THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Sino-i Technology Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

中国数码

SINO-i TECHNOLOGY LIMITED
中國數碼信息有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 250)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF TARGET COMPANY AND NOTICE OF GENERAL MEETING

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

建泉融資有限公司
VBG Capital Limited

A Letter from the Board is set out on pages 6 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 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 22 to 41 of this circular.

A notice convening the GM (as defined herein) to be held at 11/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong on Tuesday, 20 July 2021 at 3:30 p.m. is set out on pages 135 to 136 of this circular. A form of proxy for use in connection with the GM is enclosed with the circular. Whether or not you intend to attend the GM, please complete and return the enclosed form of proxy in accordance with the instructions printed hereon to the share registrar of the Company, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the GM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the GM (or any adjourned meeting thereof) should you so wish.

PRECAUTIONARY MEASURES FOR THE GENERAL MEETING

Please see page 1 of this document for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the GM, including:

- **compulsory body temperature checks and health declarations**
- **compulsory wearing of a surgical face mask for each attendee**

Any person who does not comply with the precautionary measures or has any symptom of COVID-19 or is subject to any Hong Kong Government prescribed quarantine or compulsory testing order in relation to COVID-19 will be denied entry into the meeting venue. The Company strongly encourages shareholders to appoint the chairman of the GM as their proxy to vote on the relevant resolution(s) at the GM as an alternative to attending the meeting in person.

28 June 2021

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PRECAUTIONARY MEASURES FOR THE GENERAL MEETING

The health of our Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the GM to protect attending Shareholders, staff and stakeholders from the risk of infection:

(i) Compulsory body temperature checks will be conducted for every shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature above the reference range quoted by the Department of Health from time to time, or is exhibiting any symptoms of COVID-19, or is subject to quarantine or compulsory testing order in relation to COVID-19 will be denied entry into the meeting venue or be required to leave the meeting venue.

(ii) Compulsory wearing of a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.

(iii) Each attendee may be asked whether (a) he/she travels outside of Hong Kong within the 14-day period immediately before the GM; and (b) he/she is subject to any Hong Kong Government prescribed quarantine or compulsory testing order in relation to COVID-19. Anyone who responds positively to any of these questions may be denied entry into the meeting venue or be required to leave the meeting venue.

(iv) Any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Hong Kong Government and/or regulatory authorities, or as considered appropriate in light of the development of COVID-19.

In addition, the Company reminds all Shareholders that physical attendance in person at the GM is not necessary for the purpose of exercising voting rights. The Company strongly recommends Shareholders, in particular, the Shareholders subject to quarantine or compulsory testing order in relation to COVID-19 or has symptoms of COVID-19, to appoint the chairman of the GM as their proxy to vote on the relevant resolution(s) at the GM instead of attending the GM in person, by completing and return the proxy form attached to this document.

In this circular, unless the contents otherwise requires, the following expressions have the meanings as set out below:

"Agreement"	the agreement dated 22 December 2020 entered into between the Vendor and the Purchaser for the sale and purchase of the Sale Equity Interest
"associate"	has the meaning given to it under the Listing Rules
"Board"	the board of Directors
"Company" or "Purchaser"	Sino-i Technology Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code:250), and a subsidiary of Nan Hai
"Completion"	completion of the Sale and Purchase
"Consideration"	consideration for the Sale Equity Interest
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Target Group upon Completion
"GM"	the general meeting of the Company to be convened and held at 11/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong on Tuesday, 20 July 2021 at 3:30 p.m. to consider and, if thought fit, approve the Agreement, the Supplemental Agreement and the transactions contemplated thereunder
"Group"	the Purchaser and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board, comprising Mr. Fung Wing Lap, the independent non-executive Director, established for the purpose of making recommendations to the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder

"Independent Financial Adviser" or "VBG Capital"	VBG Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder
"independent third party(ies)"	any person(s) or companies and their respective ultimate beneficial owner(s) whom, to the best of the directors' knowledge, information and belief having made all reasonable enquiries, is/are third party(ies) independent of the Vendor and of the Purchaser and connected persons (as defined under the Listing Rules) of the Vendor and of the Purchaser
"Independent Shareholders"	Shareholder(s) other than Nan Hai and those required to abstain from voting on the resolution(s) at the general meeting of the Purchaser under the Listing Rules
"Latest Practicable Date"	24 June 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the loan in the principal amount of approximately HK$1,645.5 million advanced by the Company to Nan Hai pursuant to a loan agreement entered into between the Company (as lender) and Nan Hai (as borrower) on 29 May 2009 ("Loan Agreement") and the interest accrued thereon. The Loan Agreement was subsequently supplemented by the first supplemental agreement, the second supplemental agreement, the third supplemental agreement, the fourth supplemental agreement, the fifth supplemental agreement, the sixth supplemental agreement, the seventh supplemental agreement and the eighth supplemental agreement dated 20 May 2011, 31 October 2012, 9 May 2013, 30 April 2015, 2 May 2017, 21 March 2019, 31 May 2019 and 7 April 2021, respectively, in relation to, among others, the extension of the repayment date for the outstanding principal and variation of certain terms and provision of the Loan Agreement. As at 31 December 2020, the outstanding principal and accumulated interest were approximately HK$1,005,858,000 and HK$87,303,000 respectively. Details of which please refer to Past Announcements and Circulars

"Nan Hai" or "Vendor"	Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed and traded on the Stock Exchange (stock code: 680), the holding company and a connected person (as defined under the Listing Rules) of the Purchaser
"Nan Hai Board"	the board of Nan Hai Directors
"Nan Hai Director(s)"	the director(s) of Nan Hai
"Nan Hai Group"	Nan Hai and its subsidiaries
"Past Announcements and Circulars"	(1) the joint announcement of the Company and Nan Hai dated 29 May 2009 and the circular of the Company dated 12 June 2009 in relation to the advance made by the Company to Nan Hai pursuant to the Loan Agreement; (2) the announcement dated 20 May 2011 and circular dated 10 June 2011 of the Company; (3) the announcement dated 31 October 2012 and circular dated 21 November 2012 of the Company; (4) the announcement dated 9 May 2013 and circular dated 24 May 2013 of the Company; (5) the announcement dated 30 April 2015 and circular dated 18 May 2015 of the Company; (6) the announcement dated 2 May 2017 and circular dated 26 May 2017 of the Company; (7) the announcement dated 21 March 2019 and circular dated 8 May 2019 of the Company; (8) the announcement dated 31 May 2019 and circular dated 26 July 2019 of the Company; and (9) the announcement dated 7 April 2021 of the Company
"PRC"	the People's Republic of China, for the purposes of this circular, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase"	the proposed disposal of the Sale Equity Interest by the Vendor to the Purchaser pursuant to the terms of the Agreement
"Sale Equity Interest"	100% equity interest in the Target
"Supplemental Agreement"	the supplemental agreement to the Agreement dated 4 June 2021 entered into between the Vendor and the Purchaser
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as may be amended from time to time
"Share"	ordinary shares of the Purchaser

"Shareholder(s)"	the holder of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target" or "Target Company"	數碼辰星科技發展(北京)有限公司 (Digicine Oristar Technology Development (Beijing) Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Vendor
"Target Group"	the Target Company and its wholly-owned subsidiary, namely 數碼辰星科技發展(廣州)有限公司 (Digicine Oristar Technology Development (Guangzhou) Company Limited*) a company incorporated in the PRC with limited liability

For the purpose of this circular, unless otherwise indicated, the exchange rate of RMB0.8414 = HK$1 has been used for currency translation, where applicable. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK$ or RMB has been, could have been or may be converted at such or any other rates.

* *For identification purposes only*

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SINO-i TECHNOLOGY LIMITED
中國數碼信息有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 250)

Executive Directors:
Ms. LIU Rong *(Chairlady)*
Mr. YU Pun Hoi
Mr. CHEN Ming Fei *(Chief Executive Officer)*

Non-executive Directors:
Mr. LAM Bing Kwan
Mr. CHENG Chih-Hung

Independent non-executive Directors:
Mr. FUNG Wing Lap
Mr. XIAO Sui Ning
Mr. HO Yeung Nang

Registered office:
12/F., The Octagon
No. 6 Sha Tsui Road
Tsuen Wan
New Territories
Hong Kong

28 June 2021

To the Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF TARGET COMPANY

On 22 December 2020 (after trading hours), the Purchaser and the Vendor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to purchase (or procure the purchase) and the Vendor has conditionally agreed to sell (or procure the sale) to the Purchaser the Sale Equity Interest, representing the entire issued capital of the Target Company, for the Consideration of RMB488 million, which is to be satisfied in cash and up to HK$200 million of the Consideration will be set-off against the Loan, at the discretion of the Company. The entire amount owed by the Target Group to the Nan Hai Group (excluding the Target Group and the Group) as at Completion will be applied to set off against the Loan. As at 30 November 2020, the amount owed by the Target Group to the Nan Hai Group (excluding the Target Group and the Group) is approximately HK$193 million. The Purchaser and the Vendor have agreed that the above mentioned amount will not exceed approximately HK$229 million up to the date of Completion. Details of the Agreement are set out below:

I. THE AGREEMENT

Date

22 December 2020

Parties

(1) Sino-i Technology Limited, a company incorporated in Hong Kong with limited liability; and

(2) Nan Hai Corporation Limited, a company incorporated in Bermuda with limited liability.

Assets to be disposed of

The Sale Equity Interest represents 100% equity interest in the Target Company. Details of the Target Group are set out in the section headed ''Information on the Target Group'' below.

Consideration and payment terms

Consideration

The Consideration is RMB488 million, which was determined after arm's length negotiations between the Vendor and the Purchaser with references to the reasons and benefits of the Sale and Purchase as set out in the section headed ''Reasons for and Benefits of the Sale and Purchase'' in this circular and the appraised value of the Sale Equity Interest by an independent valuer of approximately RMB489 million as at 31 March 2021. The valuer has performed an independent valuation using the market approach based on the leading enterprise value-to-sales ratio as at the date of valuation and the forecasted revenue of RMB160 million for the year ending 31 December 2021. The Directors are not aware of any events that may result in a material change in the value since the valuation date (i.e. 31 March 2021) to the Latest Practicable Date.

Payment terms

The Purchaser shall pay or procure the payment of 20% of the above Consideration (i.e. RMB97.6 million) as deposit (''**Deposit**'') to the Vendor (or such entity that it may so designate) within ten business days from the date of signing of the Agreement.

The balance will be satisfied in cash and up to HK$200 million of the Consideration will be set-off against the Loan, at the discretion of the Company at Completion. The entire amount owed by the Target Group to the Nan Hai Group (excluding the Target

Group and the Group) as at Completion will be applied to set-off against the Loan. As at 30 November 2020, the amount owed by the Target Group to the Nan Hai Group (excluding the Target Group and the Group) is approximately HK$193 million. The Purchaser and the Vendor have agreed that the above mentioned amount will not exceed approximately HK$229 million up to the date of Completion.

In the event that the Sale and Purchase is not completed in accordance with the terms of the Agreement, the Deposit shall be refunded to the Company within five business days from the termination of the Agreement without interest.

The cash Consideration will be funded by the internal resources of the Company.

Conditions precedent

Completion is conditional upon the satisfaction of the following conditions:

(i) all warranties remaining true and accurate as at Completion, and the Vendor having performed or complied with the covenants, agreements and obligations required to be performed or complied with by the Vendor at or prior to Completion as contained in the Agreement;

(ii) all necessary actions, consents, permissions, approvals and authorisations having been taken or obtained in connection with the transactions contemplated under the Agreement; and

(iii) the issue of a circular by the Purchaser to its Shareholders, and the necessary approval of the Agreement and the transactions contemplated thereunder being obtained from Independent Shareholders at a general meeting of the Purchaser in compliance with the Listing Rules.

If the conditions set out above have not been fulfilled or (where applicable) waived by 5 p.m. (Hong Kong time) on the date falling 180 days after the date of the Agreement ("**Long Stop Date**") or such other date as the parties may agree, the Agreement shall, subject to the liability of any party to the other in respect of any antecedent breaches of the terms thereof, be null and void and of no effect.

Completion

Subject to all the conditions precedent under the Agreement having been fulfilled or otherwise waived, Completion shall take place by no later than 180 days from the date of the Agreement ("**Completion Date**") or such other date as may be agreed by the parties to the Agreement.

Upon Completion of the Sale and Purchase, the Target Group will be consolidated into the consolidated financial statements of the Group effective from the date of Completion. The Target Group will still be consolidated into the consolidated financial statements of Nan Hai Group and will continue to be the subsidiaries of Nan Hai following the Completion.

Nan Hai and the Company entered into a supplemental agreement to the Agreement on 4 June 2021 ("**Supplemental Agreement**") (i) to extend the Long Stop Date to the date falling 270 days after the date of the Agreement (or such other date as the parties may agree) and; (ii) to extend the Completion Date to no later than 270 days from the date of the Agreement (or such other date as may be agreed by the parties to the Agreement).

Save and except for the aforesaid extension of the Long Stop Date and Completion Date, all other terms and conditions of the Agreement remain unchanged.

II. INFORMATION ON THE TARGET GROUP

The Target Company is a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of Nan Hai. As a digital internet company in the cinema industry, its core business relies on revenue management platform of the Huiyingyun (慧影雲) cinema (Software as a Service ("SaaS")-based cinema digitalization total solution) to provide cinemas with closed-loop support for business including ticket sales, retail, membership management, membership marketing, cinema operation decision-making support and big data business intelligence (BI) services, and offer complete mobile solutions for consumers and operators in respect of APP, H5, mini programs, etc.

The audited consolidated financial information of the Target Group as extracted from Appendix III to this circular is set out below:

	For the year ended 31 December		
	2020	**2019**	**2018**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Revenue	23,944	78,878	92,444
Net (loss)/profit before tax	(55,628)	1,990	(68,195)
Net (loss)/profit after tax	(55,628)	1,990	(68,195)

Starting from 2018, the Target Group began its gradual transformation from a company focusing on cinema hardware and equipment integration services to a leading high-tech internet company in the cinema industry in the PRC, committed to building one of the world's leading digital media economy platform for cinemas. As Chinese enterprises are now facing the challenges of digital transformation, it is difficult for enterprises to accurately analyse their customers, supply chains and daily operations without digitalisation in all aspects of their operations, resulting in significant value loss and missed opportunities. For the film industry in China, the use of the internet and big data has also affected the entire film industry in China, including production, marketing and promotion, distribution and ticketing. Based on long-term considerations, the Target Group started its transformation plan in 2018 and launched a cinema based membership service and application platform based on the cinema ticketing system certification issued by the relevant state authorities. In 2020, the Target Group launched a digital ticketing cloud platform based on big data of cinema users, providing a product matrix for all-round development of cinemas in three scenarios: marketing, operation and protection, and establishing a scenario-based marketing channel and data-based platform for cinema construction and operation management to provide comprehensive services. The revenue in 2018 still include revenue from cinema hardware and equipment, so it is higher than the revenue in 2019. The losses recorded in 2018 were mainly due to the Target Group's increased investment in research and development and marketing in the course of its transformation. The Target Group's transformation started to be successful in 2019 as its cinema based membership service and application platform quickly gained market share serving 1,309 cinema customers. These customers are all independent cinema customers. The excellent business performance enabled the Target Group to realise profitability in 2019. However, the cinema industry has been severely affected by the COVID-19 epidemic ("**Epidemic**") in 2020. In accordance with the requirements for epidemic prevention and control in all regions and industry regulatory requirements in the PRC, all cinemas nationwide have been suspended operations since the end of January 2020, and gradually resumed operation until July 2020. As the Target Group primarily serves the cinema industry, revenues were significantly reduced in 2020. However, the Target Group still needed to cover its operating expenses to maintain the basic operations of the company and has taken the opportunity of the Epidemic to strengthen its capabilities by continuing to invest in product development and enhancing the Huiyingyun (慧影雲) cinema revenue management platform (a SaaS-based cinema digitisation total solution), which has resulted in a higher loss. But in such tough time, the Target Group still extend its scope of clients to 1,947 cinema customers, 1,481 of which is independent cinema customers.

According to the audited consolidated financial statements of the Target Group, the net liabilities of the Target Group as at 31 December 2020 was approximately HK$35,297,000. Based on the unaudited consolidated financial statements of the Target Group, the unaudited revenue of the Target Group for the five months ended 31 May 2021 was approximately HK$47,566,000, and due to the increased investment in research and development and expenses in the Target Group to enable Huiyingyun (慧影雲) 4.0 be more accurate, reliable and timely, the unaudited net loss (both before and after tax) of the Target Group for the five months ended 31 May 2021 was approximately HK$7,267,000. The original acquisition cost of the Target Company to the Nan Hai Group in June 2015 was RMB1. The paid up capital of the Target Company was following such acquisition increased from RMB24,758,041.80 to RMB150,000,000.

Sales Framework Agreement for Cinema Ticketing Management System

Upon Completion, the Target Company and Nan Hai will enter into a sales framework agreement for cinema ticketing management system to provide Nan Hai Group with a cinema ticketing management system, which will constitute a continuing connected transaction. Further details will be announced upon Completion.

III. REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE

The Company is an investment holding company, the securities of which are listed and traded on the Main Board of the Stock Exchange and the Group is principally engaged in the provision of enterprise cloud services. The Board considers that the revenue management platform of the Target Group (SaaS-based cinema digitalisation total solution) could provide clients with closed-loop support for business including ticket sales, retail, membership management, membership marketing, cinema operation decision-making support and big data business intelligence (BI) services, and offer complete mobile solutions for consumers and operators in respect of APP, H5, mini programs, etc. As it is consistent with the Group's future development direction in relation to OMO (offline-merge-online) and will effectively fill the Group's lack of e-commerce products for such cinema service industry.

Based on the Group's technical expertise in the OMO digital commerce business, in particular the complementary capabilities and co-construction of the Platform as a Service ("**PaaS**") and Infrastructure as a Service ("**IaaS**"), the Target Group will enable expansion of its SaaS business for the cinema services industry. Through integration with the Group's established developers and suppliers, the Target Group and the Group are able to offer more product types and services, enhancing the Target Group's digital service capabilities in the cinema industry and facilitating the Group's further development in the OMO sector. As compared with the Group's business model, the Target Group was more focused on in-depth exploration in the cinema industry, applying the Target Group's products in each business node including cinema operation, rundown and management. In the context of the cinemas, consumers (C端用户), cinema operators and cinema management were provided with comprehensive services and management interface. Such product model not only enhanced adhesion of the Target Group‘s products in the cinema industry, the operating big data of the cinema industry collected in such way also enabled the Target Group to acquire business expansion or cooperation opportunities of industries such as retailing and fast-moving consumer goods (快消) in the cinema sector, creating a cross-industry collaborative solution for the Group's customer base and the Target Group's customer base.

The Target Group's middle structure of business (業務中台) provided standardised services in the cinema industry, providing assistance in completing digitalised management of business fields including ticketing, scheduling, screening, membership rights. For customised demands or expansion of specialised business of different cinemas, the Target Group connects external Independent Software Vendors and service providers through an open platform to ensure smooth business processes and integrity of business data. By opening up its platform and building the middle structure of business (業務中台), the Target Group provides a more diverse and open service capability for cinema industry customers. At the same time, the Target Group integrates the operational capabilities of the cinema industry, such as membership and data, into the Group's OMO business environment to achieve cross-business and cross-sector operational synergy, which empowers corporate customers with multi-level benefits while bringing a better experience to consumers. Movie watching is a common form of offline entertainment for consumers, which is not only an access to but also an attractive outlet for providing services to consumers. Through integrating cinema membership and the Target Group's OMO business, the membership system was merged to realise sharing of rights and benefits between cinemas, the service industry and the consumer goods industry. As such, on one hand, consumer experience of customers of the Target Group and cinemas was enhanced, and on the other hand the Group's overall data coverage was expanded so that corporate customers could be provided with more accurate and diversified membership services, leveraging on the enriched user profile.

Cinema is a typical setting of an offline lifestyle service industry. The cinema business has common features of service industry providing specific services at offline venues and it also possesses the special features of venues for screening quality movies. The Target Group gained its foothold in the cinema industry and has provided industry solutions covering the whole cinema business process and collected comprehensive scenario big data. Over the years, it has established good reputation and brand recognition in the industry and has accumulated considerable market share. As of March 2021, according to Top Consulting (Beijing Top Century Consultation, a new concept information consultancy with experience in the film industry), there are 11,193 cinemas in China, of which the Target Group serves 2,037 cinemas, covering nearly 20% of the industry's customers. Through acquisition of the Target Group, the Group could gain considerable coverage of the cinema industry and provide opportunities for the Group's customers to expand their business in the cinema industry by integrating with the Target Group's existing products and data. Acquiring common experience in offline service industry and product structures accumulated by the Target Group simultaneously would lay a foundation for offering lifestyle OMO services integrating commercial, catering and beauty sectors. The Target Group is expected to provide positive income and generate positive operating cash flows which will bring positive effect to the Group's financial position. Through acquisition of the Target Group, the Group's OMO business will be able to actively expand its cinema customers, facilitating the Group to achieve its strategic goal of becoming a first-tier company in this sector.

The cinema ticketing management system mainly comprises of two product lines, namely Huiyingyun (慧影雲) 3.0 which was launched in 2018 and Huiyingyun (慧影雲) 4.0 which was launched in 2020 respectively:

- Huiyingyun (慧影雲) 3.0 is an "offline" version and its target customers are local cinemas with the expected annual ticket revenue of around RMB4 million each.

- Huiyingyun (慧影雲) 4.0 is a "cloud" version with customised development functions, so it is more flexible and expandable. Compared with Huiyingyun (慧影云) 3.0, it could provide more value-added services and functions to cinemas, including marketing, membership management, 新C端 (offering APP, H5 and mini programs for cinema members), rights and interests etc., it will also help the cinemas to improve price control of its stores. In addition, it has a completed and continuously upgraded security protection mechanism. Furthermore, the read-write protection and anti-hacking attacks of the data access mechanism are far beyond the traditional local data storage methods. The target customers for Huiyingyun (慧影雲) 4.0 are bigger cinemas with the expected annual ticket revenue of RMB5 million to RMB6 million each. On this basis, the service fee charged is increased.

Currently, there are seven state-recognised ticketing software providers in the PRC. And only two service providers (including the Target Group) have such cloud-based cinema ticketing system. Huiyingyun (慧影雲) 4.0 is consistent with the Group's future development direction in relation to OMO and will effectively fill the Group's lack of e-commerce products for such cinema service industry. The estimated revenue of the Target Group in 2021 is substantially derived from Huiyingyun (慧影雲) 4.0 as the management anticipates that PRC cinemas will gradually use cloud-based cinema ticketing management system in the foreseeable future because the cloud-based cinema ticketing management system will achieve the real-time update of the ticket-box data so that the ticket-box data transmitted to the relevant government authorities will be more accurate, reliable, timely and complete for the purpose of government use.

