hmvod Limited
hmvod視頻有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8103)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

Reference is made to the announcements of the hmvod Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**" or "**our**") dated 30 June 2020 (the "**2020 Results Announcement**") in relation to the annual results for the year ended 31 March 2020 (the "**2020 Annual Results**") and the annual report for the year ended 31 March 2020 for the Company (the "**2020 Annual Report**"). Unless otherwise defined in this announcement, terms used herein shall have the same meanings as those defined in the Announcement and the 2020 Annual Report.

The board of directors (the "**Board**") of the Company would like to provide supplemental information to the Corporate Governance Report to the Shareholders with a view to addressing the disclaimer opinion expressed by the auditor of the Company, namely Elite Partners CPA Limited (the "**Auditor**"), on the 2020 Annual Results relating to the going concern basis for the preparation of the financial statements (the "**Disclaimer Opinion**").

MANAGEMENT'S VIEWS ON THE DISCLAIMER OPINION

During the course of audit of the 2020 Annual Results, the Auditor had raised concern on the Group's ability to operate as a going concern. To address the Auditor's concern, the Group have been undertaking the following measures step by step to improve the Group's overall liquidity, working capital and cash flow positions and to mitigate its liquidity pressure before and after the publication of the 2020 Annual Results:

(i) Boost revenue under rolling business plans;

(ii) Extend maturity date of loan and other payables;

(iii) Negotiate with bondholders to settle the overdue bond by cash and shares;

(iv) Fund raising by rights issue;

(v) Request for extended loan facility to settle overdue payables; and

(vi) Carry out cost control measures.

The Board held meetings to review the adequacy and effectiveness of risk management and internal control processes. In relation to going concern issue, the Board keep frequently reviewing the progress and results of the adoption of business plan in order to improve the Group's profitability and reduce the liquidity risk. The Board confirmed that the Company maintain an effective risk management and internal control system.

Based on the below detailed action plan executed or to be executed by the Group, the Directors held a different view from that of the Auditor, believing that the Group would have sufficient working capital to continue as a going concern, take the below actions and try our best to resolve the Disclaimer Opinion.

Detailed Action Plan by the Company to Resolve the Disclaimer Opinion

(i) Boost revenue under rolling business plans

(a) Cooperate with mobile network operator

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe so that the original planned business and economic activities have been disrupted and delayed to implement.

Starting from 1 April 2020, 5G network has been started in Hong Kong. 5G network development in Hong Kong is expected to have a positive impact on the Group to increase our number of users to watch movies or listen to music on our online platform.

Unfortunately, Hong Kong was facing serious effect from the third and fourth wave of COVID-19 during April 2020 to December 2020. Our business plan to promote our movie and entertainment platform with mobile network operator in mid-2020 has been delayed to mid-November 2020.

Starting from mid-November 2020, the Group started to cooperate with two of the largest mobile network operators in Hong Kong and Macau to roll out bundle offer with their 5G plan services and iPhone 12 series services. With reference to our previous business experience, the number of users for usage of our online platform to watch high-definition video content anywhere will be expected to increase approximately 50,000 new users per year under bundle offer of 5G plan. According to the latest figures in January 2021, the Group had recorded an approximate of 47,000 users (unaudited) under bundle offer of 5G plan. Under the effect of 5G development and changing lifestyle to stay at home, the Group are optimistic to achieve this annual business target.

Currently, 4G and 5G networks co-exist in Hong Kong. It is expected that 5G network will substitute 4G network in the coming years, and that people using 4G network shall opt for 5G plan after the end of their 4G plan contract due to the attractive price of 5G plan and much higher speed performance attributed to the customers. We are now under the transitional period and we expect to benefit from the increase in the number of users under the bundle offer of 5G plan.

(b) Diversify the types of movies, drama and animated comedy series in online platform

The Group use its best endeavors to keep negotiation with potential companies to obtain different broadcasting rights. The Group has launched and is going to launch different series for different age group in our online platform so as to increase users' views times, increase the new intake and keep loyalty of existing users to use our platform services.

During October 2020 to January 2021, the Group delivered different kind of series to our users, including but not limited to well-known animated comedy series for kids generation, local drama series and documentary series for young and adult generation and full spectrum of Hollywood Studios for adult generation.

Starting from mid-November 2020, the Group launched a new feature of "Glass-Free 3D" content display in our platform which is the first company in Hong Kong to start this feature. This can enhance impressive immersive watching experience to users and can be one of the special features to attract people to join our platform services.

With the changing of lifestyle to stay at home under the effect of COVID-19 and provision of different types of series for difference age groups, the number of users subscribing for our services is expected to increase. The Group is actively exploring various sources of broadcasting rights to diversify our series in online platform and will carry out regular review of the views times of the series in our online platform as analysis to update our business strategies.

According to the latest figures in December 2020, the total number of users has successfully increased from approximately 52,000 users in March 2020 to 68,000 users (unaudited) in December 2020 which was an increase of 30.8% during the 9-month period.

According to the unaudited third quarter result announced on 9 February 2021, turnover for the three months ended 31 December 2020 amounted to approximately HK$9.1 million (unaudited) representing a increase of approximately HK$0.6 million over the corresponding period in 2019 amounting to approximately HK$8.5 million.

(ii) Extend maturity date of loan and other payables

Other borrowings of HK$14 million

On 16 June 2020, the Group renewed the other borrowings of HK$14 million in which the final repayment date was extended to 26 June 2021.

On 2 July 2020, the Group further renewed the above said borrowings of HK$14 million in which the final repayment date was further extended to 26 June 2023.

