheduled. The SGM will be held as scheduled when an amber or red rainstorm warning signal is in force.*

*Members should decide on their own whether they would attend the SGM under a bad weather condition bearing in mind their own situations and if they do so, they are advised to exercise care and caution.*

- (7) *Members are advised to read the Circular which contains information concerning the resolutions to be proposed in the SGM.*

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## NOTICE OF SGM

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- (8) *Considering the outbreak of the novel coronavirus (COVID-19), certain measures will be implemented at the SGM or its adjourned meeting (as the case may be) with a view to addressing the risk to attendees of infection, including the following:*
- (i) *all attendees will be required to undergo body temperature check;*
  - (ii) *all attendees will be required to complete a health declaration form (a copy of the form is enclosed with the Circular), which may be used for contact tracing, if required;*
  - (iii) *any attendees who are subject to health quarantine prescribed by the Government of Hong Kong Special Administrative Region of the People's Republic of China will not be admitted to the venue of the SGM;*
  - (iv) *all attendees will be required to wear surgical face masks throughout the SGM;*
  - (v) *each attendee will be assigned a designated seat at the time of registration to ensure social distancing;*
  - (vi) *any person who does not comply with the measures above may be denied entry into, or be required to leave, the venue of the SGM; and*
  - (vii) *no refreshments or beverages will be provided, and there will be no corporate gifts.*
- (9) *The Company reminds Members that they should carefully consider the risks of attending the SGM, taking into account their own personal circumstances. The Company would like to remind Members that physical attendance in person at the SGM is not necessary for the purpose of exercising their voting rights and **strongly recommends that Members appoint the Chairman of the SGM as their proxy** and submit their form of proxy as early as possible. In light of the risks posed by the COVID-19 pandemic, the Company **strongly encourages Members NOT to attend the SGM in person.***
- (10) *The Company will keep the evolving COVID-19 situation under review and may implement additional measures (which it will announce closer to the date of the SGM).*

*As at the date of the Notice, the board of directors of the Company comprises four executive Directors, namely Dr. Lam Kin Ngok, Peter (Chairman), Messrs. Chan Chi Kwong, Lui Siu Tsuen, Richard and Yip Chai Tuck; and three independent non-executive Directors, namely Messrs. Au Hoi Fung, Ng Chi Ho, Dennis and Poon Kwok Hing, Albert.*