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

National Arts Entertainment and Culture Group Limited
國藝娛樂文化集團有限公司

(Provisional Liquidators Appointed)
(For Restructuring Purposes)
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8228)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

References are made to (i) the announcement of National Arts Entertainment and Culture Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 25 March 2020 in relation to the unaudited results for the year ended 31 December 2019 (the "**Unaudited Results Announcement**"); (ii) the announcements of the Company dated 27 May 2020 and 2 June 2020 respectively in relation to the update on delay in publication of audited final results for the year ended 31 December 2019 and despatch of annual report of the year ended 31 December 2019; and (iii) the announcement of the Company dated 17 June 2020 in relation to, among others, the delay in publication of audited final results for the year ended 31 December 2019.

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce that the Company's auditors, Elite Partners CPA Limited, has completed its audit of the consolidated financial statements of the Group for the year ended 31 December 2019 in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

MATERIAL DIFFERENCES BETWEEN THE ANNUAL RESULTS IN THE UNAUDITED RESULTS ANNOUNCEMENT AND THE ANNUAL RESULTS IN THIS ANNOUNCEMENT

Taking into account that the financial information contained in the Unaudited Results Announcement has not been audited and has not been agreed with the Company's auditors as at the date of its publication and subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to the material differences between the annual results set out in the Unaudited Results Announcement and the annual results disclosed in this announcement, the principal details and reasons for which pursuant to Rule 18.50A of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") are set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2019	Change	*Explanatory*
	HK$'000	*HK$'000*	*HK$'000*	*Notes*
	(Audited)	(Unaudited)		
Revenue				
– Goods and services	**135,919**	134,838	1,081	
– Rental	**41,565**	45,226	(3,661)	
– Interest	**4,608**	4,608	–	
Total revenue	**182,092**	184,672	(2,580)	
Other income	**14,658**	8,741	5,917	
Cost of film production	**(1,210)**	(1,033)	(177)	
Staff costs	**(58,020)**	(58,020)	–	
Other operating expenses	**(126,015)**	(130,501)	4,487	
Operating profit	**11,505**	3,859	7,647	
Depreciation of property, plant and equipment	**(63,582)**	(63,582)	–	
Depreciation of right-of-use assets	**(15,927)**	(14,256)	(1,671)	
Amortisation of land lease prepayments	**–**	–	–	
Impairment loss of financial assets	**(134,496)**	(115,073)	(19,423)	(iii), (iv)
Impairment loss on investment in film production	**(986)**	–	(986)	
Impairment loss on land lease prepayments	**–**	–	–	
Provision for restructuring cost	**(43,776)**	(54,588)	10,812	(v)
Net exchange losses	**(17,791)**	(17,840)	49	
Loss on fair value charge of convertible bond	**–**	–	–	
Share of loss of an associate	**–**	372	(372)	
Share of loss of a joint venture	**(2,479)**	(2,480)	–	
Finance costs	**(244,425)**	(192,189)	(52,236)	(vi)
Loss before income tax	**(511,957)**	(455,777)	(56,180)	
Income tax expense	**–**	–	–	
Loss for the year	**(511,957)**	(455,777)	(56,180)	