The Target Group's marketing team continues to actively promote the Huiyingyun (慧影雲) 4.0 ticketing system in potential customer locations across the country, and has already contacted hundreds of cinemas in key regions such as Guangdong, Anhui, Hubei, Jiangsu, Sichuan and Shandong and received positive feedback. In addition to leveraging its own resources to expand its customer base, the Target Group has also made full use of external resources to expand its cinema customer base and has entered into strategic partnerships with a number of film internet platforms that provide one-stop services including media content, online ticketing, user interaction and social networking, and sales of film peripherals. One of the platforms currently covers over 10,000 cinemas and has an operating team of over 100 staff across the country. Under the strategic agreement, those platforms will recommend no less than 200 cinemas for the Target Group to use the Huiyingyun (慧影雲) 4.0 ticketing system in 2021. The Target Group's Huiyingyun (慧影雲) 4.0 ticketing system is based on the pricing principle of other service providers in the market and charges a service fee of RMB1 per ticket. The box office size of these new cinemas is approximately RMB5 million to RMB6 million and the average fare currently charged by the Target Group's customers is RMB37. As a result of intensive internal and external resource development, the management of the Target Group estimate the forecasted revenue of the Target Group of 2021 on the basis below. If the existing customers in (d) do not upgrade to Huiyingyun (慧影雲) 4.0 in 2021, they will still enter into the contract for using Huiyingyun (慧影雲) 3.0 based on the existing service fee charged because of the government requirement of using one of the cinema ticketing system certification (where there are only seven companies with such certification now) authorised by the relevant state authorities, good customer relationships with these customers and smooth update to a cloud-based system, they will generate revenue of approximately RMB20 million (d'). If the existing customers in (e) do not upgrade to Huiyingyun (慧影雲) 4.0 in 2021, they will still use Huiyingyun (慧影雲) 3.0 based on the existing contract, and they will generate revenue of approximately RMB5 million (e'). The revenue that will be achieved from the signed contracts in 2021 is approximately RMB109 million, which is the sum of (a), (d'), (e'), (f) and (g) and already account for 68% of total forecasted revenue of the Target Group in 2021.

	Estimated number and category of cinema customers	Basis of revenue	Forecasted revenue from Huiyingyun (慧影雲) 4.0 *(RMB million)*	Forecasted revenue from Huiyingyun (慧影雲) 3.0 *(RMB million)*	Total forecasted revenue *(RMB million)*
a.	167 new cinemas which had entered into contracts with the Target Group	• Expected annual ticket revenue of each cinema (based on the historical ticket revenue of each cinema for the three months ended 31 March 2021): RMB5 million to RMB6 million • Average ticket fare (based on existing ticket fare): RMB37 per ticket • Service fee to be charged by the Target Group: RMB1 per ticket	20	—	20
b.	183 new cinemas which will soon enter into contracts with the Target Group	Same basis as the above	14	—	14
c.	Approximately 250 potential new cinemas in key regions such as Guangdong, Anhui, Hubei, Jiangsu, Sichuan and Shandong of the PRC, following the Target Group's promotion strategy in 2021	Same basis as the above	17	—	17
d.	Approximately 370 existing cinemas with original contracts expiring in 2021 but will renew their contracts and upgrade to Huiyingyun (慧影雲) 4.0	• Huiyingyun (慧影雲) 3.0 — based on the existing service fee charged • Huiyingyun (慧影雲) 4.0 — same basis as the above	25	10	35
e.	Approximately 100 existing cinemas with contract term beyond 2021 but will upgrade to Huiyingyun (慧影雲) 4.0 in 2021	• Huiyingyun (慧影雲) 3.0 — based on the existing service fee charged • Huiyingyun (慧影雲) 4.0 — same basis as the above	7	3	10

Estimated number and category of cinema customers		Basis of revenue	Forecasted revenue from Huiyingyun (慧影雲) 4.0 *(RMB million)*	Forecasted revenue from Huiyingyun (慧影雲) 3.0 *(RMB million)*	Total forecasted revenue *(RMB million)*
f.	Approximately 800 existing cinemas which will not upgrade to Huiyingyun (慧影雲) 4.0	Based on the existing service fee charged	—	40	40
g.	Sizeable film enterprises holding approximately 700 chained cinemas in total	A lump sum service fee is charged for using both Huiyingyun (慧影雲) 3.0 and Huiyingyun (慧影雲) 4.0 services	Breakdown is not available	Breakdown is not available	24
				Total	**160**

In 2020, the management of the Group and the management of Nan Hai commenced discussions and reached a consensus on the Sale and Purchase, which was a commercial decision based on commercial considerations. Firstly, the Group is actively pursuing the development of its OMO digital commerce business in 2020 and, in the case of the PRC film industry, the use of internet and big data is a trend in the entire cinema sub-sector in the PRC. Through the acquisition of the Target Group, the Group will be able to acquire a wider range of products and services, which will help the Group to further develop in the OMO sector and provide opportunities for the Group's customers to expand their business in the cinema industry through product and technology sharing. In particular, Huiyingyun (慧影雲) 4.0 is one of only two cloud-based cinema ticketing management system currently available in the PRC movie industry. The management of the Group expects that in the foreseeable future, the majority of cinemas in the PRC will gradually replace their local individual ticketing management systems with cloud-based cinema ticketing management systems, and is therefore optimistic about the business prospects of Huiyingyun (慧影雲) 4.0. The Group's management expects to capture the market for cloud-based cinema ticketing management systems as soon as possible and to rapidly expand the market share of Huiyingyun (慧影雲) 4.0 with a view to achieving the Group's strategic objective of becoming a first-tier company in this sub-sector. The Group's management originally planned to implement the acquisition after the launch of Huiyingyun (慧影雲) 4.0, but due to the impact of the Epidemic, it was postponed until the end of 2020. Secondly, if the acquisition of the Target Group materialises, it will accelerate the integration of the Group's technology team and research and development capabilities, as well as leverage the open platform and build the middle structure of business (業務中台) in order to achieve cost reduction and efficiency improvements as soon as possible.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor, taking into account the quality of the Target Group's ticketing system, the current scarcity of cloud-based cinema ticketing management systems in the PRC market, the

Target Group's market share in the sub-segment and the foreseeable development prospects of the Target Group, and with reference to the valuation report of an independent valuer. Accordingly, the management considers the Consideration to be fair and reasonable.

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Purchaser and the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group. The Target Group will still be consolidated into the consolidated financial statements of Nan Hai Group and will continue to be the subsidiaries of Nan Hai following the Completion.

According to the valuation report in Appendix I, the valuation of approximately RMB489 million was arrived by using the leading enterprise value-to-sales ratio with reference to the Target Group's estimated revenue for 2021. The Directors considered the use of the Target Group's estimated revenue for 2021 in arriving the valuation is fair and reasonable as the cinema industry has been severely affected by the outbreak of Epidemic in 2020. In accordance with the requirements for epidemic prevention and control in all regions and industry regulatory requirements in the PRC, all cinemas nationwide suspended operations since the end of January 2020, and gradually resumed operation in July 2020. The financial performance of the Target Company was impacted substantially as well. The revenue in 2020 is abnormally low and it is not considered as a proper basis to establish the valuation. Moreover, Huiyingyun (慧影雲) 4.0 of the Target Company was launched in 2020 which is a "cloud" version with customised development functions. As the management anticipates that PRC cinemas will gradually use cloud-based cinema ticketing system in the foreseeable future because the cloud-based cinema ticketing system will achieve the real-time update of the box office data so that the box office data transmitted to the relevant government authorities will be more accurate, reliable, timely and complete for the purpose of government use. It is expected that the Target Group's business would benefit from the launch of such new products and exhibit new development potentials from 2021 onwards. Based on the above analysis, the estimated revenue in 2021 of the Target Group is more complete and appropriate for the purpose of evaluation.

Given that the Consideration was determined after arm's length negotiations between the Vendor and the Purchaser with reference to the valuation of the Sale Equity Interest of approximately RMB489 million by an independent valuer as at 31 March 2021 and other reasons mentioned above, the Board (excluding (i) members of the Independent Board Committee whose view will be subject to the opinion of an independent financial adviser to be appointed in connection with the Agreement; and (ii) Mr. Yu Pun Hoi who is deemed to have interest in Nan Hai and has abstained from voting on the relevant resolution at the board meeting) considers that the Agreement and the transactions contemplated therein are on normal commercial terms, and the terms and conditions of the Agreement are fair and reasonable and in the interests of the Company and Shareholders as a whole.

IV. FINANCIAL EFFECTS OF THE SALE AND PURCHASE

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

Assets and liabilities

The audited consolidated total assets and total liabilities of the Group as at 31 December 2020, as extracted from the annual report of the Company for the year ended 31 December 2020, amounted to approximately HK$2,278,301,000 and HK$721,712,000 respectively.

As set out in Appendix V to this circular, assuming the Completion had taken place on 31 December 2020, the total unaudited pro forma assets and liabilities of the Enlarged Group will be increased to approximately HK$2,410,583,000 and HK$855,494,000, respectively.

Earnings

The audited net profit of the Group for the financial year ended 31 December 2020, as extracted from the annual report of the Company for the year ended 31 December 2020, was approximately HK$111,014,000.

As set out in Appendix III to this circular, the Target Group recorded an audited net loss of approximately HK$55,628,000 for the financial year ended 31 December 2020. Upon Completion, members of the Target Group will become subsidiaries of the Company and the financial results of these companies will be consolidated in the Group's consolidated financial statements upon Completion. According to the consolidated income statements of the Target Group for the years ended 31 December 2018, 2019 and 2020 as set out in Appendix III to this circular, the revenue of the Target Group for each of the three years ended 31 December 2018, 2019 and 2020 were approximately HK$92,444,000, HK$78,878,000 and HK$23,944,000 respectively, and the net profit/loss for the year were approximately loss of HK$68,195,000, profit of HK$1,990,000 and loss of HK$55,628,000 respectively.

As such, the Target Group is expected to have a positive impact on the revenue of the Enlarged Group upon Completion, but an adverse impact on its net income after taxation.

Further information on the financial position and financial performance of the Target Group and its management discussion and analysis are set out in Appendices III and IV to this circular respectively.

V. INFORMATION ON THE PURCHASER

The Company is an investment holding company, the securities of which are listed and traded on the Main Board of the Stock Exchange. The Group is principally engaged in the provision of enterprise cloud services.

VI. INFORMATION ON THE VENDOR

Nan Hai is an investment holding company, the securities of which are listed and traded on the Main Board of the Stock Exchange. Nan Hai Group is principally engaged in (i) culture and media services (mainly in cinema business on a nationwide basis in the PRC in addition to other media related businesses); (ii) property development; and (iii) enterprise cloud services (through the Group). In the meantime, Nan Hai Group is also engaged in news media and innovative business. As at the Latest Practicable Date, Nan Hai, through a number of wholly-owned subsidiaries, holds approximately 59.11% of the issued share capital of the Purchaser.

VII. LISTING RULES IMPLICATIONS

For the Company, as one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Sale and Purchase exceed 25% but are less than 100%, the Sale and Purchase constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. In addition, as the Vendor is the holding company of the Company, the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Therefore, the Agreement is subject to the Independent Shareholders' approval at the GM.

Nan Hai and its associates shall abstain from voting on the ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder at the GM.

As Mr. Xiao Sui Ning and Mr. Ho Yeung Nang, both being independent non-executive directors of Nan Hai and the Company, they are not considered sufficiently independent to give advice or recommendation to the Independent Shareholders in relation to the Agreement, therefore Mr. Fung Wing Lap, the remaining independent non-executive Director, has been appointed to form the Independent Board Committee to make recommendation to the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder, and an independent financial adviser will be appointed to advise the Independent Board Committee in this regard.

VIII. GM AND PROXY ARRANGEMENT

A notice of the GM to be held at 11/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong on Tuesday, 20 July 2021 at 3:30 p.m. is set out on pages 135 to 136 of this circular. At the GM, the ordinary resolution will be proposed to consider and, if thought fit, to approve the Agreement, the Supplemental Agreement and the transactions contemplated therein.

Nan Hai and its associates are collectively interested in 12,838,585,316 Shares (representing approximately 59.11% of the total issued Shares), are required to and shall abstain from voting on the ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder at the GM. As at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon each of Nan Hai and its associates; (ii) no obligation or entitlement of each of Nan Hai and its associates, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case by case basis; and (iii) no discrepancy between Nan Hai and its associates' beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which Nan Hai and its associates will control or will be entitled to exercise control over the voting right at the GM.

The ordinary resolution to be proposed at the GM to approve the Agreement and the transactions contemplated therein will be determined by way of poll by the Independent Shareholders in accordance with the Listing Rules.

A form of proxy for use in connection with the GM is enclosed with this circular. Whether or not you intend to attend the GM, please complete and return the enclosed form of proxy in accordance with the instructions printed hereon to the share registrar of the Company, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not less than 48 hours before the time appointed for holding of the GM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the GM (or any adjourned meeting thereof) should you so wish.

Pursuant to the Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll (except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands). Accordingly, the chairman of the GM will arrange all the proposed resolutions set out in the notice of the GM to be voted on by poll. The poll results will be published on the websites of the Company and the Stock Exchange on the day of the GM.

IX. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 July 2021 to 20 July 2021, both days inclusive, during which period no transfer of shares will be effected for the purpose of determining the identity of members who are entitled to attend and vote at the GM. In order to qualify for attending and voting at the GM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 14 July 2021 for registration.

X. RECOMMENDATION

Your attention is drawn to the Letter from the Independent Board Committee set out on page 21 of this circular and the Letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Agreement and the transactions contemplated thereunder as well as the principal factors and reasons considered by it in arriving at such advice set out on pages 22 to 41 in this circular.

The Directors (including the independent non-executive Directors whose views are set out on page 21 of this circular), having taken into account the opinion and advice of Independent Financial Adviser, consider that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and the Agreement and the transactions contemplated thereunder are on normal commercial terms as well as in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolution approving the Agreement and the transactions contemplated thereunder at the GM.

XI. GENERAL

Shareholders and potential investors of the Company should note that completion of the Agreement and the transactions contemplated thereunder is subject to the satisfaction of the condition precedent, namely, the obtaining of the Independent Shareholders' approval. Therefore, the above-mentioned transaction may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

XII. FURTHER INFORMATION

Your attention is also drawn to the further information contained in the appendices to this circular.

Yours faithfully,
By order of the Board
Sino-i Technology Limited
Liu Rong
Chairlady

SINO-i TECHNOLOGY LIMITED
中國數碼信息有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 250)

28 June 2021

To the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF TARGET COMPANY

I have been appointed as the Independent Board Committee to advise the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, details of which are set out in the circular dated 28 June 2021 (the "**Circular**") to the Shareholders. VBG Capital has been appointed as the independent financial adviser to advise me in this respect. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the "Letter from the Board" containing, amongst others, details of the Agreement and the "Letter from the Independent Financial Adviser" containing its advice to me as set out in the Circular.

Having taken into account (i) the factors referred to in the section headed "Reasons for and benefits of the Sale and Purchase" in the "Letter from the Board"; and (ii) the factors referred to in the "Letter from the Independent Financial Adviser", I consider that although the Agreement is not entered into in the ordinary and usual course of business of the Group but the terms of the Agreement are fair and reasonable, on normal commercial terms and that the entering into of the Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, I recommend the Independent Shareholders to vote for the resolution approving the Agreement and the transactions contemplated thereunder.

Yours faithfully,
Mr. Fung Wing Lap
Independent Board Committee

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreement for the purpose of inclusion in this circular.

建泉融資有限公司
VBG Capital Limited

18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

28 June 2021

To: The independent board committee and the independent shareholders of Sino-i Technology Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF TARGET COMPANY

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreement and the transactions contemplated thereunder, details of which are set out in the ''Letter from the Board'' contained in the circular dated 28 June 2021 (the ''**Circular**'') to the Shareholders, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 22 December 2020, the Company (as Purchaser) and Nan Hai (as Vendor) entered into the Agreement, pursuant to which the Company has conditionally agreed to purchase (or procure the purchase) and Nan Hai has conditionally agreed to sell (or procure the sale) to the Purchaser the Sale Equity Interest, representing the entire issued capital of the Target Company, for the total Consideration of RMB488 million (equivalent to approximately HK$580.0 million). The Consideration is to be satisfied (i) in cash and (ii) up to HK$200 million by setting off against the Loan, at the discretion of the Company. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the Group's financial statements.

The Company and Nan Hai entered into a supplemental agreement to the Agreement on 4 June 2021 to extend (i) the long stop date of the Agreement to the date falling 270 days after the date of the Agreement (or such other date as the parties may agree); and (ii) the completion date of the Agreement to no later than 270 days from the date of the Agreement (or such other date as the parties may agree). Save and except for the aforesaid extension of dates, all other terms and conditions of the Agreement remain unchanged.

According to the Letter from the Board, the entering into of the Agreement constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. As Nan Hai is the holding company of the Company, the Agreement also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Xiao Sui Ning and Mr. Ho Yeung Nang, both being the independent non-executive Directors, are also the independent non-executive directors of Nan Hai, they are not considered sufficiently independent to give advice or recommendation to the Independent Shareholders in relation to the Agreement. Thus, Mr. Fung Wing Lap, being the remaining independent non-executive Director, has been appointed to form the Independent Board Committee and to advise the Independent Shareholders on (i) whether the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Agreement and the transactions contemplated thereunder at the GM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from having acted as the independent financial adviser of the Company relating to (i) the major and connected transaction of which a circular dated 26 July 2019 was issued; and (ii) the major and connected transaction of which a circular dated 24 May 2021 was issued, and the existing engagement in relation to the Agreement, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the Agreement.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Agreement, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the GM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Group, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with 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 and affairs or future prospects of the Group, the Nan Hai Group and the Target Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Agreement. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or the Target Group, and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report (the "**Valuation Report**") contained in Appendix I to the Circular prepared by Asia-Pacific Consulting and Appraisal Limited (the "**Valuer**"), an independent professional valuer, regarding the appraised value of the Sale Equity Interest. Since we are not experts in valuation, we have relied solely upon the Valuation Report for the appraised value of the Sale Equity Interest as at 31 March 2021 (the "**Valuation Date**").

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent in-depth investigation into the accuracy and completeness of such information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Agreement

Information on the Group

The Group provided comprehensive digital marketing, digital business solutions and cloud computing infrastructure services to corporate clients in the PRC. Its main products/services included domain name, public cloud, mini program mall, mailbox, digital marketing, etc., covering various aspects such as infrastructure, website building tools and services, digital marketing and online transactions as required by enterprises for digital operation. The Group is committed to the development of cloud services for corporate digitalisation and smart operation by providing comprehensive IaaS (Infrastructure as a Service), SaaS (Software as a Service) application, corporate e-commerce services, "corporate digitalisation transformation" total solutions and big database BI (business intelligence) cloud services to the PRC market.

Set out below is the audited consolidated financial information of the Group for the two years ended 31 December 2020 as extracted from the annual report of the Company for the year ended 31 December 2020 (the "**Annual Report**"):

	For the year ended 31 December 2020 *HK$'000*	**For the year ended 31 December 2019** *HK$'000*
Revenue	972,139	963,567
Profit for the year	111,014	22,367

As depicted by the above table, revenue of the Group was approximately HK$972.1 million for the year ended 31 December 2020 (2019: HK$963.6 million), representing a slight increase of approximately 0.9% over last year. The Group's net profit for the year ended 31 December 2020 was approximately HK$111.0 million (2019: HK$22.4 million), increasing substantially by approximately 396.3% over last year. As referred to in the Annual Report, the profit for 2020 was primarily attributable to (i) the Group's various products such as website builder, global portal and mobile mall to help customers reduce the impact of the COVID-19 pandemic on offline operations and effectively meet the urgent need of customers to start online business quickly under the pressure of the pandemic, which significantly drove the growth in users number and improved sales efficiency; (ii) the Group's continuous investment in research and development of production platforms in recent years, which has improved production efficiency and reduced labour input per unit of product, thereby improving gross profit margin; and (iii) the various measures taken by the Company to reduce management and administrative expenses, enhance efficiency, reduce costs, pursue and enjoy various concessions and waivers in accordance with relevant government policies to minimise the impact of the COVID-19 pandemic during the year.

According to the Directors, the outbreak of COVID-19 pandemic has accelerated the digital transformation of enterprises in the PRC, which will have a profound impact on their brand building, channels, retailing, membership management and interaction. The pandemic has significantly changed consumers' lifestyle and spending habits by expanding the variety and frequency of online shopping, and there will be a shift from in-store purchases to online ordering and home delivery. The process of building brand awareness has also changed with consumers gradually moving from offline shop displays and advertising to self-selecting information, watching live streams and forming relatively closed communities. Such changes in consumer behaviour and habits will inevitably affect business activities. To cope with the aforesaid changes in consumer habits and business needs, the Directors advised us that the Group will make the following strategic and operational adjustments and initiatives:

Firstly, the Group will transform into a "digital marketing" business. On top of its existing portal business, the Group will continue to optimise its SEO (Search Engine Optimisation) business and integrate the product capabilities of its third-party partners such as SEM (Search Engine Marketing) and marketing automation to further develop a new product portfolio and solutions to drive the Group's transformation from a website builder to an integrated digital marketing service provider. Secondly, the Group will focus on the "digital commerce" business by building its own e-commerce portal for shops to achieve online sales and for companies to operate private traffic and to interact with consumers in the future.

To achieve the above, the Group will continue to increase its investment in data centers, cloud computing technology, automated operation and maintenance technology, big data technology and intelligent marketing technology to comprehensively enhance its core technology capabilities and further develop its products and services for the digital intelligent operation and business of enterprises.

Information on Nan Hai

As extracted from the Letter from the Board, Nan Hai, the holding company of the Company, is an investment holding company whose securities are listed and traded on the Main Board of the Stock Exchange (stock code: 680). The Nan Hai Group is principally engaged in (i) culture and media services (mainly in cinemas business on a nationwide basis in the PRC and other media related businesses); (ii) property development; and (iii) enterprise cloud services (through the Group). In the meantime, the Nan Hai Group is also engaged in news media business and innovative business.

Information on the Target Group

Business operation of the Target Group

Based on our independent research and further enquiry with the Directors, we obtained the following detailed information in relation to the Target Group's business operation:

Established in 2009, the Target Group has become a leading digital Internet enterprise in the PRC movie industry. The Target Group adopted the cloud computing and big data technologies to launch a solution that meets the development trend of the movie industry and brings a revolutionary Internet-based business model to the movie industry. At present, the Target Group offers three main categories of services:

- Revenue management platform (the SaaS-based cinema digitalisation total solution): by means of cloud computing and big data architecture, providing comprehensive revenue management to cinemas in order to enhance their profit making ability and raise their competiveness.

- Advertising platform: combining cinema advertising resources to re-discover advertising value, and open up multi-form and multi-channel advertising channels.

- New retail platform: building a platform of centrally managed membership to link up the consumers with cinemas and other merchandisers, thereby increasing the non-ticket revenue of cinemas.

The aforesaid service platforms offered by the Target Group enable cinemas to establish a membership economy by Internet operation and digital means with an ultimate aim to achieve revenue enhancement.

The Target Group currently has two research and development centers in Beijing and Guangzhou, the PRC with more than 210 employees and over 65% of them are technical research and development personnel, focusing on digital multimedia applications and information security protection. Throughout the years of growth, the Target Group has devoted vast amount of resources on research and development and has achieved a series of technological breakthroughs. In 2011, the Target Group developed a digital film server with independent intellectual property rights, which was first certified by the American film industry DCI (Digital Cinema Initiatives), and was one of the few market participants in the PRC that obtained a license for cinema ticketing management system issued by the relevant authority. Moreover, the Target Group has been admitted to various professional organisations, such as the Beijing Patent Pilot Unit* (北京市專利試點單位), the 18th Batch of Beijing Enterprise Technology Center* (北京市第十八批企業技術中心), the director unit of the Film Technology Branch of China Film Distribution and Projection

Association* (中國電影發行放映協會電影技術分會理事單位), and the member unit of the DRM Technology Standards Committee of the State Administration of Radio, Film and Television* (廣電總局DRM技術標準委員會委員單位).