Accrued and other payables of HK$38 million due to a company

On 5 October 2020, the Group extended the accrued and other payables due to a company of approximately HK$38 million to 4 October 2023.

(iii) Negotiate with bondholders to settle the overdue bond by cash and shares

On 10 August 2020, the Group and the bondholder signed a deed of settlement pursuant to which 60% of the outstanding principal of the bond (i.e. approximately HK$5.88 million) and accrued interest shall be paid by 3 monthly installments and 40% of the outstanding principal (i.e. approximately HK$3.92 million) shall be settled by allotment of shares to the bondholder before 21 January 2021 (according to the supplemental agreement dated 22 October 2020 and written confirmation dated 21 December 2020).

On 5 October 2020, 5 November 2020 and 5 December 2020, the Group has settled approximately HK$2.21 million, HK$1.99 million and HK$1.98 million to the bondholder respectively.

On 14 January 2021, 5,521,126 shares were allotted to bondholder as settlement of bond.

Please refer to the announcement of the Company dated 14 January 2021 for details.

(iv) Fund raising by rights issue

On 29 September 2020, the Group completed the following actions to raise gross proceeds of approximately HK$61 million before expenses by way of the rights issue of 71,128,435 rights shares:

(a) Effect the share consolidation which involves the consolidation of every ten (10) issued and unissued existing shares of par value HK$0.001 each into one (1) consolidated share of par value of HK$0.01 each; and

(b) Implement the rights issue on the basis of five (5) rights shares for every one (1) consolidated share of the Company at the subscription price of HK$0.85 per rights share.

Please refer to the announcement of the Company dated 29 September 2020 for details.

(v) Request for extended loan facility to settle overdue payables

On 30 October 2020, the Group renewed the loan agreement for the renewal of the loan facility up to amount of HK$10 million in which the maturity repayment date was extended to 23 October 2021. Up to the date of this announcement, the Group has used HK$10 million loan out of this loan facility to settle the Group's overdue payables.

(vi) Carry out cost control measures

The Group is tightening cost controls over the daily administrative and other operating expenses including legal and professional fee, auditor's remuneration and directors' fee, aiming at improving the working capital and cash flow position of the Group.

MANAGEMENT'S ASSESSMENT ON RESOLVING THE DISCLAIMER OPINION

The Group will make effort to implement the measures in the paragraph headed "Detailed Action Plan by the Company to resolve the Disclaimer Opinion". There are three main matters for the basis of issue of audit qualification for the year ended 31 March 2020, of which the matters were (i) net current liabilities of HK$154 million, (ii) litigation against the Company for the settlement of bond and (iii) completion of issue of right issue before 31 March 2020.

For the settlement of bonds, the Group and the bondholder signed a deed of settlement on 10 August 2020. The bonds were settled by cash of HK$6.18 million from October 2020 to December 2020 and allotment of 5,521,126 shares on 14 January 2021. On 11 January 2021, the Court had dismissed the petition and the litigation issue has been cleared.

For the issue of right issue, the Group completed to raise gross proceeds of approximately HK$61 million before expenses by way of the rights issue of 71,128,435 rights shares on 29 September 2020.

For the net current liabilities of HK$154 million as at 31 March 2020, the Group have been actively undertaking the business plan to improve the Group's overall liquidity, working capital and cash flow positions and to mitigate its liquidity pressure. According to the third quarter result announced on 9 February 2021, the Group achieved turnaround result that profit of HK$2.8 million has been incurred for the nine-month ended 31 December 2020. According to the latest management account as at 31 December 2020, the Group had net current liabilities of approximately HK$89 million (unaudited) which was decreased by approximately HK$65 million for nine-month period.

However, the effectiveness of the measures taken is unavoidably subject to (i) the evolving impact of the COVID-19 epidemic, (ii) the protests in relation to social movement and (iii) 5G services development which are not within the control of the Group. The Board will constantly evaluate the business environment and identity and grasp the viable business opportunities to improve the profitability of the Group. It takes time to adopt our business plan and it is expected to improve the situation of net current liabilities gradually. The Board keep closely monitoring the results under the rolling business plan.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for future liabilities which might arise and to reclassify non-current assets and non-current liabilities to current respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OPINION

The audit committee of the Company (the "**Audit Committee**") has critically reviewed the Disclaimer Opinion, the cash flow forecast, the management's position concerning the Disclaimer Opinion and Group's action plan for addressing the Disclaimer Opinion. The Audit Committee had discussed with the Auditor regarding to going concern issues, measures taken and to be taken by the Group and considered the Auditor's rationale and understood their consideration in arriving the audit opinion.

In light of the above, the Audit Committee agreed with the management's position and was also of the view that the management should continue its efforts in implementing the actions and measures with the intention of improving the net current liabilities position of the Group, mitigating the Group's liquidity pressure and removing the Disclaimer Opinion.

The Board confirms that the above supplemental information does not affect other information contained in the 2020 Annual Results and 2020 Annual Reports and the contents of the 2020 Annual Results and 2020 Annual Report remain unchanged.

By order of the Board
hmvod Limited
Ho Chi Na
Executive Director

Hong Kong, 25 February 2021

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:
Ms. Ho Chi Na

Independent non-executive Directors:
Mr. Hau Chi Kit
Mr. Ma Stephen Tsz On
Mr. Tang Chun Hei
Mr. Ho Chun Hang

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk and the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting and be posted on the website of the Company at www.hmvod.com.hk.