	2019	2019	Change	*Explanatory*
	HK$'000	*HK$'000*	*HK$'000*	*Notes*
	(Audited)	(Unaudited)		
Other comprehensive expense				
Items that will not be reclassified to profit or loss				
Loss on revaluation of properties held for own use	**(235,879)**	(156,512)	(79,367)	(i)
Income tax credit relating to revaluation of properties held for own use	**58,970**	39,128	19,842	(i)
Item that may be reclassified subsequently to profit or loss				
Exchange differences on translation of financial statements of foreign operations	**(14,628)**	(15,855)	1,227	
Other comprehensive expense for the year, net of tax	**(191,537)**	(133,239)	(58,298)	
Total comprehensive expense for the year	**(703,494)**	(589,016)	(114,478)	
Loss for the year attributable to:				
Owners of the Company	**(511,182)**	(455,002)	(56,180)	
Non-controlling interests	**(775)**	(775)	–	
	(511,957)	(455,777)	(56,180)	
Total comprehensive expenses attributable to:				
Owners of the Company	**(702,719)**	(588,241)	(114,478)	
Non-controlling interests	**(775)**	(775)	–	
	(703,494)	(589,016)	(114,478)	
Loss per share				
Basic and diluted	**(HK10.53 cents)**	(HK9.36 cents)	(HK1.15 cents)	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	2019 *HK$'000* (Audited)	2019 *HK$'000* (Unaudited)	Change *HK$'000*	*Explanatory Notes*
Non-current assets				
Property, plant and equipment	**1,400,027**	1,478,056	(78,029)	(i)
Investment in a joint venture	**2,849**	2,849	–	
Long-term receivables and investment deposits	**129,115**	158,787	(29,672)	(ii)
Right-in-use assets	**360,218**	359,787	431	
Pledged bank deposits	**2,229**	2,229	–	
	1,894,438	2,001,708	(107,270)	
Current assets				
Film products and film production in progress	**4,344**	4,344	–	
Investments in films/dramas production	**325**	1,311	(986)	
Trade receivables	**75,184**	81,952	(6,768)	(iii)
Inventories	**2,514**	2,514	–	
Prepayments, deposits and other receivables	**42,265**	23,606	18,659	(ii), (iv)
Amount due from a joint venture	**2,414**	2,414	–	
Cash and bank balances	**3,667**	3,667	–	
	130,713	119,808	10,905	
Current liabilities				
Trade payables	**36,072**	36,072	–	
Other payables and accruals	**197,393**	161,960	35,433	(vi)
Loans from shareholders	**589,457**	589,457	–	
Borrowings	**217,145**	222,145	(5,000)	
Bank overdrafts	**5,778**	5,778	–	
Lease liabilities/finance lease obligation	**13,502**	12,455	1,047	
Bonds	**769,105**	769,105	–	
Promissory note	**115,197**	106,477	8,720	(vi)
Provision for income tax	**2,951**	2,951	–	
	1,946,600	1,906,400	40,200	

	2019	2019	Change	Explanatory
	HK$'000	*HK$'000*	*HK$'000*	*Notes*
	(Audited)	(Unaudited)		
Net current liabilities	**(1,815,887)**	(1,786,592)	(29,295)	
Total assets less current liabilities	**78,551**	215,116	(136,565)	
Non-current liabilities				
Borrowings	**9,895**	9,895	–	
Bonds	**384,178**	384,178	–	
Lease liabilities/finance lease obligation	**16,261**	16,213	48	
Deferred tax liabilities	**99,500**	119,342	(19,842)	(i)
	509,834	529,628	(19,794)	
Net liabilities	**(431,283)**	(314,512)	(116,771)	
Capital and reserves				
Share capital	**494,817**	494,817	–	
Reserves	**(925,557)**	(808,786)	(116,771)	
Equity attributable to owners of the Company	**(430,740)**	(313,969)	(116,771)	
Non-controlling interests	**(543)**	(543)	–	
Total equity	**(431,283)**	(314,512)	(116,771)	

Notes:

(i) Further Impairment on Film Studio

As 31 December 2019, the audited fair value of Xiqiao National Arts Film Studio was only approximately HK$642,069,000 which was lower than the fair value of approximately HK$720,098,000 as recorded in the unaudited accounts of the Company. Resulting in the difference of fair value of property, plant and equipment of approximately HK$78,029,000, reducing the property revaluation reserve and its responding deferred tax liabilities of approximately HK$19,842,000.

(ii) Reclassification of non-current other receivables to current other receivables

Certain non-current other receivables amounting to approximately HK$18,659,000 in the unaudited accounts of the Company have been reclassified to current other receivables in the audited accounts of the Company.

(iii) Further impairment on trade receivables

The trade receivables shown in the unaudited accounts amounting to approximately HK$81,952,000 was further impaired for approximately HK$6,768,000 and included in the impairment loss of financial assets in the audited accounts. Taking into account that there was no significant subsequent settlement for long outstanding trade and bills receivables balance during the period from the date of the unaudited accounts of the Company to the date of the approval of the consolidated financial statements of the Group for the year ended 31 December 2019, the management of the Group assess that there is a risk of non-recovery of these outstanding trade and bills receivables and consider further impairment has to be made.

(iv) Further impairment on other receivables

Further impairment on other receivables of approximately HK$11,669,000 and included in the impairment loss of financial assets was recognised in the audited results. The management of the Group considered those other receivables may not be recovered due to the current economic environment in both the PRC and Hong Kong and further expected credit loss has been made for those balances.