The innovative strength of the Target Group has also been well recognised by the PRC government and the movie industry. The Target Group received different financial supports from the government such as the Special Fund for the Development of Cultural and Creative Industries in Beijing* (北京市文化創意產業發展專項資金) and the Special Fund for International Cooperation in Zhongguancun* (中關村國際合作專項資金資助). Besides, it was awarded various honours such as "Second Prize of Film Technology Application Achievement Award of the State Administration of Radio, Film and Television in 2015"* (2015年度國家廣電總局電影技術應用成果獎二等獎), "Second Prize of Beijing Science and Technology Award"* (北京市科學技術獎二等獎), "Excellent Supplier of Cinema Display Equipment of the Year"* (年度影院放映設備優秀供應商), "Top 10 System Integrators Recommended by Users"* (十大用戶推薦系統集成商), "Top 10 Most Influential Brands in Digital Audio-visual Industry of 2018"* (2018年度數字視聽行業十大最具影響力品牌), and the first prize of the second grade qualification of "film projection system engineering technology grade" of the China Film Distribution and Projection Association* (以第一名成績獲得中國電影發行放映協會"電影放映系統工程技術等級"乙級資質). In 2017, the Target Group became a forerunner of the PRC movie industry to obtain the ISO20000 information technology service management certification.

Given the successful boost in product capabilities and market influence, as at 31 December 2020, the Target Group provided products and services for approximately 1,947 cinemas, covering approximately 12,500 halls in 31 provinces (autonomous regions, municipalities) across the PRC.

Financial information on the Target Group

Set out below is the consolidated financial information on the Target Group for the five months ended 31 May 2021 as provided by the Company and the three years ended 31 December 2020 as extracted from Appendix III to the Circular:

	For the five months ended 31 May 2021	**For the year ended 31 December 2020**	**For the year ended 31 December 2019**	**For the year ended 31 December 2018**
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	47,566	23,944	78,878	92,444
(Loss)/Profit for the period/year	(7,267)	(55,628)	1,990	(68,195)

As depicted by the above table, the Target Group recorded relatively stable revenue in 2018 and 2019. As advised by the Directors, the Target Group was able to turnaround its loss making position in 2019 owing to the fact that the Target Group's products and services gradually matured after years of devotion on technological development. In compliance with the PRC government's requirements for prevention and control of the COVID-19 pandemic and industry regulatory requirements in all regions, all screenings in domestic cinemas have been suspended since 24 January 2020. Consequently, there was a significant drop in both the national gross box office (excluding service charges) and the total admission of audience of the movie industry by over 90% in the first half of 2020 as compared to the corresponding period of the prior year. The poor performance of the PRC movie industry has led to a severe adverse impact on the financial results of the Target Group in 2020; but the Target Group's business shown sign of recovery during the five months ended 31 May 2021, recording revenue of approximately HK$47.6 million and reduced net loss of approximately HK$7.3 million. A detailed explanation regarding the financial performance of the Target Group in recent years is included under the section headed "Information on the Target Group" of the Letter from the Board and Appendix IV to the Circular.

The Directors advised us that they are optimistic about the future profitability of the Target Group after the Completion, taking into account (i) as aforementioned, the Target Group's products and services matured after years of devotion on technological development. The Target Group has gained extensive market reputation and would be able to reap the harvest in the coming future; (ii) the expected synergies between the Group and the Target Group given that the expertise and technologies involved in their principal businesses are similar; and (iii) the Target Group's possible future business growth leveraging on the anticipated continual rapid expansion and evolution of the PRC movie industry once the effect of the COVID-19 pandemic entirely fades out.

Reasons for and possible benefits of the Agreement

As referred to in the Letter from the Board, the Directors are of the view that the revenue management platform of the Target Group (the SaaS-based cinema digitalisation total solution) could provide clients with closed-loop support for business including ticket sales, retail, membership management, membership marketing, cinema operation decision-making support and big data BI services, and offer complete mobile solutions for consumers and operators in respect of APP, H5, mini programs, etc., and is in line with the future development direction in relation to OMO (Online-Merge-Offline) of the Group and will effectively fill the Group's void of e-commerce products for the service industry.

The Group's technical expertise in the OMO digital commerce business, in particular the complementary capabilities and co-construction of the PaaS (Platform as a Service) and IaaS, will enable expansion of the Target Group's SaaS business for the movie services industry. Through integration with the Group's established developers and suppliers, the Enlarged Group are able to offer more product types and services, thereby enhancing the Target Group's digital service capabilities in the movie industry and facilitating the Group's further development in the OMO sector. By opening up its platform and building the middle structure of business (業務中台), the Target Group provides a more diverse and open service capability for movie industry customers. At the same time, the Target Group integrates the operational capabilities of the movie industry, such as membership and data, into the Group's OMO business environment to achieve cross-business and cross-sector operational synergy, which empowers corporate customers with multi-level benefits while bringing a better experience to consumers.

As represented by the Directors, the management of the Group and the management of Nan Hai commenced discussions and reached a consensus on the Sale and Purchase in 2020, which was a commercial decision based on commercial considerations. Firstly, the use of Internet and big data has become a trend in the PRC movie industry. Through the acquisition of the Target Group, the Group will be able to acquire a wider range of products and services, which will help the Group to further develop in the OMO sector and enable its customers to expand their business into the movie industry through product and technology sharing. Secondly, the acquisition will accelerate the integration of the Group's technology team and research and development capabilities with a view to achieving cost reduction and efficiency improvements as soon as possible. In particular, Huiyingyun (慧影雲) 4.0 is one of the only two cloud-based cinema ticketing management systems currently available in the PRC movie industry. The Directors expect that in the foreseeable future, the majority of cinemas in the PRC will gradually replace their local individual ticketing management systems with cloud-based cinema ticket management system, and would like to capture such market opportunity and expand the market share of Huiyingyun (慧影雲) 4.0 as soon as possible when there is still limited competitors within the market. As such, it was the original plan of the Group to carry out the acquisition right after the launch of Huiyingyun (慧影雲) 4.0 in 2020, but due to the impact of the COVID-19 pandemic, the Sale and Purchase was postponed to the end of 2020.

Based on our independent research, we understand that enterprises in the PRC are currently facing challenges on digital transformation as most of them remain largely offline and un-digitised. Without digitisation of the various aspects of enterprise operations, it is difficult for businesses to accurately analyse their customers, supply chains and daily operations, resulting in significant value leakage and lost opportunities. For example, due to the lack of synchronised and standardised information about customers and loyalty program members, product catalogues, stock inventory, delivery and customer management systems across channels, traditional retailers who have not captured consumer data are not capable of helping their brand partners to conduct consumer demand-based real-time planning for product development, marketing, distribution and inventory management. Traditional enterprises often lack access to modern IT (information technology) and computing infrastructure, limiting their proficiencies in big data analytics, storage, large scale computing, security, and IoT (Internet of Things) services. Building a private IT infrastructure in-house is often costly, time consuming and impractical. Such operating environment presents growth opportunities for commerce technology companies that offer a broad range of platform services and an integrated business operating system which can re-engineer and transform business operations. Furthermore, cloud computing technology eliminates the need for on premise IT and data technology infrastructure for enterprises of all scales. As stated by the International Data Corporation, a global provider of market intelligence, advisory services, and events for the IT, telecommunications, and consumer technology markets with more than 1,100 analysts worldwide, spending on software and services, public cloud and IT in the PRC lags far behind that in the United States, indicating a large leap potential for the relevant markets in the PRC.

As regards the PRC movie industry, the utilisation of Internet and big data has likewise impacted the whole movie industry chain of the PRC, including IP (internet protocol), production, marketing and promotion, distribution, and ticket sales. For instance, Internet conglomerates invested continuously in the movie industry, such as Tencent Pictures, iQiYi Films, and Baidu Pictures. The PRC giant movie venture, Ali Pictures, also launched Fenghuang Yunzhi in 2017 to increase non-ticket revenue of cinemas and help them to realise diversified income through cloud-based intelligent solutions, digital and intellectual transformation. Since 2019, Fenghuang Yunzhi has introduced a variety of new retail structures, such as Yunzhi City and Yunzhi Advertising. Like the Target Group, the products and services offered by Fenghuang Yunzhi provide integrated online and offline, data-based and intelligent support for the ticketing, commodity and member businesses of cinemas in the PRC.

We are of the opinion that the aforesaid latest market development and future market outlook as revealed by our independent research denote the conceivable integration and possible synergies between the businesses of the Group and the Target Group. As further elaborated in the Letter from the Board, the Sale and Purchase is expected to strengthen the Enlarged Group's business as a whole and allow the Enlarged Group to formulate up-to-date complete long-term business strategy. In addition, the Enlarged Group may be benefited from shared resources and expertise in research and development, in doing so its overall costs of operations could be minimised. With the above being the case and having also considered the rapidly evolving Internet technology and market condition, we consider that it is commercially justifiable for the Group to carry out the Sale and Purchase at the current timing in order to realise the benefits of the Sale and Purchase as soon as possible and to allow the Group to capture the market opportunity and expand the market share of Huiyingyun (慧影雲) 4.0 when market competition is still limited.

In view of the above reasons for and possible benefits of the Agreement, we concur with the Directors that the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group.

2. Principal terms of the Agreement

On 22 December 2020, the Company and Nan Hai entered into the Agreement, pursuant to which the Company has conditionally agreed to purchase (or procure the purchase) and Nan Hai has conditionally agreed to sell (or procure the sale) to the Purchaser the Sale Equity Interest, representing the entire issued capital of the Target Company, for the total Consideration of RMB488 million (equivalent to approximately HK$580.0 million). The Consideration is to be satisfied (i) in cash and (ii) up to HK$200 million by setting off against the Loan, at the discretion of the Company. With reference to the announcement of the Company dated 7 April 2021, the Company (as lender) and Nan Hai (as borrower) entered into a supplemental agreement to further extend the term of the Loan to 29 June 2024. The extension was approved by the independent Shareholders at the general meeting of the Company held on 11 June 2021.

The Consideration

We understand from the Directors that the Consideration was determined based on the appraised value of the Sale Equity Interest as at the Valuation Date assessed by the Valuer of approximately RMB489 million (the "**Valuation**"). The Consideration hence represents a slight discount to the Valuation.

The Valuation

We have reviewed the Valuation, sent an information request list and held a telephone interview with the Valuer to enquire into the methodology adopted for and the basis and assumptions used in the Valuation.

(i) Valuation methodology: We notice that the Valuation was primarily based on the market approach. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. We have discussed with the Valuer and understand that they selected the market approach, instead of the income approach and cost approach, to be the primary valuation methodology because (a) income approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs; (b) the cost approach does not directly incorporate information about the economic benefits contributed by the subject assets; and (c) the market approach exhibits other benefits including its simplicity, clarity, speed and the need for few or no assumptions.

(ii) Selection of Valuation Comparable Companies: The Valuation was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the Valuation. The Valuer identified an exhaustive list of four globally listed comparable companies (the "**Valuation Comparable Companies**") based on the criteria that (a) they are mainly engaged in operating ticketing software or platform for cinema or other entertainment and leisure industry and (b) their revenue are mainly generated from ticket sales and/or other value-added services. As advised by the Valuer, the above selection criteria ensure that the main revenue generator of the Valuation Comparable Companies is close to that of the Target Group. We discussed with the Valuer regarding such selection criteria and assessed the appropriateness of the Valuation Comparable Companies. Given (a) the similar business activities of the Target Group and the Valuation Comparable Companies and (b) the similar anticipated revenue contribution of the Target Group and the Valuation Comparable Companies, we are satisfied with the selection of the Valuation Comparable Companies. Shareholders may refer to the Valuation Report for details regarding each of the Valuation Comparable Companies.

(iii) Choice of valuation multiples: The Valuer opted for the leading enterprise value-to-sales multiples (the "**Leading EV/S Ratio**") as the valuation multiple, which were calculated as the Valuation Comparable Companies' market capitalisation as at the Valuation Date divided by their respective forecasted revenue for the year ending 31 December 2021. After our independent research, we noted from the 2021 curriculum of Chartered Financial Analyst Program Level II that the Leading EV/S Ratio is a familiar and widely used valuation tool to allow investors to evaluate the market value of an enterprise relative to sales. We also searched and found out that this valuation multiple had been applied in valuations for transactions conducted by listed companies in Hong Kong. Examples are Transmit Entertainment Limited (stock code: 1326) (circular date: 26 July 2018) of which the 2018 forecasted earning was used, Meilleure Health International Industry Group Limited (stock code: 2327) (announcement dates: 4 February 2019 & 22 February 2019) of which the 2019 forecasted revenue was used, Newborn Town Inc. (stock code: 9911) (circular date: 11 June 2020) of which the 2020 forecasted revenue was used, and Kiu Hung International Holdings Limited (stock code: 381) (circular date: 31 March 2021) of which the forecasted earning for the year ended 30 June 2021 was used.

As discussed under the sub-section headed "Financial information on the Target Group" of this letter of advice, amid the COVID-19 pandemic, all screenings in domestic cinemas have been suspended since 24 January 2020, leading to a significant drop in both the national gross box office (excluding service charges) and the total admission of audience of the movie industry by over 90% in the first half of 2020 as compared to the corresponding period of the prior year. The poor performance of the PRC movie industry has led to a severe adverse impact on the financial results of the Target Group in 2020. Moreover, as being discussed under the sub-section headed "Forecasted revenue of the Target Group in 2021" of this letter of advice, it is expected that the Target Group's business would benefit from new products launched and exhibit new development potentials from 2021 onwards. For these reasons, we concur with the Valuer that the use of the forecasted revenue of the Target Group in 2021 instead of the actual revenue in 2020 is fair and reasonable for the purpose of the Valuation.

The forecasted revenue of each Valuation Comparable Company was based on analysts' consensus in Capital IQ, a third party database service provider designed by Standard & Poor's. Based on the forecasted revenue of the Valuation Comparable Companies for the year ending 31 December 2021, the Leading EV/S Ratio of the Valuation Comparable Companies as at the Valuation Date, as disclosed in full in the Valuation Report, ranged from approximately 2.61 times to 8.85 times, with a median of approximately 4.10 times.

(iv) DLOM: The Target Group is not listed on any stock exchanges. Hence, the Valuer applied a discount for lack of marketability of 20% (the "**DLOM**") to the estimated value of the Target Group to reflect the reduced level of marketability as compared to the Valuation Comparable Companies. We have enquired into the Valuer regarding the application of the DLOM. We also understand from the Valuer that the DLOM was computed with reference to the "Finnerty Option Pricing Model". After our independent research, we noted that the DLOM is commonly applied in valuation of unlisted companies and the "Finnerty Option Pricing Model" is a commonly adopted method for reflecting the theoretical marketability discount in a private company.

(v) Control premium: In view of that the Target Company will become a wholly-owned subsidiary of the Company upon Completion, the Valuer considered that a premium to reflect the power of a control should be adopted in the Valuation. In this regard, the control premium adopted was 20%, with reference to the control premium of closed transactions in applications software industry from Capital IQ within three years prior to the Valuation Date. For our due diligence purpose, we have requested and obtained from the Valuer the said list of control premium of closed transactions in applications software industry within three years prior to the Valuation Date.

For our due diligence purpose, we have further reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the procedures taken by the Valuer to arrive at the Valuation. From the mandate letter and the company profile provided by the Valuer and based on our telephone interview with them, we understand that the Valuer are a team of professionals with track record of performing asset (such as business and goodwill)/ property (such as investment property) valuations for listed companies in Hong Kong and the United States of America engaging in a spectrum of businesses. The Valuer also confirmed that they are independent to the Group, the Nan Hai Group, the Target Group and their respective associates. Furthermore, the Valuer have conducted the Valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include, amongst others, the review of the legal status and economic condition of the Target Company. We are satisfied with the terms of engagement of the Valuer, their qualification and experience as well as their procedures for preparation of the Valuation Report.

Further details of the basis and assumptions of the Valuation are included in the Valuation Report contained in Appendix I to the Circular. During our discussion with the Valuer regarding the methodology, basis and assumptions of the Valuation, we have not found any material facts which may lead us to doubt the fairness and reasonableness of the methodology, principal basis and assumptions adopted for or the information used in the Valuation. Nevertheless, Shareholders should note that valuation of assets and businesses usually involves assumptions and therefore the Valuation may or may not reflect the appraised value of the Sale Equity Interest accurately.

Forecasted revenue of the Target Group in 2021

We have discussed with the Directors in depth with regard to the forecasted revenue of the Target Group in 2021, which forms a key parameter to arrive at the Valuation. As explained by the Directors, the cinema ticketing management system of the Target Group mainly comprises two product lines, namely Huiyingyun (慧影雲) 3.0 which was launched in 2018 and Huiyingyun (慧影雲) 4.0 which was launched in 2020. Huiyingyun (慧影雲) 3.0 is an "offline" version and its target customers are local cinemas with expected annual ticket revenue of around RMB4 million each. Whereas Huiyingyun (慧影雲) 4.0 is a "cloud" version with more flexible customised development functions. Compared with Huiyingyun (慧影雲) 3.0, it can provide more value-added services and functions to cinemas, and can help them to improve the price control. Besides, Huiyingyun (慧影雲) 4.0 has a complete and continuously upgrading security protection device. Its read-write protection and anti-hacking attacks functions for data access are also far beyond the traditional local data storage methods. On these basis, the service fee charged by the Target Group can be increased. The target customers for Huiyingyun (慧影雲) 4.0 are bigger cinemas with expected annual ticket revenue of around RMB5 million to RMB6 million each.

The Directors anticipate that the 2021 revenue of the Target Group would be substantially deriving from Huiyingyun (慧影雲) 4.0 as PRC cinemas will gradually use cloud-based cinema ticketing management system in the foreseeable future because the cloud-based cinema ticketing management system can achieve real-time update of the box office data so that the box office data transmitted to the relevant government authorities will be more accurate, reliable, timely and complete for the purpose of government use.

As disclosed in detail in the Letter from the Board, we summarise below the basis of the forecasted revenue of the Target Group in 2021:

Estimated number and category of cinema customers	**Basis of revenue**	**Forecasted revenue from Huiyingyun (慧影雲) 4.0** *(RMB million)*	**Forecasted revenue from Huiyingyun (慧影雲) 3.0** *(RMB million)*	**Total forecasted revenue** *(RMB million)*
(a) 167 new cinemas which had entered into contracts with the Target Group	• Expected annual ticket revenue of each cinema (based on the historical ticket revenue of each cinema for the three months ended 31 March 2021): RMB5 million to RMB6 million • Average ticket fare (based on existing ticket fare): RMB37 per ticket • Service fee to be charged by the Target Group: RMB1 per ticket	20	—	20
(b) 183 new cinemas which will soon enter into contracts with the Target Group	Same basis as the above	14	—	14
(c) Approximately 250 potential new cinemas in key regions such as Guangdong, Anhui, Hubei, Jiangsu, Sichuan and Shandong of the PRC, following the Target Group's promotion strategy in 2021	Same basis as the above	17	—	17
(d) Approximately 370 existing cinemas with original contracts expiring in 2021 but will renew their contracts and upgrade to Huiyingyun (慧影雲) 4.0	• Huiyingyun (慧影雲) 3.0 — based on the existing service fee charged • Huiyingyun (慧影雲) 4.0 — same basis as the above	25	10	35

Estimated number and category of cinema customers	Basis of revenue	Forecasted revenue from Huiyingyun (慧影雲) 4.0 *(RMB million)*	Forecasted revenue from Huiyingyun (慧影雲) 3.0 *(RMB million)*	Total forecasted revenue *(RMB million)*
(e) Approximately 100 existing cinemas with contract term beyond 2021 but will upgrade to Huiyingyun (慧影雲) 4.0 in 2021	• Huiyingyun (慧影雲) 3.0 — based on the existing service fee charged • Huiyingyun (慧影雲) 4.0 — same basis as the above	7	3	10
(f) Approximately 800 existing cinemas which will not upgrade to Huiyingyun (慧影雲) 4.0	Based on the existing service fee charged	—	40	40
(g) Sizeable film enterprises holding approximately 700 chained cinemas in total	A lump sum service fee is charged for using both Huiyingyun (慧影雲) 3.0 and Huiyingyun (慧影雲) 4.0 services	Breakdown is not available	Breakdown is not available	24
			Total	160

As confirmed by the Directors, the forecasted revenue of the Target Group in 2021 is essentially based on the service terms of the existing contracts or new contracts signed or to be signed between the Target Group and its existing cinema customers or new cinema customers. Riding on the latest industry development that cinemas in the PRC will gradually use cloud-based cinema ticketing management system, and following the Target Group's active business strategy to expand its existing customer base and further promote the use of Huiyingyun (慧影雲) 4.0, it is expected that the Target Group would be able to attract a large amount of new cinema customers in 2021 and all of them will be using Huiyingyun (慧影雲) 4.0. Besides, a number of the existing cinema customers of the Target Group will upgrade to Huiyingyun (慧影雲) 4.0 in 2021, thereby contributing higher revenue to the Target Group. It is expected that if the existing cinema customers in (d) above do not upgrade to Huiyingyun (慧影雲) 4.0 in 2021, they will still enter into contracts with the Target Group for using Huiyingyun (慧影雲) 3.0 based on the existing service fee charged, and contribute revenue of approximately RMB20 million (d') to the Target Group. If the existing cinema customers in (e) above do not upgrade to Huiyingyun (慧影雲) 4.0 in 2021, they will still use Huiyingyun (慧影雲) 3.0 based on the existing contracts, and contribute revenue of approximately RMB5 million (e') to the Target Group. In aggregate, revenue that can be achieved from signed existing and new contracts in 2021 is approximately 109 million (i.e. (a)+(d')+(e')+(f)+(g)), which accounts for approximately 68.1% of total forecasted revenue of the Target Group in 2021.

In relation to the above, we notice from the published annual reports of Nan Hai that the number of cinema customers of the Target Group had increased by 326 from 1,478 cinemas to 1,804 cinemas from 2018 to 2019 after Huiyingyun (慧影雲) 3.0 was launched.

During the year of hardship in 2020, the Target Group still managed to attract 143 new cinema customers. In addition, reference can be made to the performance and development of a comparable listed company that we presented in the sub-section below. As such, the Target Group's expansion plan for 2021 was not groundless, and we concur with the Directors that the Target Group would likely be able to generate much higher revenue in 2021 in particular that approximately 68.1% of the total forecasted revenue of the Target Group in 2021 is derived from signed existing and new contracts.

Performance of comparable listed company

To further evaluate the future prospects of the Target Group, we have attempted to study the performance and development of companies listed in Hong Kong or the PRC which are engaged in similar line of business as the Target Group, i.e. operating ticketing software or platform for cinema or other entertainment and leisure industry, and derive a majority of their revenue from such principal business (altogether, the "**Criteria**"). To the best of our knowledge and as far as we are aware of, we found one company, namely Maoyan Entertainment (stock code: 1896), which meet the Criteria and we consider it to be exhaustive. Set out below is the audited consolidated financial information of Maoyan Entertainment over the past years as extracted from its published annual reports and listing prospectus:

	For the year ended 31 December					
	2020	**2019**	**2018**	**2017**	**2016**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,393,180	4,251,964	3,754,959	2,547,982	1,377,512	596,738
— Online entertainment ticketing services	756,548	2,303,249	2,280,238	1,490,037	960,059	594,486
— Entertainment content services	380,717	1,381,238	1,068,615	852,299	337,299	—
— Advertising services and others	255,915	567,477	210,257	78,417	64,684	866
— E-commerce services	—*(Note)*	—*(Note)*	195,849	127,229	15,470	1,386

Note: Revenue from e-commerce services was included into advertising services and others from 2019 onwards.

