

CMON LTD:
WHERE THERE'S A WILL, THERE'S A WAY

Management of CMON Ltd (Code: 8278, The Growth Enterprise Market [the GEM] of The Stock Exchange of Hongkong Ltd) was far from being shy in telling prospective shareholders of the Company as to the reason that it pitched its cash-raising exercise: It was desirous of topping up its somewhat depleted coffers.

It was stated, in the Company's Placing Prospectus, dated November 25, 2016, that, due to the fact that it had little in the way of acceptable collateral to cause traditional banks/finance entities to lend the Company money when it was deemed to be required, it had been forced to consider other methods of fundraising.

Hence, inter alia, the flotation on the secondary equity market of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

The Placing Prospectus, by innuendo, intimates, with regard to some of the principal reasons for obtaining a listing on The GEM, a number of inherent weaknesses in respect of this Company:

'The Group's business is asset light in nature and therefore asset-backed financing procured from financial institutions is not the most viable method of fund raising for the Group. On this premises the Group did not have any bank borrowings during the Track Record Period (the 29 months, ended May 31, 2016) and up to the Latest Practicable Date (November 15, 2016). Although the Group has the ability to raise funds through Kickstarter (an online funding platform for creative products), the fund raising capability of Kickstarter is not as strong as traditional equity markets. Moreover, Kickstarter is a funding platform for creative projects and is not designed to be a fund raising tool for the purpose of carrying out certain of the Group's expansion strategies, such as potential acquisitions, licensing or acquiring games, and carrying third party games. The majority of funds raised via Kickstarter are generally used for the purposes of developing and producing the relevant games, although the funds are occasionally used for the payment of operating expenses and other business purposes before the commencement of production and shipment of the relevant games. In general, the Company will not use the fundings received from a Kickstarter game for the purpose of developing another Kickstarter project or another game of the Company.'

'It is the Group's strategy to achieve long-term growth through product diversification and channel diversification. The Group intends to launch more games via Kickstarter as well as other channels, such as the wholesale network. The funds raised through Kickstarter alone may not be able to finance the Group's new product launches through these channels. Due to the aforementioned reasons, the Directors are of the view that sole reliance on organic growth through funding via Kickstarter and self-operation will impose constraints on the overall growth of the Group.'

'Through successful listing and equity fund raising, the Group will have more funds to develop and publish games through different channels, instead of relying on the Kickstarter funds which are generally used for the relevant Kickstarter games. The Group also needs more funds for (i) title acquisition or licensing of games that have potential for commercial success from other game developers; and (ii) carrying more third party games, both of which

will help the Group to strengthen its games portfolio in a faster pace. The Group also intends to utilise funds raised from the Listing to expand its wholesale business and reduce its reliance on Kickstarter sales. A successful listing would also enable the Group to explore future acquisitions and partnership opportunities with more flexibility because the Company would have the option to issue equities or equity-linked securities (if necessary) as consideration for such acquisitions (as compared to the scenario where the Group is not listed and can only proceed with such acquisitions by paying cash consideration)...’.

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