(v) Adjustment to the restructuring cost

Adjustment to an equity-settled share-based payment for a restructuring cost of approximately HK$10,812,000 has been made in the audited accounts of the Company.

(vi) Provision of finance costs

In the breakdown of the Group's finance costs recorded in the audited accounts of the Company, additional finance costs of approximately HK$49,910,000 have been provided for interest on loans from shareholder, borrowings and promissory notes.

FINANCIAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue			
– Goods and services	4	**135,919**	115,350
– Rental	4	**41,565**	35,066
– Interest	4	**4,608**	3,421
Total revenue		**182,092**	153,837
Other income	4	**14,658**	5,277
Cost of film production		**(1,210)**	(1,224)
Staff costs	6	**(58,020)**	(51,629)
Other operating expenses		**(126,015)**	(92,212)
Operating profit		**11,505**	14,049
Depreciation of property, plant and equipment	6	**(63,582)**	(63,247)
Depreciation of right-of-use assets	6	**(15,927)**	–
Amortisation of land lease prepayments	6	**–**	(13,757)
Impairment loss of financial assets	4	**(134,496)**	(7,495)
Impairment loss on investment in film production		**(986)**	–
Impairment loss of land lease prepayments		**–**	(71,473)
Provision for restructuring cost		**(43,776)**	–
Net exchange losses	6	**(17,791)**	(42,712)
Loss on fair value changes of convertible bond		**–**	(2,521)
Share of loss of a joint venture		**(2,479)**	(1,072)
Finance costs	5	**(244,425)**	(227,330)
Loss before income tax		**(511,957)**	(415,558)
Income tax expense	7	**–**	–
Loss for the year		**(511,957)**	(415,558)

	Notes	2019 HK$'000	2018 HK$'000
Other comprehensive expense			
Items that will not be reclassified to profit or loss			
Loss on revaluation of properties held for own use		**(235,879)**	(28,637)
Income tax credit relating to revaluation of properties held for own use	7	**58,970**	7,159
Item that may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of foreign operations		**(14,628)**	(56,582)
Other comprehensive expense for the year, net of tax		**(191,537)**	(78,060)
Total comprehensive expense for the year		**(703,494)**	(493,618)
Loss for the year attributable to:			
Owners of the Company		**(511,182)**	(415,556)
Non-controlling interests		**(775)**	(2)
		(511,957)	(415,558)
Total comprehensive expense attributable to:			
Owners of the Company		**(702,719)**	(493,616)
Non-controlling interests		**(775)**	(2)
		(703,494)	(493,618)
Loss per share			
Basic and diluted	8	**(HK10.53 cents)**	(HK9.20 cents)

If the Company's financial restructuring is completed, interest on bonds, interest on promissory note, interest on loans from shareholders and interest on unsecured other borrowings shall be calculated up to 14 June 2019.

Therefore, should all conditions precedent of the creditors' scheme in relation to the Company's financial restructuring are satisfied, the interest expenses of approximately HK$95,205,000 included in the interest on bonds, interest on promissory note, interest on loan from shareholders and interest on unsecured other borrowings from 15 June 2019 to 31 December 2019 which have been provided for in accordance to the relevant accounting standard will be reversed.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**1,400,027**	1,683,190
Land lease prepayments		**–**	371,074
Investment in a joint venture		**2,849**	5,328
Long-term receivables and investment deposits		**129,115**	92,555
Right-of-use assets		**360,218**	–
Pledged bank deposits		**2,229**	2,278
		1,894,438	2,154,425
Current assets			
Film products and film production in progress		**4,344**	1,210
Investments in films/dramas production		**325**	1,311
Trade receivables	9	**75,184**	128,177
Inventories		**2,514**	2,928
Prepayments, deposits and other receivables		**42,265**	54,492
Amount due from a joint venture		**2,414**	2,414
Cash and bank balances		**3,667**	13,474
		130,713	204,006
Current liabilities			
Trade payables	10	**36,072**	19,979
Other payables and accruals		**197,393**	83,771
Loans from shareholders		**589,457**	4,090
Borrowings		**217,145**	138,400
Bank overdrafts		**5,778**	–
Lease liabilities/Finance lease obligation		**13,502**	9,738
Bonds		**769,105**	660,424
Promissory note		**115,197**	–
Provision for income tax		**2,951**	2,951
		1,946,600	919,353
Net current liabilities		**(1,815,887)**	(715,347)
Total assets less current liabilities		**78,551**	1,439,078