Maoyan Entertainment was a forerunner and has now become a leading domestic movie distributor and a comprehensive Internet entertainment online and offline integrated marketing platform through giving full play to its "Internet and Entertainment" system. As depicted by the above table, revenue of Maoyan Entertainment grew robustly from 2015 to 2019 by approximately 612.5%, of which revenue from the online entertainment ticketing services and advertising services surged drastically by almost three times and 250 times, respectively. We understand that the tremendous advancement of Maoyan Entertainment was partly built on the successful development and application of data science and IT to effectively utilise its big data capabilities for generating and analysing massive amount of user data on its platform, with a view to enhancing value propositions to its users and business partners throughout the value chain. Like the Target Group, business of Maoyan Entertainment was hit hard by the COVID-19 pandemic in 2020, with revenue shrinking by approximately 67.2%. However, as referred to in the annual report of Maoyan Entertainment for the year ended 31 December 2020, by embracing data and innovations, the management of Maoyan Entertainment remains confident about its growth prospects as well as the industry's long-term development.

Although the format of services granted, business operations and prospects of the Target Group are not exactly the same as Maoyan Entertainment, we are of the view that the performance and development of Maoyan Entertainment, as an active industry participant, can provide reference for the possible industry potentials and outlook.

The trading multiples and dividend yield analyses

Besides the Valuation, we have considered using other commonly used pricing methods, being the trading multiples (the price to earnings and price to book ratios) and dividend yield analyses, to assess the fairness and reasonableness of the Consideration. To perform the trading multiples analysis, given that the Company is listed on the Stock Exchange while the Target Group's business is focused in the PRC, we have in the first place searched for comparable companies using the Criteria. As mentioned, we found only one company, namely Maoyan Entertainment (stock code: 1896), which meet the Criteria and we consider it to be exhaustive. Therefore, we consider the sample size of the trading multiples analysis to be highly limited. On the other hand, we found both the price to earnings and price to book ratios impracticable as the Target Group was loss making during the latest financial year and recorded net deficit as at 31 December 2020 and 31 March 2021. Taking into account the aforesaid crucial limitations of the trading multiples analysis, we are of the opinion that the trading multiples analysis would be rather inapplicable for assessing the fairness and reasonableness of the Consideration.

As for the dividend yield analysis, since the Target Group had not declared any dividend to its shareholders during the year ended 31 December 2020, there is no up-to-date basis to assess the Consideration based on the historical dividend yield of the Target Group. Thus, the dividend yield analysis would be inapplicable for assessing the fairness and reasonableness of the Consideration as well.

Conclusion on fairness and reasonableness of the Consideration

In light of that the Consideration represents a slight discount to the Valuation which had been fairly and reasonably assessed by the Valuer, we are of the opinion that the Consideration is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

3. Possible financial effects of the Agreement on the Group

As confirmed by the Directors, upon Completion, the Target Company will become a wholly-owned subsidiary of the Company, and the financial results of the Target Group will be consolidated into the Group's financial statements.

Net asset value and gearing

With reference to the Annual Report, the audited consolidated net assets of the Group amounted to approximately HK$1,556.6 million as at 31 December 2020. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix V to the Circular, assuming that the Sale and Purchase had taken place on 31 December 2020, the net assets of the Enlarged Group would have decreased slightly to approximately HK$1,555.1 million.

With reference also to the Annual Report, the gearing ratio (defined as net debt divided by the total equity plus net debt) of the Group was not applicable as at 31 December 2020 since the Group recorded net cash as at 31 December 2020. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix V to the Circular, the gearing ratio of the Enlarged Group would increase upon Completion.

Liquidity

As confirmed by the Directors, the Group has already paid 20% of the Consideration (i.e. RMB97.6 million) as deposit on 28 December 2020 and 30 December 2020. According to the Annual Report, the audited consolidated cash and cash equivalents of the Group as at 31 December 2020 amounted to approximately HK$265.1 million. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix V to the Circular, assuming that the Sale and Purchase had taken place on 31 December 2020, the cash balance of the Enlarged Group would be reduced to approximately HK$6.2 million.

It should be noted that the above analyses are for illustrative purposes only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the GM to approve the Agreement and the transactions contemplated thereunder, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 16 years of experience in corporate finance industry.

* *for identification purpose only*

CONSULTING & APPRAISAL
亜太評估

Asia-Pacific Consulting and Appraisal Limited
Flat/RM A 12/F Kiu Fu Commercial Bldg,
300 Lockhart Road,
Wan Chai, Hong Kong

28 June 2021

The Board of Directors
Sino-i Technology Limited

Dear Sirs,

In accordance with the instructions received from Sino-i Technology Limited (''**Sino-i**''), we have undertaken a valuation exercise which requires Asia-Pacific Consulting and Appraisal Limited (''**APA**'') to express an independent opinion on the market value of 100% equity interest of 數碼辰星科技發展(北京)有限公司 (Digicine Oristar Technology Development (Beijing) Company Limited) (the ''**Target Company**'') as at 31 March 2021 (the ''**Valuation Date**'').

The purpose of this valuation is for circular reference of Sino-i.

Our valuation was carried out on a market value basis which is defined as ''the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion''.

INTRODUCTION

The Target Company is a company incorporated in the People's Republic of China (the ''**PRC**'') with limited liability and is a wholly-owned subsidiary of Nan Hai Corporation Limited (''**Nan Hai**''). As a digital internet company in the cinema industry, its core business relies on revenue management platform of the Huiyingyun (慧影雲) 4.0 cinema (Software as a Service (''**SaaS**'')-based cinema digitalization total solution) to provide cinemas with closed-loop support for business including ticket sales, retail, membership management, membership marketing, cinema operation decision-making support and big data business intelligence (BI) services, and offer complete mobile solutions for consumers and operators in respect of application programs, H5, mini programs, etc.

In December 2020, Sino-i entered into an equity transfer agreement with Nan Hai, pursuant to the equity transfer agreement, Nan Hai has conditionally agreed to sell and Sino-i has conditionally agreed to acquire 100% equity interest of the Target Company.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the specific characteristics of the Target Company, there are substantial limitations for the income approach and the cost approach for valuing the underlying asset. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this valuation exercise, the market value of 100% equity interest in the Target Company was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of the Target Company.

In 2020, the cinema industry has been severely affected by the COVID-19 epidemic. All cinemas were shut down at the end of January 2020 in China, which led to a significant drop in both the national gross box office (excluding service charges) and the total admission of audience of the movie industry in 2020. The financial performance of the Target Company was impacted substantially as well. The revenue in 2020 is abnormally low and it is not considered as a proper base in this valuation. Moreover, Huiyingyun (慧影雲) 4.0 of the Target Company was launched in 2020 which is a "cloud" version with customised development functions. As the management anticipates that PRC cinemas will gradually use cloud-based cinema ticketing management system in the foreseeable future because the cloud-based cinema ticketing management system will achieve the real-time update of the ticket-box data so that the ticket-box data transmitted to the relevant government authorities will be more accurate, reliable, timely and complete for the purpose of government use. It is expected that the Target Company's business would be benefited from new products launched and exhibit new development potentials from 2021 onwards. Based on the above analysis, the estimated revenue in 2021 of the Target Company is more complete and appropriate to evaluation the financial condition of the Target Company, and is a better base to be used in valuation than the actual revenue in 2020.

Given the operating plan and financial status of the Target Company, it is considered that the suitable multiple in this valuation is the leading enterprise value-to-sales ratio (the "**Leading EV/S Ratio**"), which is considered to be one of common approaches in the valuation. The Leading EV/S Ratio is calculated by using comparable companies' enterprise value as at the Valuation Date divided by estimated revenue for year 2021 as at the Valuation Date to determine the market value of the Target Company and then taken into account of market liquidity discount and control premium as the appropriate adjustment.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and historical financial performance of the Target Company;
- The projected financial performance of the Target Company;
- Financial and business risk of the business including continuity of income and the projected future results;
- Consideration and analysis on the micro and macro economy affecting the subject business; and

- Other operational and market information in relation to the Target Company's business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Company.

VALUATION ASSUMPTIONS

In determining the market value of the equity interest in the Target Company, we make the following key assumptions:

- It is assumed that the projected revenue for year 2021 could be achieved with the effort of the Target Company's management;
- All relevant legal approvals and business certificates or licenses to operate the business in which the Target Company operates or intends to operate have been or would be officially obtained and renewable upon expiry;
- There will be no major change in the political, legal, economic and social environment in which the Target Company operates or intends to operate;
- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing;
- It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The financial and operational information provided by Sino-i is accurate and it is relied to a considerable extent on such information in arriving at the opinion of value; and
- There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value.

CONSOLIDATED FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is extracted from unaudited consolidated financial statements of the Target Company and its wholly-owned subsidiary (collectively the "**Target Group**") for years ended 31 December 2019 and 2020:

	For the year ended 31 December 2019	**For the year ended 31 December 2020**
	RMB'000	*RMB'000*
Revenue	69,500	21,303
Profit/(Loss) for the year	1,753	(49,551)

The market value of the Target Company was developed by using the Leading EV/S Ratio as at the Valuation Date and the estimated revenue for year 2021 of the Target Company as of the Valuation Date. The estimated revenue for year 2021 of the Target Company as of the Valuation Date would be estimated as approximately RMB160,935,000.

MARKET MULTIPLE

In determining the price multiple, the initial selection criteria include the followings:

- The comparable companies are publicly listed;
- The comparable companies are mainly engaged in operating ticketing software or platform for cinema or other entertainment and leisure industry and whose revenues are mainly generated from ticket sales and/or other value-added services;
- The Leading EV/S Ratio for 2021 of the comparable companies are available, as at the Valuation Date.

As sourced from Capital IQ, a reliable third party database service provider designed by Standard & Poor's (S&P), an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis and the details of these comparable companies are shown below:

Stock Code	Company Name	Company Description
NYSE:EB	Eventbrite, Inc.	Eventbrite, Inc. operates a ticketing and experience technology platform in the United States and internationally. Its platform integrates components needed to plan, promote, and produce live events that allow creators to reduce friction and costs, increase reach, and drive ticket sales.
AIM:ACSO	accesso Technology Group plc	accesso Technology Group plc, together with its subsidiaries, develops technology solutions for the attractions and leisure industry in the United Kingdom, other European countries, Australia, the South Pacific, the United States, Canada, and Central and South America. The company operates through ticketing and distribution, and guest experience segments. It offers ticketing solutions for arenas and sports, fairs and festivals, performing arts, ski, theme parks, tours and attractions, water parks, and zoos and aquariums, as well as cultural facilities.

Stock Code	Company Name	Company Description
NZSE:VGL	Vista Group International Limited	Vista Group International Limited engages in the development, sale, and support of software solutions to the film industry worldwide. The company operates through four segments: Cinema, Movio, Additional Group Companies, and Early Stage Investments. It offers Vista Cinema, a cinema management software for cinema exhibitors in the large circuit market; and Veezi, a cloud-based software as a service cinema management software for cinema exhibitors in the small circuit market. The company also provides Movio, a cloud-based solution that maintains real-time data on customer transactions for cinema chains; MACCS, a multiple-module software that offers theatrical distribution, movie prints, and advertising services, as well as rights and royalties' management services; and Cinema Intelligence, a business intelligence solution for forecasting, planning, and scheduling of movies. In addition, it offers Powster, a studio that provides creative services to the film and music industry, as well as creates products to help users engage with entertainment content; Flicks, a movie and cinema review and showtime guide site; Numero, box office tracking and reporting software for film distributors and cinemas; and movieXchange that connects the movie industry for distribution of movie media, tickets, and showtimes. Further, the company provides software licensing; Web platform development and licensing; and online loyalty data analytics and marketing services.
SEHK:1896	Maoyan Entertainment	Maoyan Entertainment operates a platform that provides Internet-empowered entertainment services in the People's Republic of China. The company offers online entertainment ticketing, entertainment content, e-commerce, advertising, and other services. It provides online movie and entertainment event ticketing services; Internet-based promotion and distribution services for movies, as well as a range of entertainment content; and computer technology research, film project technology advisory, and e-business services. The company's customers primarily include cinemas, entertainment content producers and distributors, and advertisers.

Source: Capital IQ and annual reports of the companies

Some key financial data of the comparable companies are listed in the following table:

Unit: USD MM

Company Name	Enterprise Value*	Estimated Revenue of 2021	Revenue of 2020	Net income of 2020	Latest net asset value
Eventbrite, Inc.	1,777	201	106	(225)	183
Accesso Technology Group plc	336	83	56	(30)	158
Vista Group International Limited	335	81	63	(41)	117
Maoyan Entertainment	1,670	640	209	(99)	1,168
Target Group	101	25	3	(8)	(5)

Source: Capital IQ

**: According to the information of Capital IQ, the enterprise value is calculated as follows: Enterprise Value = market capitalization — total cash & short-term investment + total debt + minority interest*

Based on the above-mentioned initial selection criteria, we conducted a search to find the comparable companies operating similar activities in global market; with the full list, firstly, we analyzed and tried to select the most comparable companies by the similar size and same geographical location comparing to the Target Company from the full comparable companies list. But there is no comparable companies with similar size founded in this exercise. Therefore, we extended the criteria to larger/smaller size comparable.

We conducted further analysis on the size and the multiples, and no correlation between the size and the multiples was identified in this exercise, the detailed information is listed in the following tables:

Company Name	Enterprise Value (USD MM)	Leading EV/S Ratio as at the Valuation Date
Eventbrite, Inc.	1,777	8.85
accesso Technology Group plc	336	4.06
Vista Group International Limited	335	4.14
Maoyan Entertainment	1,670	2.61

Based on the above mentioned comparable selection process and on a best effort basis, the list of four comparable companies shown above was identified and we are of the opinion that each of them is considered as a fair and representative sample. Further details of these four comparable companies with available Leading EV/S Ratios are shown as follows:

Stock Code	Company Name	Leading EV/S Ratio as at the Valuation Date
NYSE:EB	Eventbrite, Inc.	8.85
AIM:ACSO	accesso Technology Group plc	4.06
NZSE:VGL	Vista Group International Limited	4.14
SEHK:1896	Maoyan Entertainment	2.61
Median		4.10

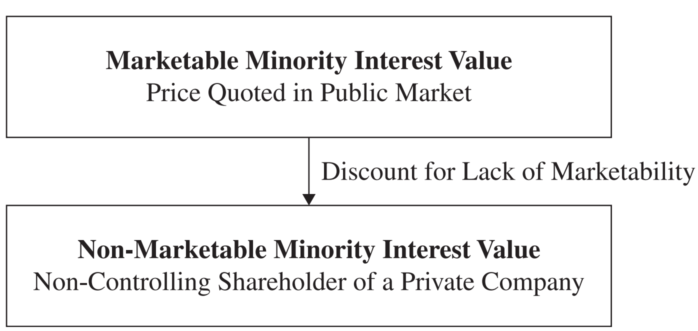
Source: Capital IQ

Note: As sourced from Capital IQ, the Leading EV/S Ratio of each comparable company shown in the above table is estimated based on the total enterprise value as at the Valuation Date divided by the estimated revenue of year 2021 as at the Valuation Date. Adopted multiple is calculated as the median of the multiples of the comparable companies.

Based on the above analysis, we are the view that the comparables is reasonable and suitable comparable which is also in line with the common practice of the investment industry.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

The level of a company value can be described as below:



A factor to be considered in valuing closely held companies is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

Most of the businesses or financial interests that we are valuing do not enjoy immediate liquidity. we thus face the task of making an adjustment from the value we have estimated from the transactions observed in the market approach to account for the lack of marketability of the business or business interest that we are valuing. That adjustment is what we refer to as the discount for lack of marketability.

In this valuation exercise, we have assessed the DLOM using the put option method, which is one of the most commonly used theoretical models. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. The value of put option is determined by "Finnerty Option Pricing Model" with the following parameters.

Parameter	Value	Remarks
Spot Price	1.00	The spot price is set to be 1.00 in the valuation to calculate DLOM.
Exercise Price	1.00	An at-the-money put option is used to estimate DLOM.
Volatility	58%	With reference to the comparable companies, as sourced from Capital IQ.
Target event expected date	31 March 2024	As there is no specific indication of the time to maturity, it is assumed that a liquidity event will occur at 31 March 2024. A liquidity event is an event, such as IPO, merger or sales, from which the subject asset will have marketability. The assumption of occurrence of a liquidity event is the normal approach to determine the maturity. The type of the liquidity event is not relevant for the purpose of determining the parameter used.

By using the put option method and based on the above assumptions, the estimated DLOM is around 20 percent.

Based on the above analysis, we apply 20 percent DLOM in this case.

CONTROL PREMIUM

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control. Both factors recognize that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

The control premium adopted in this valuation is 20%, with reference to the control premium of closed transactions in applications software industry from Capital IQ within 3 years prior to the Valuation Date.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies, sourced from Capital IQ, as at the Valuation Date and we have taken into account of DLOM and control premium of the Target Company that Sino-i will totally hold 100% of the equity interest in the Target Company upon completion of this acquisition, which is a controlling interest in the Target Company. The calculation of the market value of the equity interest in the Target Company as at the Valuation Date is as follows:

	As at 31 March 2021
Applied Leading EV/S Ratio	4.10
The estimated revenues for year 2021 of the Target Company (RMB'000)	160,935
Enterprise value (RMB'000)	660,181
Add: Cash and cash equivalents (RMB'000)	30,812
Less: Debt (RMB'000)	181,646
100% Equity Value before the DLOM and control premium (RMB'000)	509,000
Adjusted for DLOM at 20%	(1–20%)
Adjusted control premium at 20%	(1+20%)
100% Equity Interest Value (RMB'000) (rounded)	489,000

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company, Sino-i and Asia-Pacific Consulting and Appraisal Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in the Target Company as at the Valuation Date is reasonably stated approximately at the amount of **RMB489,000,000 (RENMINBI FOUR HUNDRED AND EIGHTY-NINE MILLION ONLY).**

Yours faithfully,
for and on behalf of
Asia-Pacific Consulting and Appraisal Limited

Jack W. J. Li
CFA, MRICS, MBA
Partner

Note: Jack W. J. Li is a Chartered Surveyor who has 14 years' experience in the valuation of assets in the PRC, Hong Kong and the Asia-Pacific region.

LIMITING CONDITIONS

1. To the best of our knowledge, all data, including historical financial data, if any, relied upon in reaching opinions and conclusions or set forth in this report are true and accurate. Although gathered from sources that we believe are reliable, no guarantee is made nor liability assumed for the truth or accuracy of any data, opinions, or estimates furnished by others that have been used in this analysis.

2. The calculation of value arrived at herein is valid only for the stated purpose as of the effective date of the calculations and it is neither intended nor valid for any other use.

3. Possession of this report or any copy thereof does not carry with it the right of publication. Neither all nor any part of the contents of this report (especially the calculation of value, the identity of any valuation specialist(s), or the firms with which they are connected, or any reference to the professional associations or organizations with which they are affiliated or the designations awarded by those organizations) shall be disseminated to third parties through prospectus, advertising, public relations, news, or any other means of communication without the written consent and approval of Asia-Pacific Consulting and Appraisal Limited.

4. Asia-Pacific Consulting and Appraisal Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein.

5. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

6. Financial statements and other related information provided by Sino-i or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. Asia-Pacific Consulting and Appraisal Limited has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

7. We do not provide assurance on the achievability of the results forecasted for the subject company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted result is dependent on actions, plans and assumptions of management.

8. This report and the calculation of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and calculation of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The calculation of value represents the considered opinion of Asia-Pacific Consulting and Appraisal Limited based on limited information furnished to them by the subject company and other sources.

9. No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the property appraised. We have assumed that the owner's claim is valid, the property rights are good and marketable, and there are no encumbrances that cannot be cleared through normal processes, unless otherwise stated in the report.

10. Areas, dimensions, and descriptions of property, if any, used in this analysis have not been verified, unless stated to the contrary in the report. Any areas, dimensions, and descriptions of property included in the report are provided for identification purposes only, and no one should use this information in a conveyance or other legal document. Plats, if any, presented in the report are intended only as aids in visualizing the property and its environment. Although the material was prepared using the best available data, it should not be considered as a survey or scaled for size.

11. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

12. The management and the Board of Sino-i has reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

13. The calculation of value arrived at here in is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

I. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are disclosed in the annual reports of the Company for the years ended 31 December 2018, 2019 and 2020. These annual reports are published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.sino-i.com):

- annual report of the Company for the year ended 31 December 2020 published on 26 April 2021;
- annual report of the Company for the year ended 31 December 2019 published on 24 April 2020; and
- annual report of the Company for the year ended 31 December 2018 published on 29 April 2019.

II. INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 30 April 2021, being the Latest Practicable Date, the indebtedness statement of the Enlarged Group is as follows:

Borrowings, secured and guaranteed

As at 30 April 2021, the Group's and Target Group's borrowings were as follows:

	As at 30 April 2021 *HK$'000*
The Group	
Bank borrowings, secured and guaranteed	118,732
Bank borrowings, guaranteed	1,200
	119,932
The Target Group	
Bank borrowings, secured and guaranteed	23,987

Security

At the close of business on 30 April 2021,

(i) the Group's bank borrowings were secured by the Group's property, plant and equipment and right-of-use assets with a net carrying amount of approximately HK$2,525,000 and HK$11,096,000 respectively and property, plant and equipment and right-of-use assets held by the other subsidiary of Nan Hai.

(ii) the Target Group's bank borrowings were secured by property, plant and equipment and right-of-use assets held by the other subsidiary of Nan Hai.

Contingent liabilities

Guarantees were given in connection with credit facilities granted to the Group's associate:

	As at 30 April 2021
	HK$'000
An associate *(note)*	22,000

Note: In February 1993, a Group's associate borrowed a loan of US$5 million from a Filipino bank namely Banco de Oro Unibank (formerly known as Equitable PCI Bank Inc. and then as Banco de Oro-EPCI Inc.) ("**Banco Unibank**"). The loan was secured by a guarantee executed by the Company ("**Banco Unibank Guarantee**"), and by share mortgage of 74,889,892 shares (the "**Philippines Shares**") of Acesite (Philippines) Hotel Corporation Inc. ("**Acesite Phils.**"). Due to the claim made by the Group against Banco Unibank is still pending, the Group is not able to obtain updated indebtedness information from Banco Unibank. Given the foregoing limitation, it is estimated that the outstanding balance of the total indebtedness owing to Banco Unibank was approximately US$2,834,000 (equivalent to approximately HK$22,000,000) by reference to the unaudited financial statements of the associate as at 30 April 2021.

Saved as aforesaid and apart from intra-group liabilities and normal accounts payable, the Group and the Target Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 30 April 2021.

III. WORKING CAPITAL STATEMENT OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources available to the Enlarged Group (including its internally generated funds and facilities), the Enlarged Group, after completion of the transaction contemplated under the Agreement, will have sufficient working capital to satisfy its present requirements and the requirements in the next 12 months from the date of this circular.

IV. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in the provision of enterprise cloud services by providing comprehensive digital marketing, digital business overall solutions and cloud computing infrastructure services to SMEs and individual clients in the PRC.

During the year ended 31 December 2020, revenue of the Group was approximately HK$972.1 million, while the revenue in 2019 was approximately HK$963.6 million. Profit for the year in 2020 was approximately HK$111.0 million. Net assets attributable to the owners of the Company were approximately HK$1,556.6 million as at 31 December 2020.

The management of the Group believes that the revenue management platform of the Target Group (SaaS-based cinema digitalization total solution) provides customers with a complete business and closed-loop support including ticket sales, retail, membership management, membership marketing, cinema operation decision-making support and big data BI services, and offers complete mobile solutions for consumers and operators in respect of APP, H5, mini programs, etc. This is in line with the Group's future development direction of integrating online and offline, and effectively complements the Group's e-commerce products in the cinema industry.

In the future, based on an in-depth understanding of the business environment of customers in different industries, the Group will continue to invest in data centres, cloud computing technology, automated operation and maintenance technology, big data technology and intelligent marketing technology to comprehensively enhance its core technology capabilities and further develop and optimise products and services for the digital intelligent operation and business of enterprises. In the future, we will make use of cloud computing, the middle structure of business (業務中台) and SaaS applications to develop digital marketing, data analytics and e-commerce operations services to help our traditional industry customers achieve digital transformation, better respond to changes in consumer demand and meet the challenges of the digital era.

In addition, the Sale and Purchase will pave the way for the long-term development of the Group and will create synergies and integration benefits with the core competencies and quality resources of the Group. In view of the above, the Sale and Purchase will be beneficial to the Company and the Shareholders as a whole.

V. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financing or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

Set out below is the text of a report received from the independent reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, which has been prepared for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SINO-I TECHNOLOGY LIMITED

Introduction

We report on the historical financial information of 數碼辰星科技發展(北京)有限公司 (Digicine Oristar Technology Development (Beijing) Company Limited*) (the ''Target Company'') and its subsidiaries (hereinafter collectively referred to as the ''Target Group'') set out on pages 60 to 114, which comprises the consolidated statements of financial position as at 31 December 2018, 2019 and 2020 and the statements of financial position of the Target Company as at 31 December 2018, 2019 and 2020, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020 (the ''Relevant Periods'') and a summary of significant accounting policies and other explanatory information (together the ''Historical Financial Information''). The Historical Financial Information set out on pages 60 to 114 forms an integral part of this report, which has been prepared for inclusion in the circular of Sino-i Technology Limited (the ''Company'') dated 28 June 2021 (the ''Circular'') in connection with the proposed acquisition of 100% equity interests in the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 4 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 ''*Accountants' Reports on Historical Financial Information in Investment Circulars*'' issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

* *English name is for identification purpose only*

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 4 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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 the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2018, 2019 and 2020, the Target Group's consolidated financial position as at 31 December 2018, 2019 and 2020 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 4 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 60 have been made.

BDO Limited
Certified Public Accountants
Yu Tsui Fong
Practising Certificate Number P05440

Hong Kong
28 June 2021

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were prepared in accordance with Hong Kong Financial Reporting Standards (''HKFRSs'') issued by the HKICPA (the ''Underlying Financial Statements'') and were audited by BDO Limited.

The Historical Financial Information is presented in Hong Kong dollars (''HK$'') and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		
		2018	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*8(a)*	92,444	78,878	23,944
Cost of sales		(52,671)	(17,440)	(15,158)
Gross profit		39,773	61,438	8,786
Other income	*8(b)*	1,623	206	1,981
Selling and marketing expenses		(37,072)	(26,653)	(20,412)
Administrative expenses		(17,404)	(24,856)	(8,094)
Other operating expenses		(51,312)	(5,710)	(32,562)
Expected credit loss on financial assets	*9*	(2,118)	(1,614)	(5,097)
Finance costs	*10*	(1,685)	(821)	(230)
(Loss)/Profit before income tax	*11*	(68,195)	1,990	(55,628)
Income tax expense	*12*	—	—	—
(Loss)/Profit for the year		(68,195)	1,990	(55,628)
(Loss)/Profit for the year attributable to:				
Owner of the Target Company		(68,195)	1,990	(55,628)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/Profit for the year	(68,195)	1,990	(55,628)
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency	(2,225)	(414)	(1,855)
Total comprehensive income for the year	(70,420)	1,576	(57,483)
Total comprehensive income attributable to:			
Owner of the Target Company	(70,420)	1,576	(57,483)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
		2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*16*	23,892	22,412	15,281
Intangible assets	*18*	5,500	82,371	130,769
		29,392	104,783	146,050
Current assets				
Inventories	*19*	38,412	25,583	19,601
Trade receivables	*20*	28,671	36,674	33,967
Deposits, prepayments and other receivables	*21*	10,598	6,056	4,397
Amounts due from fellow subsidiaries	*22(b)*	17,825	17,779	14,411
Amounts due from related companies	*22(b)*	482	515	283
Pledged and restricted bank deposits	*23*	—	—	12,515
Cash and cash equivalents	*23*	8,328	267	5,077
		104,316	86,874	90,251
Current liabilities				
Trade payables	*24*	31,458	13,137	9,856
Other payables and accruals	*25*	31,126	40,496	35,757
Contract liabilities	*26*	8,194	6,552	2,805
Amount due to immediate holding company	*22(a)*	19,828	101,572	—
Amounts due to fellow subsidiaries	*22(c)*	726	872	194,219
Amounts due to related companies	*22(c)*	36	2,583	2,748
Bank and other borrowings	*27*	16,145	1,684	23,770
		107,513	166,896	269,155
Net current liabilities		(3,197)	(80,022)	(178,904)
Total assets less current liabilities		26,195	24,761	(32,854)

		As at 31 December		
		2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank and other borrowings	*27*	1,699	—	—
Provision for warranty	*28*	3,886	2,575	2,443
		5,585	2,575	2,443
Net assets/(liabilities)		20,610	22,186	(35,297)
Equity attributable to the owner of the Target Company				
Share capital	*29*	176,785	176,785	176,785
Reserves	*30*	(156,175)	(154,599)	(212,082)
Total equity/(Capital deficiency)		20,610	22,186	(35,297)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2018	176,785	(3,441)	(82,314)	91,030
Loss for the year	—	—	(68,195)	(68,195)
Other comprehensive income Exchange differences on translation to presentation currency	—	(2,225)	—	(2,225)
Total comprehensive income for the year	—	(2,225)	(68,195)	(70,420)
Balance at 31 December 2018 and 1 January 2019	176,785	(5,666)	(150,509)	20,610
Profit for the year	—	—	1,990	1,990
Other comprehensive income Exchange differences on translation to presentation currency	—	(414)	—	(414)
Total comprehensive income for the year	—	(414)	1,990	1,576
Balance at 31 December 2019 and 1 January 2020	176,785	(6,080)	(148,519)	22,186
Loss for the year	—	—	(55,628)	(55,628)
Other comprehensive income Exchange differences on translation to presentation currency	—	(1,855)	—	(1,855)
Total comprehensive income for the year	—	(1,855)	(55,628)	(57,483)
Balance at 31 December 2020	176,785	(7,935)	(204,147)	(35,297)

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2018	2019	2020
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Cash flows from operating activities				
(Loss)/Profit before income tax		(68,195)	1,990	(55,628)
Adjustments for:				
Finance costs		1,685	821	230
Interest income		(243)	(78)	(10)
Depreciation of property, plant and equipment		6,673	7,667	7,800
Amortisation of intangible assets		958	923	16,552
Provision for inventories		2,476	—	—
Write off of inventories		3,982	4,340	4,535
Expected credit loss on financial assets		2,118	1,614	5,097
Loss on disposal of property, plant and equipment		—	21	170
Loss on write off of property, plant and equipment		147	—	—
Provision for warranty		573	39	—
Gain on disposal of a subsidiary	*32*	—	—	(1,213)
Operating (loss)/profit before working capital changes		(49,826)	17,337	(22,467)
Decrease in inventories		12,806	6,665	2,364
Increase in trade receivables		(6,877)	(10,213)	(111)
Decrease in deposits, prepayments and other receivables		17,586	4,491	1,932
Decrease in trade payables		(40,871)	(18,014)	(3,891)
Increase/(Decrease) in other payables and accruals		11,800	10,102	(6,846)
Increase/(Decrease) in contract liabilities		2,511	(1,513)	(3,937)
Decrease/(Increase) in amounts due from fellow subsidiaries		34,356	(290)	4,253
Decrease/(Increase) in amounts due from related companies		2,159	(43)	251
Net cash (used in)/generated from operating activities		(16,356)	8,522	(28,452)

	Notes	Year ended 31 December 2018 HK$'000	2019 HK$'000	2020 HK$'000
Cash flows from investing activities				
Payments to acquire property, plant and equipment		(14,859)	(7,679)	(30)
Payments to acquire intangible assets		—	(79,092)	(57,378)
Proceeds from sales of property, plant and equipment		—	1,027	15
Increase in pledged and restricted bank deposits		—	—	(11,835)
Interest received		28	8	10
Net cash outflow arising from disposal of a subsidiary	*32*	—	—	(76)
Net cash used in investing activities		(14,831)	(85,736)	(69,294)
Cash flows from financing activities				
Repayment to bank and other borrowings		(26,380)	(16,038)	(1,766)
Proceeds from bank and other borrowings		12,559	—	22,479
Increase in amount due to immediate holding company		49,208	83,389	79,273
Increase in amounts due to related companies		—	2,623	995
(Decrease)/Increase in amounts due to fellow subsidiaries		(395)	162	1,661
Interest paid		(1,718)	(874)	(249)
Net cash generated from financing activities	*35*	33,274	69,262	102,393
Net increase/(decrease) in cash and cash equivalents		2,087	(7,952)	4,647
Cash and cash equivalents at the beginning of year		6,718	8,328	267
Effect of foreign exchange rate changes, on cash held		(477)	(109)	163
Cash and cash equivalents at the end of year		8,328	267	5,077

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

		As at 31 December		
		2018	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Investment in subsidiaries	*17*	—	—	—
Property, plant and equipment	*16*	23,892	21,845	15,281
Intangible assets	*18*	5,500	82,371	130,769
		29,392	104,216	146,050
Current assets				
Inventories	*19*	38,412	25,583	19,601
Trade receivables	*20*	28,671	36,674	33,967
Deposits, prepayments and other receivables	*21*	10,424	5,793	3,697
Amounts due from fellow subsidiaries	*22(b)*	17,824	17,779	14,411
Amounts due from related companies	*22(b)*	482	515	283
Pledged and restricted bank deposits	*23*	—	—	12,515
Cash and cash equivalents	*23*	8,294	265	5,074
		104,107	86,609	89,548
Current liabilities				
Trade payables	*24*	31,458	13,137	9,856
Other payables and accruals	*25*	31,126	40,496	35,714
Contract liabilities	*26*	8,194	6,552	2,805
Amount due to immediate holding company	*22(a)*	19,828	101,471	—
Amounts due to fellow subsidiaries	*22(c)*	726	860	194,219
Amounts due to related companies	*22(c)*	36	2,583	2,748
Bank and other borrowings	*27*	16,145	1,684	23,770
		107,513	166,783	269,112
Net current liabilities		(3,406)	(80,174)	(179,564)
Total assets less current liabilities		25,986	24,042	(33,514)

		As at 31 December		
		2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank and other borrowings	*27*	1,699	—	—
Provision for warranty	*28*	3,886	2,575	2,443
		5,585	2,575	2,443
Net assets/(liabilities)		20,401	21,467	(35,957)
Equity attributable to the owners of the Target Company				
Share capital	*29*	176,785	176,785	176,785
Reserves	*30*	(156,384)	(155,318)	(212,742)
Total equity/(Capital deficiency)		20,401	21,467	(35,957)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1. GENERAL INFORMATION

The Target Company was incorporated in the People's Republic of China (the "PRC") with limited liability on 21 September 2009. Its registered office is located at Room A2–303, 3rd Floor, Block A, No. 1, Disheng West Road, Beijing Economic and Technological Development Zone, Beijing, the PRC.

The Target Company is engaged in investment holding, sales of movie projection equipment and provision of digital media technology services. Details of the activities of its subsidiaries are set out in Note 17.

As at 31 December 2018 and 2019, the immediate holding company of the Target Company is 南海辰星科技發展(北京)有限公司 (Nan Hai Oristar Technology Development (Beijing) Company Limited*) ("Nan Hai Oristar"), a limited liability company incorporated in the PRC. On 9 November 2020, Nan Hai Oristar had disposed of the entire issued share of the Target Company to 南海智辰投資顧問(北京)有限公司 (Nan Hai Zhi Chen Investment Consulting (Beijing) Company Limited*) ("Nan Hai Zhi Chen"), a limited liability company incorporated in the PRC.

As at 31 December 2020, the immediate holding company of the Target Company is Nan Hai Zhi Chen, and the intermediate holding company of the Target Company is Nan Hai Corporation Limited, a company incorporated and domiciled in Bermuda and its share are listed on The Stock Exchange of Hong Kong Limited. The ultimate holding company of the Target Company is Dadi Holdings Limited, a limited liability company incorporated in Hong Kong.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Changes in accounting policies and disclosures

For the purposes of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Company has consistently adopted accounting policies which conform with HKFRSs, amendments and the related interpretations, which are effective for the accounting period beginning on 1 January 2020 throughout the Relevant Periods except the following standards and amendments which have been adopted during the Relevant Periods at their respective effective dates as follows:

HKFRS 16	Leases[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[2]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 June 2020

The nature and the impact of the new and amended HKFRSs are described below:

HKFRS 16 — Leases

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease ("HK(IFRIC)-Int 4"), HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17.

The new accounting policies are set out in Note 5.10.

* *English name is for identification purpose only*

(i) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the ''underlying asset'') for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(ii) Impact on adoption of HKFRS 16

The adoption of HKFRS 16 has no material impact on the Target Group's consolidated financial statement as at date of initial application of 1 January 2019 as the Target Group applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application and accounted for those leases as short-term leases.

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	456
Less: short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(456)
Total lease liabilities as of 1 January 2019	—

(iii) Transition

The Target Group has also applied the following practical expedients:

(i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; and

(ii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Target Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Target Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4; and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

(iv) Lessor accounting

The Target Group leases out a number of items of equipment as the lessor of operating leases. The accounting policies applicable to the Target Group as a lessor remain substantially unchanged from those under HKAS 17.

Amendments to HKFRS 16 — Covid-19-Related Rent Concessions

The Target Group has elected to early adopt the Amendments to HKFRS 16 — Covid-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequent of the COVID-19 pandemic and only if all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

The adoption of Amendments to HKFRS 16 has no material impact on the Target Group's consolidated financial statement on the opening balance of equity as at 1 January 2020 as the Target Group applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application and accounted for those leases as short-term leases.

2.2 Issued but not yet effective HKFRSs

The following new or revised HKFRSs, potentially relevant to the Historical Financial Information, have been issued, but are not yet effective and have not been early adopted by the Target Group.

Annual Improvements to HKFRSs 2018–2020	Annual improvement project[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[4]
Amendments to HKAS 8	Definition of Accounting Estimates[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[6]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[3]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
HKFRS 17	Insurance Contracts[4]
Amendments to HKFRS 17	Insurance Contracts[4]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[2]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for annual periods beginning on or after 1 April 2021.

3 Effective for annual periods beginning on or after 1 January 2022.

4 Effective for annual periods beginning on or after 1 January 2023.

5 The amendments should be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

6 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the Target Group's consolidated financial performance and positions and/or the disclosures to the consolidated financial statements of the Target Group.

3. THE OUTBREAK OF CORONAVIRUS DISEASE 2019 ("COVID-19")

The World Health Organisation declared coronavirus and COVID-19 a global health emergency on 30 January 2020. Since then, the Target Group has experienced significant disruption to its operations in the following respects:

— Interruptions to cinema services provided by the Target Group; and

— Uncertainty concerning when government lockdowns will be lifted, social distancing requirements will be eased and the potential long-term effects of the pandemic on the demand for the Target Group's primary products, if any.

The significant events and transactions that have occurred since 31 December 2019 relate to the effects of the global pandemic on the Target Group's consolidated financial statements for the year ended 31 December 2020 and are summarised as follows:

(a) Decrease in sales and cash flows, and impairment of non-financial assets

As disclosed in Note 8, the Target Group's revenue have experienced significant reductions since the pandemic's effects became widespread. The Target Group considered the reduced revenue and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for the non-financial assets. The recoverable amount is the higher of fair value less costs of disposal and value in use.

Recoverable amount exceeded the carrying amount of non-financial assets based on forecast cash flows. The impairment assessments are disclosed in Note 5.14.

(b) Expected credit losses ("ECLs")

The Target Group makes estimates of ECLs attributable to account receivables arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates. The economic downturn and uncertainties that have arisen as a result of COVID-19 have made these estimates more judgemental, which the Target Group has taken into account in its determination of applicable ECLs.

4. BASIS OF PREPARATION

4.1 Statement of compliance

The Historical Financial Information set out in this report has been prepared in conformity with HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") issued by the HKICPA and the applicable disclosure requirements of the Listing Rules.

The HKICPA has issued a number of new and revised HKFRS. For the purpose of preparing this Financial Information, the Target Group has adopted all applicable new and revised HKFRS during the Relevant Periods, except for any new or revised standards or interpretations that are not yet effective for and have not been early adopted by the Target Group, details of which are set out in Note 2.

The Target Group incurred a net loss of HK$55,628,000 during the year ended 31 December 2020 and, as of that date, the Target Group had net current liabilities and net liabilities of approximately HK$178,904,000 and HK$35,297,000 respectively. The Target Group finances its operations principally by obtaining funding from its shareholders and interest-bearing borrowings.

The Historical Financial Information has been prepared by the Company's directors under the going concern basis because in the opinion of the Company's directors, the Target Group will have adequate fund for its current operations in the foreseeable future as (i) the intermediate holding company of the Target Company, Nan Hai Corporation Limited, has agreed to provide continuous financial support to the Target Group to enable it to continue in business as a going concern and meet its liabilities and obligations as and when they fall due in the foreseeable future, and not to demand repayment of debts due from the Target Group until such time when repayment will not affect the ability of the Target Group to repay other creditors in the normal course of business in the next twelve months from 31 December 2020; and (ii) the Company also agreed to provide continual financial support and adequate funds to the Target Group for its operations as and when they fall due upon the Company becomes the controlling shareholder of the Target Company.

4.2 Basis of measurement

The Historical Financial Information have been prepared under the historical cost basis.

4.3 Functional and presentation currency

The functional currency of the Target Company is Renminbi ("RMB"), while the Historical Financial Information is prepared for inclusion in this circular, the directors of the Company consider that it is more appropriate to adopt Hong Kong dollars ("HK$") as the Target Group's and the Target Company's presentation currency. All Historical Financial Information presented in HK$ has been rounded to the nearest thousand (HK$'000) except otherwise stated.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

The Historical Financial Information incorporates the financial statements of Target Company and its subsidiaries comprising the Target Group for the Relevant Periods.

Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of the disposal, as appropriate.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Historical Financial Information. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Target Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Target Group.

Changes in the Target Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Target Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Target Company.

When the Target Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

5.2 Subsidiaries

A subsidiary is an investee over which the Target Company is able to exercise control. The Target Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Target Company's statement of financial position, investment in subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The result of the subsidiary is accounted for by the Target Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Target Company's profit or loss.

5.3 Foreign currency translation

Transactions entered into by Target Group in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items are translated into the presentation currency of the Target Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities are translated at the rate ruling at the end of reporting period.

Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Target Group's net investment are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

5.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Property, plant and equipment are depreciated so as to write off their cost, net of expected residual value, over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Motor vehicles	5 years
Furniture, fixtures and equipment	3–12 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other expenses, such as repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

5.5 Intangible assets and research and development costs

Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	5 years
Development cost	5 years
Trademark and patent	5 years

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the computer software to which it relates. All other expenditure is expensed as incurred.

Intangible assets are tested for impairment as described in Note 5.14.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development activities are recognised as intangible assets provided they meet the following recognition requirements:

(a) demonstration of technical feasibility of the prospective product for internal use or sale;

(b) there is intention to complete the intangible asset and use or sell it;

(c) the Target Group's ability to use or sell the intangible asset is demonstrated;

(d) the intangible asset will generate probable economic benefits through internal use or sale;

(e) sufficient technical, financial and other resources are available for completion; and

(f) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

5.6 Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. The Target Group classifies its debt instruments into the following measurement category.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Impairment loss on financial assets

The Target Group recognises a loss allowance for ECLs on investments in debt instruments that are measured at amortised cost. ECLs are a probability weighted estimate of credit losses, which are measured as the present value of the difference between the cash flows that are due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive (i.e. expected cash shortfalls). The expected cash shortfalls are discounted at the effective interest rate of the financial assets. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Group recognises lifetime ECLs for trade receivables using simplified approach. Lifetime ECLs represent the ECLs that will result from all possible default events over the expected life of a financial asset. The ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other financial assets, the Target Group recognises lifetime ECLs when there has been a significant increase in credit risk since initial recognition. When the credit risk on a financial asset has not increased significantly since initial recognition (i.e. stage 1), the Target Group is required to measure the loss allowance for a financial asset at an amount equal to 12-month ECLs, which represents the portion of lifetime ECLs that is expected to result from default events on a financial asset that are possible within 12 months after the reporting date. When the credit risk on that financial asset has increased significantly since initial recognition (i.e. stage 2) or when the financial asset is a credit-impaired financial asset (i.e. stage 3), the Target Group recognised lifetime ECLs.

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial asset's external (if available) or internal credit rating;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- significant increases in credit risk on other financial assets of the same debtor.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

Depending on the nature of the financial assets, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial assets are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Despite the foregoing, the Target Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have low credit risk if (i) the financial asset has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target Group also considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade".

On the other hand, a financial asset is credit-impaired when one of more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired induces observable data about the following events:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the restructuring of a loan or advance by the Target Group on terms that the Target Group would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for a security because of financial difficulties.

In addition, the Target Group considers that an event of default occurs when there is a breach of financial covenants by the counterparty; or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group). Irrespective of the above, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Target Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account. The Target Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

5.7 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

5.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks or financial institutions and short-terms highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

5.9 Financial liabilities

The Target Group classified its financial liabilities depending on the purpose for which the liabilities were incurred.

The Target Group's financial liabilities include trade payables, other payables and accruals, amounts due to immediate holding company/fellow subsidiaries/related companies and bank and other borrowings. They are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are recognised when the Target Group becomes a party to the contractual provisions of the instruments. All related finance costs are recognised in accordance with the Target Group's accounting policy for finance costs (see Note 5.16).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade payables and other payables and accruals

Trade payables and other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

5.10 Leases

Accounting policies applied from 1 January 2019

Accounting as a lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short term leases; and/or (ii) leases for which the underlying asset is of low-value. The Target Group has elected not to recognise right-of-use assets and lease liabilities for low value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Target Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset is initially recognised at cost and would comprise:

(i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability);

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Target Group measures the right-of-use assets applying a cost model. Under the cost model, the Target Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses (see Note 5.14), and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Target Group uses the lessee's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

(i) fixed lease payments less any lease incentives receivable;

(ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date;

(iii) amounts expected to be payable by the lessee under residual value guarantees;

(iv) exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Target Group measures the lease liability by:

(i) increasing the carrying amount to reflect interest on the lease liability;

(ii) reducing the carrying amount to reflect the lease payments made; and

(iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

When the Target Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Target Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for Covid-19-Related Rent Concessions applies (see Note 2.1), if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

The Target Group as a lessor

When the Target Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Target Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 5.12.

Accounting policies applied until 31 December 2018

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Target Group

Assets that are held by the Target Group under leases which transfer to the Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Target Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

5.11 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Target Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5.12 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Target Group's performance:

— provides all of the benefits received and consumed simultaneously by the customer;

— creates or enhances an asset that the customer controls as the Target Group performs; or

— does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Target Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Cinema ticketing management system as a service

The Target Group provides digital solutions regarding cinema ticketing management system for the cinemas. Customers can enjoy the cinema ticketing management services while they distribute the tickets to end users. Revenue is recognised over time as the customer receives and uses the benefits simultaneously. The consideration received is either by a variable consideration or a maximum monthly consideration, whichever is lowest. Invoices are issued on a monthly basis and are usually due on presentation.

Sales of projection equipment

For sales of projection equipment, revenue is recognised at the point in time when the control of goods is transferred to customer, generally when the goods are delivered and installed in the cinemas and the risk of obsolescence and loss have been transferred to customer. The contract of sales of projection equipment usually contains a payment term ranging from 0 day to 36 months. Revenue is measured at the present value of the consideration receivable, discounted using the discount rate ranging from 5.85%–8.21%. Payment received in advance that are related to the projection equipment not yet delivered to customers are deferred and recognised as contract liabilities.

Some contracts with customers from the sale of projection equipment provides customers a warranty with a period of one to three years. These warranties provides the customer with an assurance type service that the projection equipment complies with agreed-upon specifications. Provisions for the expected cost of assurance-type warranty obligations under the relevant contracts with customers for sale of projection equipment are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Target Group's obligation.

Maintenance service

Revenues from providing maintenance services are recognised in the period in which the related performance obligations are satisfied. When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period of time unless there is evidence that some other method better represents the stage of completion. Invoices are issued upon subscription of the services and are usually due on presentation. Payment received in advance that are related to the provision of such services not yet delivered to customers are deferred and recognised as contract liabilities.

Rental income

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

Other income

Interest income is recognised as it accrues using the effective interest method.

Contract assets and liabilities

A contract asset represents the Target Group's right to consideration in exchange for services that the Target Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Target Group's obligation to transfer services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer.

Contract costs

The Target Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

5.13 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets. Government grants relating to income is presented in gross under "Other income" in the profit or loss.

5.14 Impairment of non-financial assets

Property, plant and equipment, intangible assets and investment in subsidiaries are subject to impairment testing.

Intangible assets that are not available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, when an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

The impairment losses recognised for CGUs is charged pro rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

5.15 Employee benefits

(i) Short term employee benefit

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Retirement benefits

The Target Group is operating in Mainland China and are required to participate in the defined contribution retirement scheme for their employees, organised by the relevant local government authorities. They are required to make contributions to the retirement schemes at a rate of 10% to 22% (depending on the locations of the subsidiaries) of basic salaries of their employees and there are no other further obligations to the Target Group.

5.16 Finance costs

Finance costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other finance costs are expensed as incurred.

Finance costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

5.17 Accounting for income tax

Income taxes comprise current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit including existing taxable temporary differences will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Target Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply to the period when liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

5.18 Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

  (i) has control or joint control over the Target Group;

  (ii) has significant influence over the Target Group; or

  (iii) is a member of key management personnel of the Target Group or the Target Company's parent.

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same company (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a company of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

6. CRITICAL ACCOUNTING ESTIMATIONS AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

6.1 Critical accounting estimates and assumptions

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciation and amortisation

The Target Group depreciates and amortises property, plant and equipment and intangible assets on a straight-line basis over the estimated useful life, and after taking into account of their estimated residual value, 3 to 12 years and 5 years, respectively, commencing from the date on which the assets are available for use. The estimated useful life reflects the directors' estimate of the periods that the Target Group intends to derive future economic benefits from the use of the Target Group's property, plant and equipment and intangible assets.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses the estimations at the end of each reporting period.

Provision for impairment of receivables

The measurement of the ECLs allowance for financial assets measured at amortised cost is an area that requires the use of significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements, including determining the criteria for significant increase in credit risk, are also required in applying the accounting requirements for measuring ECLs. Details about the judgements and assumptions used in measuring ECLs is set out in Note 5.6. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECLs to be recognised.

Impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

Current tax and deferred tax

The Target Group is subject to enterprise income taxes in the PRC. Significant judgement is required in determining the amount of the provision for taxes and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises taxes based on estimates of the likely outcome with reference to current tax laws and practices. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income taxes and deferred tax provision in the period in which such determination is made.

6.2 Critical judgements in applying the Target Group's accounting policies

Research and development costs

Careful judgement by the Target Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at each reporting period. In addition, all internal activities related to the research and development of new software products are continuously monitored by the Target Group's management.

Going concern consideration

The directors of the Company has prepared the consolidated financial statements on the assumption that the Target Group will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors consider that the Target Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that may individually or collectively cast a significant doubt upon the going concern assumption are set out in Note 4.1.

7. SEGMENT INFORMATION

For management purposes, the Target Group has only one reportable operating segment which is provision of closed-loop support for cinemas business. Since this is the only one reportable operating segment of the Target Group, no further operating segment analysis thereof is presented.

(a) Geographical information

The Target Group's operations and non-current assets are located in the PRC.

(b) Information about major customers

The Target Group did not derive more than 10% of the Target Group's total revenue from any single customer during the Relevant Periods.

8. REVENUE AND OTHER INCOME

(a) Revenue

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15			
— Ticket management system service	43,764	62,495	13,870
— Maintenance service	4,763	5,346	1,727
— Sales of projection equipment	36,304	4,600	1,969
	84,831	72,441	17,566
Revenue from other sources			
— Lease of projection equipment	7,613	6,437	6,378
	92,444	78,878	23,944
Timing of revenue recognition			
— At a point in time	36,304	4,600	1,969
— Transferred over time	48,527	67,841	15,597
	84,831	72,441	17,566

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables *(Note 20)*	28,671	36,674	33,967
Contract liabilities *(Note 26)*	(8,194)	(6,552)	(2,805)

As at 31 December 2018, 2019 and 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Target Group's existing contracts were approximately HK$8,194,000, HK$6,552,000 and HK$2,805,000 respectively. This amount represents revenue expected to be recognised in the future from completed contracts of provision of ticket management system service, sales of projection equipment and provision of maintenance services. The Target Group will recognise the expected revenue in future when or as the good is delivered or service is rendered.

(b) Other income

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Government grants *(note)*	448	69	745
Interest income	243	78	10
Gain on disposal of a subsidiary *(Note 32)*	—	—	1,213
Others	932	59	13
	1,623	206	1,981

Note: Government grants have been received from the PRC governmental bodies in the form of the subsidies to the development of information technology business in the PRC. The purpose of the subsidy is to encourage innovation by granting financial assistance to commercial entities who have research and development projects that meet certain criteria. There are no unfulfilled conditions or contingencies attaching to these grants.

9. EXPECTED CREDIT LOSS ON FINANCIAL ASSETS

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Loss allowances recognised on:			
— Trade receivables	2,118	1,614	5,097

Details of impairment assessment on ECLs for the Relevant Periods are set out in Note 36(a).

10. FINANCE COSTS

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Interest on bank and other borrowings	1,685	821	230

11. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Auditor's remuneration	112	60	32
Amortisation of intangible assets*	958	923	16,552
Cost of inventories sold	38,460	4,614	2,576
Provision for inventories**	2,476	—	—
Write off of inventories**	3,982	4,340	4,535
Depreciation of property, plant and equipment*	6,673	7,667	7,800
Operating lease expenses under HKAS 17	2,351	—	—
Expenses relating to short-term leases	—	5,280	1,985
Loss on disposal of property, plant and equipment	—	21	170
Write off of property, plant and equipment ***	147	—	—
Research and development expenses***	39,354	1,982	13,216

* Included in cost of sales and other operating expenses

** Included in cost of sales

*** Included in other operating expenses

12. INCOME TAX EXPENSE

On 30 November 2018, the Target Company renewed the "High and New Technology Enterprise" status for three years that entitled the Target Company a preferential tax rate of 15% for a period of three years starting from 2018 to 2020 according to the PRC tax law. The remaining subsidiaries of the Target Group established in the PRC are subject to PRC enterprise income tax rate of 25%.

A reconciliation of income tax expense and accounting (loss)/profit at applicable tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
(Loss)/Profit before income tax	(68,195)	1,990	(55,628)
Tax on (loss)/profit before income tax, calculated at the PRC tax rate of 25%	(17,049)	498	(13,907)
Tax effect of non-deductible expense	480	552	1,254
Tax effect of temporary difference not recognised	—	—	722
Tax effect of tax losses not recognised	16,569	270	11,931
Utilisation of tax loss	—	(1,320)	—
Income tax expense	—	—	—

As at 31 December 2018, 2019 and 2020, the Target Group had unused tax losses of approximately HK$92,480,000, HK$98,136,000 and HK$112,453,000 respectively, available to offset against future profits. Deferred tax assets in respect of unused tax losses has not been recognised in the consolidated financial statements due to the unpredictability of future profit stream against which the tax losses can be utilised. The tax losses of the entities operating in Mainland China can be carried forward for 5 years.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Wages and salaries	52,057	80,983	61,967
Pension cost — defined contribution plans	5,869	8,504	1,540
Staff welfare	9,931	20,162	12,389
	67,857	109,649	75,896
Less: Amounts capitalised in intangible assets	—	(74,335)	(42,018)
Total employee benefit expenses	67,857	35,314	33,878

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' emoluments paid to each of the directors of the Target Group during the Relevant Periods is as follows:

	Fees	Salaries and other benefits	Pension cost — defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2018				
Name of directors				
Chen Mingfei	—	—	—	—
Liu Rong	—	—	—	—
Sun Xiaobin (resigned on 12 January 2018)	—	—	—	—
Zhao Lei (appointed on 12 January 2018)	—	—	—	—
	—	—	—	—
Year ended 31 December 2019				
Name of directors				
Chen Mingfei	—	—	—	—
Liu Rong	—	—	—	—
Zhao Lei	—	—	—	—
	—	—	—	—

	Fees	Salaries and other benefits	Pension cost — defined contribution plans	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2020				
Name of directors				
Chen Mingfei	—	—	—	—
Liu Rong	—	—	—	—
Zhao Dong (appointed on 9 November 2020)	—	—	—	—
Zhao Lei (resigned on 9 November 2020)	—	—	—	—
	—	—	—	—

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no remuneration was paid by the Target Group to any director as an inducement to join or upon joining the Target Group or as compensation for loss of office.

(b) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in the Target Group for the years ended 31 December 2018, 2019 and 2020 did not include directors whose emoluments is reflected in the analysis presented above, respectively. The emoluments payables to the 5 individuals during the Relevant Periods, respectively, are as follows:

	Year ended 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	2,944	2,814	2,677
Pension cost — defined contribution plans	26	717	439
	2,970	3,531	3,116

The emoluments paid to the above non-director individuals during the Relevant Periods fell within the following band:

	Number of employees Year ended 31 December		
	2018	2019	2020
Nil to HK$1,000,000	5	5	5

15. DIVIDENDS AND EARNINGS/(LOSS) PER SHARE

No dividend was declared nor paid during the Relevant Periods.

No earnings/(loss) per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

16. PROPERTY, PLANT AND EQUIPMENT

The Target Group

	Motor vehicles *HK$'000*	Furniture, fixture and equipment *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2018	250	24,479	24,729
Additions	—	14,859	14,859
Write off	—	(912)	(912)
Exchange realignment	(13)	(1,782)	(1,795)
At 31 December 2018 and 1 January 2019	237	36,644	36,881
Additions	—	7,679	7,679
Disposal	—	(1,357)	(1,357)
Exchange realignment	(4)	(777)	(781)
At 31 December 2019 and 1 January 2020	233	42,189	42,422
Additions	—	30	30
Disposal	—	(556)	(556)
Disposal of a subsidiary *(Note 32)*	—	(268)	(268)
Exchange realignment	15	2,567	2,582
At 31 December 2020	248	43,962	44,210
Depreciation			
At 1 January 2018	217	7,481	7,698
Charge for the year	33	6,640	6,673
Write off	—	(765)	(765)
Exchange realignment	(13)	(604)	(617)
At 31 December 2018 and 1 January 2019	237	12,752	12,989
Charge for the year	—	7,667	7,667
Disposal	—	(309)	(309)
Exchange realignment	(4)	(333)	(337)
At 31 December 2019 and 1 January 2020	233	19,777	20,010
Charge for the year	—	7,800	7,800
Disposal	—	(371)	(371)
Disposal of a subsidiary *(Note 32)*	—	(128)	(128)
Exchange realignment	15	1,603	1,618
At 31 December 2020	248	28,681	28,929
Carrying amount			
At 31 December 2018	—	23,892	23,892
At 31 December 2019	—	22,412	22,412
At 31 December 2020	—	15,281	15,281

The Target Company

	Motor vehicles *HK$'000*	Furniture, fixture and equipment *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2018	250	24,479	24,729
Additions	—	14,859	14,859
Write off	—	(912)	(912)
Exchange realignment	(13)	(1,782)	(1,795)
At 31 December 2018 and 1 January 2019	237	36,644	36,881
Additions	—	7,679	7,679
Disposal	—	(3,016)	(3,016)
Exchange realignment	(4)	(751)	(755)
At 31 December 2019 and 1 January 2020	233	40,556	40,789
Additions	—	30	30
Disposal	—	(251)	(251)
Exchange realignment	15	2,561	2,576
At 31 December 2020	248	42,896	43,144
Depreciation			
At 1 January 2018	217	7,481	7,698
Charge for the year	33	6,640	6,673
Write off	—	(765)	(765)
Exchange realignment	(13)	(604)	(617)
At 31 December 2018 and 1 January 2019	237	12,752	12,989
Charge for the year	—	7,667	7,667
Disposal	—	(1,375)	(1,375)
Exchange realignment	(4)	(333)	(337)
At 31 December 2019 and 1 January 2020	233	18,711	18,944
Charge for the year	—	7,528	7,528
Disposal	—	(231)	(231)
Exchange realignment	15	1,607	1,622
At 31 December 2020	248	27,615	27,863
Carrying amount			
At 31 December 2018	—	23,892	23,892
At 31 December 2019	—	21,845	21,845
At 31 December 2020	—	15,281	15,281

17. INVESTMENT IN SUBSIDIARIES

The Target Company

Investment in subsidiaries by the Target Company represents an unlisted equity interest stated at cost less full impairment as at the end of each Relevant Periods.

Particulars of the subsidiaries held by the Target Company as at the end of each Relevant Periods are set out as follows:

Name	Place of incorporation	Percentage of interest held directly			Particulars of registered capital	Principal activities
		2018	2019	2020		
數碼辰星科技發展(廣州)有限公司 (Digicine Oristar Technology Development (Guangzhou) Company Limited*)	The PRC	100%	100%	100%	Registered capital of RMB10,000,000	Provision of supporting service to the Target Company
北京海辰億華科技有限公司 ("Beijing Hai Chen*")	The PRC	100%	100%	N/A	Registered capital of RMB500,000	Provision of technology promotion and application service

* *English name is for identification purpose only*

18. INTANGIBLE ASSETS

The Target Group and the Target Company

	Computer software *HK$'000*	Development cost *HK$'000*	Trademark and patent *HK$'000*	Total *HK$'000*
Cost				
At 1 January 2018	9,424	—	312	9,736
Exchange realignment	(489)	—	(16)	(505)
At 31 December 2018 and 1 January 2019	8,935	—	296	9,231
Additions	249	78,842	—	79,091
Exchange realignment	(170)	(1,206)	(4)	(1,380)
At 31 December 2019 and 1 January 2020	9,014	77,636	292	86,942
Additions	—	57,378	—	57,378
Exchange realignment	573	8,221	18	8,812
At 31 December 2020	9,587	143,235	310	153,132
Amortisation				
At 1 January 2018	2,763	—	198	2,961
Charge for the year	927	—	31	958
Exchange realignment	(177)	—	(11)	(188)
At 31 December 2018 and 1 January 2019	3,513	—	218	3,731
Charge for the year	893	—	30	923
Exchange realignment	(79)	—	(4)	(83)
At 31 December 2019 and 1 January 2020	4,327	—	244	4,571
Charge for the year	907	15,616	29	16,552
Exchange realignment	327	896	17	1,240
At 31 December 2020	5,561	16,512	290	22,363
Carrying amount				
At 31 December 2018	5,422	—	78	5,500
At 31 December 2019	4,687	77,636	48	82,371
At 31 December 2020	4,026	126,723	20	130,769

19. INVENTORIES

The Target Group and the Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Projection equipment	38,412	25,583	19,601

All the above inventories are stated at the lower of cost and net realisable value.

20. TRADE RECEIVABLES

The Target Group and the Target Company

Based on invoice dates, the ageing analysis of the trade receivables as of the end of each Relevant Periods is as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
0–90 days	20,360	22,257	19,629
91–180 days	1,546	7,436	6,323
181–270 days	441	1,515	2,200
271–360 days	87	492	2,554
Over 360 days	9,154	9,426	13,148
Trade receivables, gross	31,588	41,126	43,854
Less: Provision for impairment of receivables	(2,917)	(4,452)	(9,887)
Trade receivables, net	28,671	36,674	33,967

All trade receivables are classified as current assets as it is expected to be realised within normal operating cycle and hence the carrying values of the Target Group's trade receivables are considered to be a reasonable approximation of fair value.

Trade receivables are granted with a credit term ranging from 0 day to 36 months. The Target Group recognised impairment loss based on the accounting policy stated in Note 5.6. Further details on the Target Group's credit policy and credit risk arising from trade receivables are set out in Note 36(a).

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Deposits and prepayments	9,993	5,466	3,793
Other receivables	605	590	604
	10,598	6,056	4,397

The Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Deposits and prepayments	9,993	5,466	3,560
Other receivables	431	327	137
	10,424	5,793	3,697

The maximum exposure to credit risk at the reporting dates is the carrying value of each class of receivable as further analysed in Note 36(a).

The Target Group does not hold any collateral over these balances. The directors of the Company consider that the fair value of other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

22. AMOUNT(S) DUE FROM/(TO) IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES/ RELATED COMPANIES

The Target Group and the Target Company

(a) The amount due to immediate holding company is unsecured, interest-free and no fixed terms of repayment.

(b) The amounts due from fellow subsidiaries/related companies are trade nature with credit period of 30 days to 40 days.

(c) The amounts due to fellow subsidiaries/related companies are unsecured, interest-free and have no fixed terms of repayment.

23. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED BANK DEPOSITS

The Target Group

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	8,328	267	17,592
Less: Pledged and restricted bank deposits presented as current assets *(note)*	—	—	(12,515)
Cash and cash equivalents as stated in the consolidated statements of financial position	8,328	267	5,077

The Target Company

	As at 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
Cash and bank balances	8,294	265	17,589
Less: Pledged and restricted bank deposits presented as current assets *(note)*	—	—	(12,515)
Cash and cash equivalents as stated in the statements of financial position	8,294	265	5,074

Note: Bank deposits have been pledged for bank borrowings (Note 27). The pledged bank deposit will be released upon the settlement of relevant bank borrowings.

Cash at banks and on hands of the Target Group and the Target Company are denominated in RMB placed in the PRC. RMB is not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for foreign currencies only through banks that are authorised to conduct foreign exchange business.

24. TRADE PAYABLES

The Target Group and the Target Company

Based on the invoice dates, the ageing analysis of trade payables as at the end of each of the Relevant Periods is as follows:

	As at 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
0–90 days	14,916	1,862	142
91–180 days	1,909	816	—
181–270 days	2,202	155	7
271–360 days	1,347	238	56
Over 360 days	11,084	10,066	9,651
Trade payables	31,458	13,137	9,856

All trade payables are classified as current liabilities as it is expected to be realised within normal operating cycle and hence the carrying values of the Target Group's trade payables are considered to be a reasonable approximation of fair value.

25. OTHER PAYABLES AND ACCRUALS

The Target Group and the Target Company

All amounts are short term and hence the carrying values of other payables and accruals are considered to be a reasonable approximation of fair value.

26. CONTRACT LIABILITIES

The Target Group and the Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities arising from:			
Ticket management system as a service	1,496	3,716	1,491
Sales of projection equipment	6,257	2,060	979
Maintenance services	441	776	335
	8,194	6,552	2,805

The amount represents deposits received in respect of the provision of cinema ticketing management service, sales of projection equipment and system maintenance services. The receipts in advance from the customers remain as a contract liability until the goods have been transferred and accepted by the customers and the services have been rendered to the customers.

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Balance as at beginning of year	6,091	8,194	6,552
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(5,994)	(8,167)	(6,589)
Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred and not yet accepted by the customer	8,505	6,654	2,653
Exchange realignment	(408)	(129)	189
Balance as at end of year	8,194	6,552	2,805

The sales contracts in relation to the provision of cinema ticketing management service, sales of projection equipment and system maintenance services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

27. BANK AND OTHER BORROWINGS

The Target Group and the Target Company

		As at 31 December		
		2018	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings, secured	*(a), (c)*	12,099	—	23,770
Other borrowings, secured	*(a), (b)*	5,745	1,684	—
		17,844	1,684	23,770

At the end of each Relevant Periods, the bank and other borrowings of the Target Group are repayable as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	16,145	1,684	23,770
In the second year	1,699	—	—
	17,844	1,684	23,770
Less: Portion due on demand or within one year under current liabilities	(16,145)	(1,684)	(23,770)
Portion due over one year under non-current liabilities	1,699	—	—

There was no default event occurred during the Relevant Periods. At the end of each Relevant Periods, the carrying amounts of the bank and other borrowings are denominated in RMB.

Notes:

(a) At the end of each Relevant Periods, bank and other borrowings carry interest at fixed rates ranging from 3.85% to 8.5% per annum. The carrying amounts of bank and other borrowings approximate their fair values.

(b) Other borrowings represented amount due to financial institutions regarding two and one sales and leaseback arrangements for property, plant and equipment as at 31 December 2018 and 2019 respectively. The transactions are classified as loan financing and corresponding property, plant and equipment of approximately HK$6,449,000 and HK$5,716,000 are pledged under this arrangement at 31 December 2018 and 2019 respectively.

(c) As at 31 December 2018, the bank borrowings were guaranteed by a related company of the Target Group.

As at 31 December 2020, the bank borrowings were guaranteed/secured by:

- corporate guarantees of approximately HK$23,770,000 executed by an independent third party, after receiving a negative pledge from a related company of the Target Group; and
- the pledged bank deposits (Note 23) of approximately HK$12,515,000.

28. PROVISION FOR WARRANTY

The Target Group and the Target Company

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
At the beginning of the year	3,917	3,886	2,575
Additional provision	573	39	—
Utilisation during the year	(393)	(1,297)	(279)
Exchange realignment	(211)	(53)	147
At the end of the year	3,886	2,575	2,443

The Target Group provides one to three years warranty for its projection equipment, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

29. SHARE CAPITAL

The Target Company

The Target Company was incorporated in the PRC on 21 September 2009 as a limited liability under the Company Law of the PRC. The registered and paid-up capital of the Target Company during the Relevant Periods was RMB150,000,000. The balance as at 31 December 2018, 2019 and 2020 represented the paid-up capital of the Target Company contributed by its equity holders.

30. RESERVES

The Target Group

Details of the movements of the Target Group's reserves for the Relevant Periods are presented in the consolidated statements of changes in equity.

The Target Company

	Exchange reserve *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
Balance at 1 January 2018	(3,441)	(82,314)	(85,755)
Loss for the year	—	(68,411)	(68,411)
Other comprehensive income			
Exchange differences on translation to presentation currency	(2,218)	—	(2,218)
Total comprehensive income for the year	(2,218)	(68,411)	(70,629)
Balance at 31 December 2018 and 1 January 2019	(5,659)	(150,725)	(156,384)
Profit for the year	—	456	456
Other comprehensive income			
Exchange differences on translation to presentation currency	610	—	610
Total comprehensive income for the year	610	456	1,066
Balance at 31 December 2019 and 1 January 2020	(5,049)	(150,269)	(155,318)
Loss for the year	—	(59,196)	(59,196)
Other comprehensive income			
Exchange differences on translation to presentation currency	1,772	—	1,772
Total comprehensive income for the year	1,772	(59,196)	(57,424)
Balance at 31 December 2020	(3,277)	(209,465)	(212,742)

31. LEASES

The Target Group and Target Company as lessee

The Target Group and Target Company leased a number of properties for administrative purpose.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

As at 31 December 2019 and 2020, the Target Group did not enter into any lease that is not yet commenced. All rental contracts are typically made for 1 year and they are determined as short-term lease pursuant to Note 5.10.

	Year ended 31 December	
	2019	**2020**
	HK$'000	*HK$'000*
Short term lease expense	5,280	1,985

	As at 31 December	
	2019	**2020**
	HK$'000	*HK$'000*
Aggregate undiscounted commitments for short term leases	458	350

The Target Group and Target Company as lessor

The Target Group and Target Company leased out a number of items of property, plant and equipment under operating leases. The leases typically run for an initial period of 3 to 10 years. All the lease contracts are cancellable by either the Target Group or the tenants with a 30 days' notice period. None of the leases includes variable lease payments.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Target Group and Target Company in future periods are as follows:

		As at 31 December	
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	415	423	416

32. DISPOSAL OF A SUBSIDIARY

On 9 December 2020, the Target Group disposed of its 100% equity interest in Beijing Hai Chen to Nan Hai Zhi Chen at nil consideration. Net liabilities of Beijing Hai Chen at the date of disposals were as follows:

	HK$'000
Property, plant and equipment	140
Cash and cash equivalents	76
Other payables and accruals	(70)
Amounts due to fellow subsidiaries	(306)
Amounts due to related companies	(1,053)
	(1,213)
Gain on disposal	1,213

An analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary was as follows:

	HK$'000
Cash consideration	—
Cash and cash equivalents disposed of	(76)
Net cash outflow arising on the disposal of a subsidiary	(76)

33. OPERATING LEASE COMMITMENTS

As at 31 December 2018, the Target Group and Target Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

The Target Group

	2018
	HK$'000
Within one year	456

The Target Company

	2018
	HK$'000
Within one year	5

The Target Group and Target Company leased certain office properties under operating leases. The lease terms were one year, with options to renew the lease terms at the expiry dates or at days as mutually agreed between the Target Group and Target Company and the respective landlords. None of these leases includes any contingent rentals.

34. RELATED PARTY TRANSACTIONS

(a) The remuneration of the directors of the Target Company and other members of the key management during the year is disclosed in Note 14.

(b) The Target Group undertook the following transactions with the related parties during the Relevant Periods:

	Year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Ticket management system service income from related companies	—	206	—
Maintenance services income from fellow subsidiaries	1,184	—	212
Sales of projection equipment to			
— fellow subsidiaries	23,437	1,079	429
— related companies	—	—	79
Leases of projection equipment to related companies	221	217	180
Property management fee payable to fellow subsidiaries	(239)	(421)	(458)
Rental expense payable to fellow subsidiaries	(958)	—	—
Short-term lease expense payable to fellow subsidiaries	—	(1,694)	(917)
Digital media technology services promotion payable to related companies	—	(2,484)	—

During the year ended 31 December 2020, the Target Company disposed of entire issued shares of a subsidiary to Nan Hai Zhi Chen at a nil consideration.

35. NOTE SUPPORTING THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cashflows will be classified in the Target Group's consolidated statement of cash flows from financing activities.

	Bank and other borrowings *(Note 27)* *HK$'000*	Amount due (from)/to immediate holding company *HK$'000*	Amounts due to fellow subsidiaries *HK$'000*	Amounts due to related companies *HK$'000*	Total *HK$'000*
As at 1 January 2018	32,896	(29,086)	1,048	38	4,896
Interest paid	(1,718)	—	—	—	(1,718)
Proceeds from bank and other borrowings	12,559	—	—	—	12,559
Repayment to bank and other borrowings	(26,380)	—	—	—	(26,380)
Cash advance from immediate holding company	—	49,208	—	—	49,208
Repayment to fellow subsidiaries	—	—	(395)	—	(395)
Total changes from financing cash flows	(15,539)	49,208	(395)	—	33,274
Exchange realignment	(1,198)	(294)	73	(2)	(1,421)
Other change:					
Interest expense	1,685	—	—	—	1,685
Total other change	1,685	—	—	—	1,685
As at 31 December 2018 and 1 January 2019	17,844	19,828	726	36	38,434
Interest paid	(874)	—	—	—	(874)
Repayment to bank and other borrowings	(16,038)	—	—	—	(16,038)
Cash advance from immediate holding company	—	83,389	—	—	83,389
Cash advance from fellow subsidiaries	—	—	162	—	162
Cash advance from related companies	—	—	—	2,623	2,623
Total changes from financing cash flows	(16,912)	83,389	162	2,623	69,262
Exchange realignment	(69)	(1,645)	(16)	(76)	(1,806)
Other change:					
Interest expense	821	—	—	—	821
Total other change	821	—	—	—	821
As at 31 December 2019 and 1 January 2020	1,684	101,572	872	2,583	106,711

	Bank and other borrowings *(Note 27)* HK$'000	Amount due (from)/to immediate holding company HK$'000	Amounts due to fellow subsidiaries HK$'000	Amounts due to related companies HK$'000	Total HK$'000
As at 31 December 2019 and 1 January 2020	1,684	101,572	872	2,583	106,711
Interest paid	(249)	—	—	—	(249)
Proceeds from bank and other borrowings	22,479	—	—	—	22,479
Repayment to bank and other borrowings	(1,766)	—	—	—	(1,766)
Cash advance from immediate holding company	—	79,273	—	—	79,273
Cash advance from fellow subsidiaries	—	—	1,661	—	1,661
Cash advance from related companies	—	—	—	995	995
Total changes from financing cash flows	20,464	79,273	1,661	995	102,393
Exchange realignment	1,392	10,997	134	165	12,688
Other changes:					
Interest expense	230	—	—	—	230
Change of immediate holding company *(Note 1)*	—	(191,842)	191,842	—	—
Disposal of a subsidiary *(Note 32)*	—	—	(290)	(995)	(1,285)
Total other changes	230	(191,842)	191,552	(995)	(1,055)
As at 31 December 2020	23,770	—	194,219	2,748	220,737

36. FINANCIAL RISK MANAGEMENT

The Target Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

The overall objectives in managing financial risks focus on securing the Target Group's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Target Group's policy to actively engage in the trading of financial instruments for speculative purposes. The management from time to time identifies ways to assess financial markets and monitors the Target Group's financial risk exposures.

(a) Credit risk

The Target Group is exposed to credit risk in relation to its trade and other receivables, amounts due from fellow subsidiaries, amounts due from related companies, and cash at banks. The carrying amounts of trade and other receivables, amounts due from fellow subsidiaries, amounts due from related companies, and cash and cash equivalents represent the Target Group's maximum exposure to credit risk in relation to financial assets.

The Target Group expects that there is no significant credit risk associated with cash at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Target Group has large number of customers and there was certain concentration of credit risk on trade receivables as 54%, 67% and 75% of the total trade receivables respectively was due from the Target Group's five major customers as at 31 December 2018, 2019 and 2020 respectively. The Target Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverability of these receivables at the end of each Relevant Periods to ensure that adequate ECLs on financial assets are made for irrecoverable amounts.

The Target Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Target Group compares the risk of a default occurring on the asset as at the end of each Relevant Periods with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

— internal credit rating;

— external credit rating;

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;

— actual or expected significant changes in the operating results of the debtor/customer; and

— significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Target Group and changes in the operating results of the customer.

(i) Trade receivables

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases. The following table provides information about the Target Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018, 2019 and 2020 respectively:

	0–90 days	**91–180 days**	**181–270 days**	**271–360 days**	**Over 360 days**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018						
Expected loss rate	0%*	1%	1%	3%	31%	
Gross carrying amount	20,360	1,546	441	87	9,154	31,588
Loss allowance	36	8	6	3	2,864	2,917
At 31 December 2019						
Expected loss rate	0%*	0%*	0%*	1%	47%	
Gross carrying amount	22,257	7,436	1,515	492	9,426	41,126
Loss allowance	—	—	—	5	4,447	4,452
At 31 December 2020						
Expected loss rate	1%	18%	50%	46%	47%	
Gross carrying amount	19,629	6,323	2,200	2,554	13,148	43,854
Loss allowance	246	1,128	1,103	1,166	6,244	9,887

* *rounded to nearest percentage for disclosure purpose only.*

Expected loss rates are determined with reference to historical actual loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected lives of the receivables.

Management considered that there has not been a significant change in credit quality based on historical experience. The change in loss allowance account was due to the increase of expected loss rate and gross carrying amount of trade receivable as at the end of each Relevant Periods. Movement in the loss allowance account in respect of trade receivables during the Relevant Periods is as follows:

	Loss allowance account *HK$'000*
At 1 January 2018	925
Provision for loss allowance	2,118
Exchange realignment	(126)
At 31 December 2018 and 1 January 2019	2,917
Provision for loss allowance	1,614
Exchange realignment	(79)
At 31 December 2019 and 1 January 2020	4,452
Provision for loss allowance	5,097
Exchange realignment	338
At 31 December 2020	9,887

(ii) Other receivables and amounts due from fellow subsidiaries/related companies

The balances are considered to have low credit risk as the counterparties have a low risk of default and do not have any past due amounts. Loss allowance for these balances is measured at an amount equal to 12-month ECLs. No additional loss allowance was recognised as the amount of ECLs for these balances has immaterial financial impact to the Historical Financial Information as at 31 December 2018, 2019 and 2020 respectively.

(b) Interest rate risk

The Target Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing cash and cash equivalents. The cash and cash equivalents carried at variable rates expose the Target Group to cash flow interest rate risk. At the end of each Relevant Periods, there was no variable rate borrowing. The Target Group currently does not have an interest rate hedging policy. However, the directors of the Company monitor interest rate change exposure regularly and will consider hedging significant interest rate change exposure should the need arise.

Cash flow interest rate risk sensitivity

At the end of each Relevant Periods, the Target Group was exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates. The following table illustrates the sensitivity of the profit/(loss) for the Relevant Periods and equity to a change in interest rates of +50 basis point and -50 basis point with effect from the beginning of the year. The calculations are based on the Target Group's bank balances held at the end of each Relevant Periods. All other variables are held constant.

	As at 31 December		
	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*
If interest rates were 50 basis point higher			
Net loss for the year would decrease by	42	—	88
Net profit for the year would increase by	—	1	—
If interest rates were 50 basis point lower			
Net loss for the year would increase by	42	—	88
Net profit for the year would decrease by	—	1	—

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve months period.

The policies to manage interest rate risk have been followed by the Target Group and are considered to be effective.

(c) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Group's exposure to currency exchange rates in RMB is minimal as majority of the subsidiaries of the Target Group operates in Mainland China with most of the transactions denominated and settled in RMB. The Target Group currently does not have a hedging policy on currency risk but the management would consider hedging significant foreign currency exposure should the need arise. The policies to manage currency risk have been followed by the Target Group since prior years and are considered to be effective.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the management, the Target Group should have adequate resources to meet its obligations in the forthcoming year on the basis as set out in Note 4.1 to these consolidated financial statements.

The following tables details the remaining contractual maturities at the reporting date of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Target Group can be required to pay.

	Carrying amount *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*
As at 31 December 2018				
Trade payables	31,458	31,458	31,051	407
Other payables and accruals	31,126	31,126	31,126	—
Amount due to immediate holding company	19,828	19,828	19,828	—
Amounts due to fellow subsidiaries	726	726	726	—
Amounts due to related companies	36	36	36	—
Bank and other borrowings	17,844	20,361	18,608	1,753
	101,018	103,535	101,375	2,160
As at 31 December 2019				
Trade payables	13,137	13,137	12,924	213
Other payables and accruals	40,496	40, 496	40,496	—
Amount due to immediate holding company	101,572	101,572	101,572	—
Amounts due to fellow subsidiaries	872	872	872	—
Amounts due to related companies	2,583	2,583	2,583	—
Bank and other borrowings	1,684	1,721	1,721	—
	160,344	160,381	160,168	213
As at 31 December 2020				
Trade payables	9,856	9,856	9,856	—
Other payables and accruals	35,757	35,757	35,757	—
Amounts due to fellow subsidiaries	194,219	194,219	194,219	—
Amounts due to related companies	2,748	2,748	2,748	—
Bank and other borrowings	23,770	24,459	24,459	—
	266,350	267,039	267,039	—

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CAREGORY

The following table shows the carrying amount of financial assets and liabilities as defined in Notes 5.6 and 5.9 respectively.

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Amortised costs:			
— Trade receivables	28,671	36,674	33,967
— Deposits and other receivables	1,340	1,518	1,540
— Amounts due from fellow subsidiaries	17,825	17,779	14,411
— Amounts due from related companies	482	515	283
— Pledged and restricted bank deposits	—	—	12,515
— Cash and cash equivalents	8,328	267	5,077
	56,646	56,753	67,793
Financial liabilities			
Financial liabilities measured at amortised cost:			
— Trade payables	31,458	13,137	9,856
— Other payables and accruals	31,126	40,496	35,757
— Amount due to immediate holding company	19,828	101,572	—
— Amounts due to fellow subsidiaries	726	872	194,219
— Amounts due to related companies	36	2,583	2,748
— Bank and other borrowings	17,844	1,684	23,770
	101,018	160,344	266,350

Due to their short term nature, the carrying value of pledged and restricted bank deposits, cash and cash equivalents, trade receivables, deposits and other receivables, amounts due from/(to) fellow subsidiaries, amounts due from/(to) related companies, amount due to immediate holding company, trade payables, accruals and other payables, and current portion of bank and other borrowings approximates fair value.

The fair value of long term bank and other borrowings approximates their carrying values as the impact of discounting were immaterial.

Analysis of the carrying amounts of bank and other borrowings and the interest rates are presented in Notes 27 and 36(b) to the consolidated financial statements respectively.

38. CAPITAL RISK MANAGEMENT

The primary objective of the Target Group's capital management is to ensure the Target Group's ability to continue as a going concern and to provide adequate return to shareholders by pricing goods in and services commensurately with the level of risk.

The Target Group actively and regularly reviews its capital structure and make adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payables to shareholders, issue new shares or raise and repay debts. The Target Group's capital management objectives, policies or processes were unchanged during the Relevant Periods.

The Target Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt is calculated as bank and other borrowings less the sum of pledged and restricted bank deposits and cash and cash equivalents. The Target Group aims to maintain the gearing ratio at a reasonable level. The gearing ratio at the end of each of the Relevant Periods was as follows:

	As at 31 December		
	2018	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*
Bank and other borrowings	17,844	1,684	23,770
Total debt	17,844	1,684	23,770
Less:			
Pledged and restricted bank deposits	—	—	(12,515)
Cash and cash equivalents	(8,328)	(267)	(5,077)
Net debt	9,516	1,417	6,178
Total equity/(capital deficiency)	20,610	22,186	(35,297)
Total equity/(capital deficiency) and net debt	30,126	23,603	(29,119)
Gearing ratio	31.6%	6.0%	N/A

39. EVENT AFTER THE RELEVANT PERIODS

There is no significant event subsequent to the reporting date.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company and its subsidiary in respect of any period subsequent to 31 December 2020.

The following management discussion and analysis of the Target Group has been prepared based on the Accountant's Report of the Target Group as set out in Appendix III to this circular.

FINANCIAL AND BUSINESS PERFORMANCE

The Target Company was incorporated in the PRC with limited liability on 21 September 2009 and is a wholly-owned subsidiary of Nan Hai with a registered capital of RMB150,000,000. As a digital internet company in the cinema industry, the Target Company is one of the few entities in China with a cinema ticketing system certification issued by the relevant state authorities and its core business relies on cinema revenue management platform of the Huiyingyun (慧影雲) (SaaS-based cinema digitalisation total solution) to provide cinemas with closed-loop support for business including ticket sales, retail, membership management, membership marketing, cinema operation decision-making support and big data business intelligence services, and offer complete mobile solutions for consumers and operators in respect of APP, H5, mini programs, etc.

For the three years ended 31 December 2018, 2019 and 2020, the Target Group recorded revenue of approximately HK$92,444,000, HK$78,878,000 and HK$23,944,000 respectively.

For the three years ended 31 December 2018, 2019 and 2020, the Target Group recorded a net loss of approximately HK$68,195,000, a net profit of approximately HK$1,990,000 and a net loss of approximately HK$55,628,000 respectively.

The management discussion and analysis set out below relates to the business and performance of the Target Group for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020. Starting from 2018, the Target Group began its gradual transformation from a company focusing on cinema hardware and equipment integration services to a leading high-tech internet company in the cinema industry in the PRC, committed to building one of the world's leading digital media economy platform for cinemas. As Chinese enterprises are now facing the challenges of digital transformation, it is difficult for enterprises to accurately analyse their customers, supply chains and daily operations without digitalisation in all aspects of their operations, resulting in significant value loss and missed opportunities. For the film industry in China, the use of the internet and big data has also affected the entire film industry in China, including production, marketing and promotion, distribution and ticketing. Based on long-term considerations, the Target Group started its transformation plan in 2018 and launched a cinema based membership service and application platform based on the cinema ticketing system certification issued by the relevant state authorities. In 2020, the Target Group launched a digital ticketing cloud platform based on big data of cinema users, providing a product matrix for all-round development of cinemas in three scenarios: marketing, operation and protection, and establishing a scenario-based marketing channel and data-based platform for cinema construction and operation management to provide comprehensive services. However, the losses recorded in 2018 were mainly due to the Target Group's increased investment in research and development and marketing in the course of its transformation. The Target Group's transformation started to be successful in 2019 as its cinema based membership service and application platform quickly gained market share, serving 1,309 cinema customers. The excellent business performance enabled the Target Group to realise profitability in 2019. However, the cinema industry has been severely affected by the Epidemic in 2020. In accordance with the requirements for epidemic prevention and control in all regions and industry regulatory requirements in the PRC, all cinemas nationwide have been suspended operations since the end of January 2020, and gradually resumed operation until July 2020. As the Target Group primarily serves the cinema industry, revenues were significantly reduced in 2020. However, the Target Group still needed to cover its operating expenses to maintain the basic operations of the company and has taken the opportunity of the Epidemic to strengthen its capabilities by continuing to invest in product development and enhancing the Huiyingyun (慧影雲) cinema revenue management platform (a SaaS-based cinema digitisation total solution), which has resulted in a higher loss.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The total assets of the Target Group mainly consists of cash and cash equivalents, property, plant and equipment, intangible assets, inventories and receivables. As at 31 December 2018, 2019 and 2020, the Target Group recorded a total assets of approximately HK$133,708,000, HK$191,657,000 and HK$236,301,000, respectively.

As at 31 December 2018, 2019 and 2020, the net current liabilities of the Target Group was approximately HK$3,197,000, HK$80,022,000 and HK$178,904,000, respectively.

As at 31 December 2018, 2019 and 2020, the Target Group had cash and cash equivalents and pledged and restricted bank deposits totalling approximately HK$8,328,000, HK$267,000 and HK$17,592,000, respectively, and outstanding borrowings of approximately HK$17,844,000, HK$1,684,000 and HK$23,770,000, respectively. All borrowings of the Target Group are denominated in RMB and bear interest at fixed interest rates.

The Target Group considers that its current cash holdings, credit facilities and obtaining funding from its shareholders will provide sufficient resources for its working capital requirements.

As at 31 December 2018, 2019 and 2020, the Target Group's gearing ratio is calculated as net debt (which is calculated as bank and other borrowings less the sum of cash and cash equivalents and pledged and restricted bank deposits) divided by the total equity plus net debt. As at 31 December 2018 and 2019, the gearing ratio were 31.6% and 6.0% respectively. As at 31 December 2020, the Target Group recorded net debt position, gearing ratio is not therefore applicable.

FOREIGN EXCHANGE RISK

The majority of the transactions conducted by the Target Group were denominated in Renminbi for the years ended 31 December 2018, 2019 and 2020. Accordingly, the Target Group did not expect to be exposed to significant foreign exchange risk and did not engage in any foreign currency hedging activities for the three years ended 31 December 2018, 2019 and 2020.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, 2019 and 2020, the Target Group had a total of 216, 307 and 212 employees respectively. The total salaries and allowances of the employees for the years ended 31 December 2018, 2019 and 2020 were HK$67,857,000, HK$109,649,000 and HK$75,896,000 respectively.

The remuneration policy of the Target Group is based on prevailing market rates and the performance of the Target Group and individual employees. No share option scheme has been adopted for the employees of the Target Group.

MATERIAL INVESTMENTS

The Target Group did not have any material investments for the years ended 31 December 2018, 2019 and 2020.

PLEDGE OF ASSETS

As at 31 December 2018 and 2019, the Target Group did not have any pledge of assets. As at 31 December 2020, certain bank deposits amounting to approximately HK$12,515,000 were pledged to secure the credit facilities granted to the Target Group.

CONTINGENT LIABILITIES

The Target Group did not have any contingent liabilities for each of the three years ended 31 December 2018, 2019 and 2020.

CAPITAL COMMITMENTS

As at 31 December 2018, 2019 and 2020, the Target Group did not have any capital commitments.

OUTLOOK

In 2020, the Target Group has completed the ''zero-error'' contactless online system switching for the cinemas of the Dadi Cinema Group, realising the first ''senseless'' cloud-based upgrade in the domestic cinema industry. At the same time, the Target Group completed the switchover and data migration of Huiyingyun (慧影雲) revenue management platform products for nearly 100 external customers, which won significant praise from customers, demonstrating the Target Group's spirit of pioneering and innovation, and establishing a good industry influence. At the same time, as a digital information service provider for cinemas, the Target Group continued to focus on reducing costs and increasing efficiency in cinemas, helping to improve the core competitiveness of cinemas. In terms of products, the Target Group further improved the various functions of the Huiyingyun (慧影雲) platform, integrated the former independent advertising platform and collection platform, and provided cinemas with quality one-stop, internet-enabled products and services, while reducing the cost of digitalisation and information technology for cinemas and enhancing their operational efficiency and profitability. The Target Group has also further improved the platform capabilities of the"Huiyingyun" (慧影雲) and continued to improve and innovate in the areas of cinema marketing, basic revenue management and in-depth membership operation.

After the Completion, the Company will steadily progress with the synergy and integration with the Target Group to enhance the Target Group's various businesses and overall service capabilities, with the expectation that its core technology-driven capabilities will be significantly enhanced. These enhancements will increase the Target Group's industry service capabilities and help it maintain its market leadership position by continuing to provide stable services and introduce new products to the industry. The Target Group will leverage on the Company's strategic resources and internet capabilities to become a complete solution provider and cinema membership management operator for the film industry.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out in this appendix does not form part of the Accountants' Report received from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company as set out in Appendix III to this circular, and is included herein for information only.

The unaudited pro forma financial information set out below should be read in conjunction with the financial information of the Group as set out in Appendix II of this circular, the financial information of the Target Group as set out in Appendix III of this circular, and other financial information included elsewhere in this circular.

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the ''Unaudited Pro Forma Financial Information''), which has been prepared in accordance with paragraph 4.29 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisition of 100% equity interests in 數碼辰星科技發展(北京)有限公司 (Digicine Oristar Technology Development (Beijing) Company Limited*) (the ''Target Company'') and its subsidiaries (together referred as to the ''Target Group'') (the ''Acquisition'') on the financial position of the Group as at 31 December 2020 as if the completion of the Acquisition had taken place on 31 December 2020.

The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes below based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2020 nor does the Unaudited Pro Forma Financial Information purport to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2020, or any future date.

* *English name is for identification purposes only*

		Pro forma adjustments					
	Consolidated statement of assets and liabilities of the Group as at 31 December 2020	Statement of assets and liabilities of the Target Group as at 31 December 2020	Other adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4(i)*	*Notes 3 and 4(ii)*	*Note 5*	*Note 6*	
Non-current assets							
Property, plant and equipment	95,821	15,281					111,102
Financial assets at fair value through other comprehensive income	324	—					324
Interests in associates	22,961	—					22,961
Goodwill	79,515	—		304,164			383,679
Other intangible assets	75,248	130,769	366,022				572,039
	273,869	146,050					1,090,105
Current assets							
Inventories	—	19,601					19,601
Trade receivables	36,303	33,967					70,270
Deposits, prepayments and other receivables	198,092	4,397		(115,997)			86,492
Loan to immediate holding company	1,504,957	—		(200,000)	(179,808)		1,125,149
Amounts due from fellow subsidiaries	—	14,411			(14,411)		—
Amounts due from related companies	—	283					283
Pledged and restricted bank deposits	—	12,515					12,515
Cash and cash equivalents	265,080	5,077		(263,989)			6,168
	2,004,432	90,251					1,320,478
Current liabilities							
Trade payables	32,493	9,856					42,349
Other payables and accruals	88,698	35,757				1,500	125,955
Dividend payables	13,400	—					13,400
Contract liabilities	274,694	2,805					277,499
Provision for tax	173,922	—					173,922
Amount due to a director	532	—					532
Amount due to immediate holding company	16,683	—					16,683
Amounts due to fellow subsidiaries	—	194,219			(194,219)		—
Amounts due to related companies	—	2,748					2,748
Amounts due to associates	2,944	—					2,944
Bank and other borrowings, secured	37,200	23,770					60,970
Other employee benefits	24,383	—					24,383
Lease liabilities	23,983	—					23,983
	688,932	269,155					765,368
Net current assets/(liabilities)	1,315,500	(178,904)					555,110
Total assets less current liabilities	1,589,369	(32,854)					1,645,215

	Consolidated statement of assets and liabilities of the Group as at 31 December 2020	Statement of assets and liabilities of the Target Group as at 31 December 2020	Pro forma adjustments: Other adjustments				Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4(i)*	*Notes 3 and 4(ii)*	*Note 5*	*Note 6*	
Non-current liabilities							
Other employee benefits	5,771	—					5,771
Lease liabilities	24,238	—					24,238
Provision for warranty	—	2,443					2,443
Deferred tax liabilities	2,771	—	54,903				57,674
	32,780	2,443					90,126
Net assets/(liabilities)	1,556,589	(35,297)					1,555,089

Notes:

(1) The audited consolidated statement of assets and liabilities of the Group as at 31 December 2020 is extracted from the published annual report of the Company for the year ended 31 December 2020 dated 30 March 2021.

(2) The audited consolidated statement of assets and liabilities of the Target Group as at 31 December 2020 has been extracted from the accountants' report as set out in Appendix III to this Circular.

(3) Pursuant to the sale and purchase agreement dated 22 December 2020 (the "Agreement"), the consideration for the Acquisition is RMB488 million (the "Consideration"). It shall be satisfied by:

(i) 20% of the Consideration to be paid in cash upon signing of the Agreement (the "Deposit"); and

(ii) The balance will be satisfied in cash and up to HK$200 million of the Consideration will be offset against the loan to immediate holding company, at the discretion of the Company at completion.

As at 31 December 2020, the Deposit amounting to RMB97,600,000 (equivalent to approximately HK$115,997,000) was paid by the Group in cash and recorded under "Deposits, prepayments and other receivables". For the purpose of preparation of the Unaudited Pro Forma Financial Information, the directors of the Company assumed that RMB168,280,000 (equivalent to approximately HK$200,000,000) of the Consideration will be offset against the loan to immediate holding company and the remaining RMB222,120,000 (equivalent to approximately HK$263,989,000) will be settled in cash.

	RMB'000	*HK$'000*
Cash consideration (including the Deposit paid of RMB97,600,000 (equivalent to approximately HK$115,997,000))	319,720	379,986
Set-off of loan to immediate holding company	168,280	200,000
	488,000	579,986

(4) Notwithstanding the fact that both the Group and the Target Group are under common control, the directors of the Company consider that it is more appropriate to apply acquisition accounting under HKFRS 3 "Business Combinations" ("HKFRS 3") in respect of the Acquisition as this will provide more relevant and useful information to financial statement users and it better reflects the economic substance of the transaction. Based on the foregoing, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values under the acquisition method of accounting in accordance with HKFRS 3. For the purpose of the Unaudited Pro Forma Financial Information, the allocation of the purchase consideration is determined based on the estimates of the fair values of the identifiable assets and liabilities of the Target Group made the by the directors of the Company, and by reference to a valuation report issued by Asia-Pacific Consulting and Appraisal Limited, an independent qualified valuer, as if the Acquisition had taken place on 31 December 2020.

(i) Recognition of fair values of the identifiable assets acquired and liabilities assumed of the Target Group as at 31 December 2020 is as follows:

	Carrying amounts	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	15,281		15,281
Intangible assets *(note (a))*	130,769	366,022	496,791
Inventories	19,601		19,601
Trade receivables	33,967		33,967
Deposits, prepayments and other receivables	4,397		4,397
Amounts due from fellow subsidiaries	14,411		14,411
Amounts due from related companies	283		283
Pledged and restricted bank deposits	12,515		12,515
Cash and cash equivalents	5,077		5,077
Trade payables	(9,856)		(9,856)
Other payables and accruals	(35,757)		(35,757)
Contract liabilities	(2,805)		(2,805)
Amounts due to fellow subsidiaries	(194,219)		(194,219)
Amounts due to related companies	(2,748)		(2,748)
Bank and other borrowings, secured	(23,770)		(23,770)
Provision for warranty	(2,443)		(2,443)
Deferred tax liabilities *(note (b))*	—	(54,903)	(54,903)
	(35,297)		275,822

Notes:

(a) This represents the fair value adjustment for the expected net cash flows arising from the Target Group's operating license of the cinema ticketing management system, technology and customers relationship. The fair values of these intangible assets are determined by using the following valuation methods:

Operating license of the cinema ticketing management system	Multi-period excess earnings method
Technology	Relief-from-royalty method
Customer relationship	Replacement cost method

The operating license of the cinema ticketing management system of the Target Group is valued by using an income approach known as the "multi-period excess earnings method". The value is estimated as the present value of the benefits anticipated from ownership of the subject intangible asset in excess of the returns required on the investment in the contributory assets necessary to realise those benefits.

For the technology of the Target Group, the fair value is determined using a form of the income approach known as the "relief-from-royalty method". This method recognises that, because it owns the technology rather than licensing them, a company does not have to pay a royalty for its use. The present value of the after-tax cost savings (i.e. royalty relief) at an appropriate discount rate indicates the value of the technology.

Customer relationship represents a portfolio of customers and expect that, because of its efforts in building customer relationships, the customers will continue to trade with the Target Group. The fair value of the customer relationship is estimated by adopting replacement cost method based on what a market participant buyer would pay to acquire or construct a customer relationship of comparable.

The following table summarises the fair values of the identifiable intangible assets of the Target Group as at 31 December 2020:

	HK$'000
Operating license of the cinema ticketing management system	318,517
Technology	143,808
Customer relationship	34,466
	496,791

(b) The adjustment represents the deferred tax liabilities in relation to the total fair value adjustments of the operating license of the cinema ticketing management system, technology and customer relationship which amounted to approximately HK$54,903,000. Such deferred tax liabilities shall be measured at the tax rate that are expected to apply to the period when it is settled, which is determined at the PRC income tax rate of 15% given that the Target Company has been certified as High and New Technology Enterprise and enjoyed a preferential enterprise income tax rate of 15%. The directors are of the opinion that the Target Company would be able to renew such status in the future based on prior successful renewal experience.

(ii) Recognition of goodwill:

	HK$'000
Fair value of the consideration *(Note 3)*	579,986
Less: Net identifiable assets and liabilities of the Target Group *(Note 4(i))*	(275,822)
Goodwill arising from the Acquisition	304,164

In the preparation of the Unaudited Pro Forma Financial Information, fair values of the net identifiable assets and liabilities of the Target Group as at 31 December 2020 were used to determine the goodwill of the Acquisition. Upon completion of the Acquisition, the fair values of the net identifiable assets and liabilities of the Target Group as at the date of completion will be used to determine the actual amount of goodwill of the Acquisition. Such actual amount may be different from the amount presented herein and such difference may be significant. The directors of the Company have assessed whether there is any impairment in respect of the pro forma goodwill expected to arise from the Acquisition, on a pro forma basis, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the assessment results, the directors of the Company concluded that there is no impairment on the cash-generating unit, comprising the identifiable assets acquired and liabilities assumed of the Target Group in which the pro forma goodwill have been allocated. The reporting accountants have considered the impairment assessment on the pro forma goodwill conducted by the directors of the Company as part of its engagement to report on the Unaudited Pro Forma Financial Information.

The amount of goodwill and fair values of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Acquisition. Consequently, the resultant goodwill and the actual allocation of the purchase consideration at the date of completion for subsequent periods, will likely be different from those stated in the Unaudited Pro Forma Financial Information.

(5) Pursuant to the Agreement, the entire amounts owed by the Target Group to the Nan Hai Group (excluding the Target Group and the Group) as at the date of completion will be applied to offset against the outstanding intercompany balances. The above mentioned amount will not exceed approximately HK$229 million up to the date of completion. As at 31 December 2020, the entire amount of HK$194 million owed by Target Group to Nan Hai Group will be offset against the loan to immediate holding company.

(6) This adjustment represents the estimated direct attributable legal and professional costs incurred for the Acquisition of approximately HK$1,500,000.

(7) Apart from the above, no other adjustment has been made to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2020.

(8) For the purpose of the Unaudited Pro Forma Financial Information, the balances arising from the Acquisition that are stated in Renminbi (''RMB'') are converted into Hong Kong dollars (''HK$'') at the exchange rate of RMB0.8414: HK$1 on 31 December 2020. No representation is made that the RMB amounts have been, could have been or may be converted to HK$ or vice versa, at that rate.

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

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from BDO Limited, Certified Public Accountants, in respect of the unaudited pro forma financial information of the Enlarged Group.

BDO

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To the directors of Sino-i Technology Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sino-i Technology 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 unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2020 and related notes as set out on pages 119 to 124 of Appendix V of the Company's circular dated 28 June 2021 (the "Circular") in connection with the proposed acquisitions of 100% equity interests in 數碼辰星科技發展(北京)有限公司 (Digicine Oristar Technology Development (Beijing) Company Limited*) (the "Acquisition"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 119 to 124 of Appendix V of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's consolidated financial position as at 31 December 2020 as if the Acquisition had taken place at 31 December 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Company's consolidated financial statements for the year ended 31 December 2020 as set out in the annual report of the Company dated 30 March 2021, on which an independent auditor's report has been published.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

* *English name is for identification purposes only*

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" issued by the HKICPA 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 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of the unaudited pro forma financial information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition 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 Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

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

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

BDO Limited
Certified Public Accountants
Hong Kong
28 June 2021

I. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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.

II. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO (i) which were 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 in which they were deemed or taken 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 the Model Code contained in the Listing Rules were as follows:

(1) The Company

Long position in Shares in issue

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage holding
Yu Pun Hoi ("**Mr. Yu**")	Corporate interest	12,838,585,316 (L)(1)	59.11%
Chen Ming Fei	Family interest	6,120,000 (L)	0.03%
	Corporate interest	199,100,000 (L)(2)	0.91%
	Other	1,566,000,000 (L)(3)	7.21%(4)
Fung Wing Lap	Personal interest	10,000 (L)	0.00005%

Notes:

1. Mr. Yu by means of his corporate interest controls the exercise of more than one third of the voting power at general meetings of Nan Hai, the immediate holding company of the Company. Those 12,838,585,316 Shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of Nan Hai. As such, Mr. Yu was taken to be interested in those Shares for the purposes of Part XV of the SFO.

2. Those 199,100,000 Shares were held by Top Standard Consultants Limited, which is wholly-owned by Mr. Chen Ming Fei.

3. These 1,566,000,000 Shares may be transferred to Mr. Chen Ming Fei as selected participant (which will be subject to the vesting conditions) pursuant to the restricted share award scheme adopted by the Company on 9 October 2018 (the "**Scheme**").

4. (L) denotes long position.

(2) Interests in Nan Hai, an associated corporation of the Company

As disclosed above, Mr. Yu is entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai. As such, Mr. Yu is taken to be interested in the shares of the associated corporations of the Company within the meaning of Part XV of the SFO. Nan Hai is a company whose shares are listed on the Stock Exchange, and is an associated corporation of the Company within the meaning of Part XV of the SFO. As at the Latest Practicable Date, the interests of the Directors in shares and underlying shares of Nan Hai were as follows:

Long and short positions in shares in issue of Nan Hai

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage holding
Mr. Yu	Corporate interest	40,673,177,261 (L)[(1)] 26,181,818,182 (S)[(2)]	59.25% 38.14%
Chen Ming Fei	Family interest	2,800,000 (L)	0.004%
Fung Wing Lap	Personal interest	15,756 (L)	0.00002%
Cheng Chih-Hung	Personal interest	6,800,000 (L)	0.01%

Notes:

1. These 40,673,177,261 shares were collectively held by Rosewood Assets Ltd., Pippen Limited, Staverley Assets Limited, First Best Assets Limited and Unicorn Assets Group Limited, companies indirectly wholly-owned by Mr. Yu through Dadi Holdings Limited, a company wholly-owned by Mr. Yu.

2. These 26,181,818,182 shares were charged by Pippen Limited, Rosewood Assets Ltd., First Best Assets Limited and Unicorn Assets Group Limited such companies indirectly wholly-owned by Mr. Yu through Dadi Holdings Limited, a company wholly-owned by Mr. Yu.

3. (L) denotes long position and (S) denotes short position.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (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 the directors and chief executive were taken or deemed to have under the 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short positions 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:

The Company

Name of Shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage holding
Nan Hai	Corporate interest	12,838,585,316 (L)[(1)]	59.11%
Vistra Trust (Hong Kong) Limited	Custodian (other than an exempt custodian interest)	1,806,000,000 (L)[(2)]	8.31%
SINO-I RSAS HOLDING LIMITED	Other	1,806,000,000 (L)[(2)]	8.31%

Notes:

1. Those 12,838,585,316 Shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of Nan Hai.

2. Vistra Trust (Hong Kong) Limited ("**Vistra**") acts as the custodian for the Scheme and SINO-I RSAS HOLDING LIMITED is the nominee designated by Vistra to hold the awarded shares to be transferred to selected participants under the Scheme before vesting.

3. (L) denotes long position.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

III. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group other than contracts expiring or determinable by the relevant employer within one year without payment of compensation (except statutory compensation).

IV. COMPETING BUSINESS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors, or his/her respective close associates has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

V. DIRECTORS' INTEREST IN THE GROUP'S ASSETS

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been, since 31 December 2020 (being the date to which the latest published audited financial statements of the Company 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.

VI. DIRECTORS' INTEREST IN CONTRACTS OR ARRANGEMENT OF SIGNIFICANCE

On 31 December 2019, the Company entered into the information service framework agreement with Nan Hai, pursuant to which, the Company and/or its subsidiaries agreed to provide certain information products and services to Nan Hai Group from 1 January 2020 to 31 December 2022. Mr. Yu (an executive Director), who is deemed to be interested in Nan Hai, is deemed to be interested in the above-mentioned agreement.

On 21 June 2018, the Company as lender and 數碼慧谷置業管理股份有限公司 (Digital Huigu Real Estate Management Co., Ltd*) ("**Digital Huigu**"), the subsidiary of Nan Hai and a connected person of the Company, as borrower, entered into a Digital Huigu loan agreement in relation to the loan in the principal amount of approximately HK$342,506,000 owed and payable to the Company and its subsidiaries by the Digital Huigu. Such amount owed was deemed as term loan (the "**2018 Loan**"), whereas the Digital Huigu loan agreement was supplemented by the supplemental Digital Huigu loan agreement and the second supplemental Digital Huigu loan agreement on 31 May 2019 and 7 April 2021, pursuant to which certain terms and conditions of the Digital Huigu loan agreement were amended and the due date for repayment of the outstanding principal was extended. The outstanding principal and accrued interests were secured by the share mortgage (by way of first fixed charge) entered into by Nan Hai dated 31 May 2019 in respect of 100% of the issued share capital of Listar Properties Limited, an indirect wholly-owned subsidiary of Nan Hai. The 2018 Loan is subject to an interest rate of 8% per annum accrued daily based on a 365-day year and shall be paid in arrears when the outstanding principal (or the relevant part thereof) shall be repaid/prepaid.

* *For identification purpose only*

The default interest rate is 10% per annum on the default amount accrued daily based on a 365-day year. Mr. Yu (an executive Director), who is deemed to be interested in Nan Hai, is deemed to be interested in the above-mentioned agreements.

On 31 December 2020, the Company entered into a property leasing and management framework agreement with Nan Hai, pursuant to which, Nan Hai Group agreed to lease certain properties and provide property management services to the Group from 1 January 2021 to 31 December 2023. Mr. Yu (an executive Director), who is deemed to be interested in Nan Hai, is deemed to be interested in the above-mentioned agreements.

On 29 May 2009, the Company as lender and Nan Hai as borrower entered into a loan agreement (the "**2009 Loan Agreement**") in relation to the loan in the principal amount of HK$1,645.5 million advanced by the Company to Nan Hai (the "**2009 Loan**"). The 2009 Loan was advanced for the settlement of the consideration payable to the Company pursuant to the sale and purchase agreement entered into between the Company and Nan Hai on 13 November 2007, in relation to the sale of 51% issued share capital of Listar Properties Limited by the Company to Nan Hai. The 2009 Loan Agreement was later supplemented by the first supplemental agreement, the second supplemental agreement, the third supplemental agreement, the fourth supplemental agreement, the fifth supplemental agreement, the sixth supplemental agreement, the seventh supplemental agreement and the eighth supplemental agreement dated 20 May 2011, 31 October 2012, 9 May 2013, 30 April 2015, 2 Maybe 2017, 21 March 2019, 31 May 2019 and 7 April 2021 respectively, which among other things extended the repayment date for the outstanding principal and varied certain terms and provisions of the 2009 Loan Agreement. The outstanding principal and the accrued interests are being secured by the share mortgage (by way of first fixed charge) dated 31 May 2019 executed by Nan Hai in respect of the 100% issued share capital of Listar Properties Limited, an indirect wholly-owned subsidiary of Nan Hai. The 2009 Loan is subject to an interest rate of 8.0% per annum accrued daily during the extension period based on a 365-day year and shall be paid in arrears when the outstanding principal shall be repaid or prepaid. The default interest rate is 10.0% per annum on the default amount accrued daily based on a 365-day year. Mr. Yu (an executive Director), who is deemed to be interested in Nan Hai, is deemed to be interested in the above-mentioned agreements.

Save as disclosed above and the Agreement which Mr. Yu is deemed to be interested in, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group, which was subsisting at the date of this circular.

VII. LITIGATION OF THE ENLARGED GROUP

Neither the Enlarged Group nor any other member of the Enlarged Group has engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

VIII. MATERIAL CONTRACTS OF THE ENLARGED GROUP

Save for the Agreement, the Supplemental Agreement, the eighth supplemental agreement and the second supplemental Digital Huigu loan agreement, no contract, not being contracts in the ordinary course of business of the Company or any of its subsidiaries, has been entered into by the members of the Enlarged Group within the two (2) years immediately preceding the Latest Practicable Date.

IX. QUALIFICATIONS AND CONSENT OF EXPERTS

The following is the qualifications of the experts who have given their opinion and advice which are included in this circular:

Name	Qualifications
VBG Capital	a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants
Asia-Pacific Consulting and Appraisal Limited	Independent valuer

Each of the above experts is not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts does not have any direct or indirect interests in any assets which have since 31 December 2020 (being the date to which the latest audited consolidated accounts of the Company have been made up) been acquired or disposed of by or leased to or by any member of the Group, or was proposed to be acquired or disposed of by or leased to or by any member of the Group.

X. MISCELLANEOUS

(a) The registered office of the Company is at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong.

(b) The company secretary of the Company is Ms. Jay Shree Aggarwal who is a solicitor as defined in the Legal Practitioners Ordinance.

(c) The Hong Kong share registrar and transfer office of the Company is Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) In any event of inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

XI. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company at 12/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

(a) the Agreement;

(b) the Supplemental Agreement;

(c) the articles of association of the Company;

(d) the annual reports of the Company for the three financial years ended 31 December 2018, 31 December 2019 and 31 December 2020;

(e) the letter from the Independent Financial Adviser;

(f) the letter from the Independent Board Committee;

(g) the material contracts as referred to in the paragraph headed "Material Contracts" in this appendix;

(h) the written consent from the expert referred to in the paragraph headed "Qualifications and Consent of Experts" in this appendix;

(i) Unaudited Pro Forma Financial Information of the Enlarged Group;

(j) Accountants' Report of the Target Group; and

(k) this circular.

SINO-i TECHNOLOGY LIMITED
中國數碼信息有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 250)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the general meeting (the "**GM**") of Sino-i Technology Limited (the "**Company**") will be held at 11/F., The Octagon, No. 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong on Tuesday, 20 July 2021 at 3:30 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the Agreement dated 22 December 2020 ("**Agreement**") and Supplemental Agreement dated 4 June 2021 ("**Supplemental Agreement**") as defined in the circular dated 28 June 2021 despatched to the shareholders of the Company (the "**Circular**"), copies of the above agreements have been produced to this meeting marked "A" and "B", respectively and initialed by the chairman of the GM for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company be and is hereby authorized to do all such acts and things and execute further documents which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Agreement and Supplemental Agreement to be entered into by the Company and/or its subsidiaries and Nan Hai and/or its subsidiaries upon completion of the Agreement and Supplemental Agreement as defined in the Circular and the transactions contemplated thereunder."

Yours faithfully,
By order of the Board
Sino-i Technology Limited
Liu Rong
Chairlady

Hong Kong, 28 June 2021

Notes:

1. Any shareholder of the Company entitled to attend and vote at the GM is entitled to appoint another person as his/her proxy to attend and vote on his/her behalf in accordance with the articles of association of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.

2. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the share registrar of the Company, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the GM or any adjournment thereof.

3. The register of members of the Company will be closed from 15 July 2021 to 20 July 2021, both days inclusive, during which period no transfer of shares will be effected for the purpose of determining the identity of members who are entitled to attend and vote at the GM. In order to qualify for attending and voting at the GM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 14 July 2021 for registration.

4. Where there are joint registered holders of any share(s) of the Company, any one of such joint holders may attend and vote at the GM, either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the GM or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the name stands in the register of members of the Company in respect of the joint holding.

5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the GM or any adjournment thereof if he/she so desires. If a shareholder of the Company attends the GM after having deposited the form of proxy, his/her form of proxy will be deemed to have been revoked.

6. If a tropical cyclone warning signal no. 8 or above is hoisted or black rainstorm warning signal is in force in Hong Kong at or after 12:00 p.m. on the date of the GM, the GM will be postponed or adjourned. The Company will post an announcement on the HKEXnews website (www.hkexnews.hk) and the Company's website (http://www.sino-i.com) to notify shareholders of the date, time and venue of the rescheduled meeting.

7. Voting of the ordinary resolution as set out in this notice will be by poll.

8. Due to the constantly evolving COVID-19 pandemic situation in Hong Kong, the Company may be required to change the GM arrangements at short notice. Shareholders should check the Company's website (http://www.sino-i.com) and the HKEXnews website (www.hkexnews.hk) for future announcements and updates on the GM arrangements.

9. As at the date of this notice, the directors of the Company are:

Executive directors:	*Non-executive directors:*	*Independent non-executive directors:*
Ms. Liu Rong	Mr. Lam Bing Kwan	Mr. Fung Wing Lap
Mr. Yu Pun Hoi	Mr. Cheng Chih-Hung	Mr. Xiao Sui Ning
Mr. Chen Ming Fei		Mr. Ho Yeung Nang