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Non-current liabilities			
Loans from shareholders		**–**	596,941
Borrowings		**9,895**	54,659
Bonds		**384,178**	362,895
Promissory note		**–**	106,477
Lease liabilities/Finance lease obligation		**16,261**	14,461
Deferred tax liabilities		**99,500**	158,470
		509,834	1,293,903
Net liabilities		**431,283**	145,175
Capital and reserves			
Share capital		**494,817**	451,716
Reserves		**(925,557)**	(306,773)
Equity attributable to owners of the Company		**(430,740)**	144,943
Non-controlling interests		**(543)**	232
Total equity		**(431,283)**	145,175

Note: Once the financial restructuring of the Company completes in 2020, it is expected that all bonds, promissory note, some shareholders' borrowing, loans and accrued expenses will, according to the plan, have 60% of their total value converted into five-year convertible bonds worth approximately HK$1,210,918,000, while the remaining 40% converted into new shares of the Company worth approximately HK$807,279,000. This measure can decrease current liabilities, which stand at approximately HK$1,590,463,000. It can be inferred based on the 2019 consolidated statement of financial position that, the Group will be able to record total net assets of approximately HK$332,440,000 in as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION AND BASIS OF PREPARATION

National Arts Entertainment and Culture Group Limited (the "**Company**", together with its subsidiaries as, the "**Group**") was incorporated in the Cayman Islands on 16 November 2001 as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. On 14 October 2010, the Company deregistered in the Cayman Islands and continued in Bermuda as an exempted company under the laws of Bermuda with effect from 14 October 2010. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company's principal place of business in Hong Kong is at Room 1514–1515, 15/F., Seapower Tower, Concordia Plaza, No. 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Company's shares are listed on GEM of the Stock Exchange of Hong Kong Limited. The Company is principally engaged in investment holding. The principal activities of the Group include film production and distribution, the provision of management services to artistes, event coordination, operations of film studio and hotel and provision of travel related products.

The consolidated financial statements are presented in Hong Kong Dollars ("**HK$**"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("**HK$'000**") unless otherwise stated.

In preparing these consolidated financial statements, the directors have considered the future liquidity of the Group. As at 31 December 2019, the Group had recorded net current liabilities and net liabilities of approximately HK$1,815,887,000 and HK$431,283,000 respectively, and the Group incurred a loss for the year of approximately HK$511,957,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group will be able to operate as a going concern for the foreseeable future. In the opinion of the directors, the Group can meet its financial obligations as and when they fall due within the next year from the date of the consolidated financial statements, after taking into consideration of the following measures and arrangements made:

(a) Proposed financial restructuring plans

To facilitate the Company's financial restructuring, on 14 June 2019, a winding up petition together with the application for the appointment of Mr. Osman Mohammed Arab and Mr. Lai Wing Lun, both of RSM Corporate Advisory (Hong Kong) Limited, and Mr. Roy Bailey c/o EY Bermuda Ltd as joint provisional liquidators (together "**JPLs**") of the Company on a light touch approach for restructuring purposes (the "**JPL Application**") was presented and filed with the Supreme Court of Bermuda (the "**Bermuda Court**") by the Company's Bermuda Counsel, Conyers Dill & Pearman at the request of the Company (the "**JPL Application**").

Under the JPL Application, the Board shall retain all of its executive powers in relation to the ordinary course of business of the Company, subject to the JPLs' supervision, for the purpose of developing and proposing a financial restructuring, of the exercise of such powers. This would allow the Company's current management to work with the JPLs to oversee the implementation of a financial restructuring proposal.

The Bermuda Court made the orders as sought by the Company under the JPL Application, inter alia, the JPLs have been appointed on 14 June 2019.

On 10 July 2019, the Company invited all known creditors of the Company (the "**Creditors**") to make an offer to the Company for possible restructuring transaction, which has received substantial support from most of the Creditors.

On 26 August 2019, the Company put forward the proposed scheme of arrangement pursuant to Section 99 of the Companies Act 1981 of Bermuda and Section 670 of the Companies Ordinance (Cap. 622) of Hong Kong.

The appointment and the powers of the JPLs were recognised by the High Court of Hong Kong on 15 August 2019.

As part of the Company's financial restructuring plans, the Company invited the Creditors to make an offer to the Company to subscribe for:

(1) 1% annual coupon rate convertible bonds due 2024 to be issued by the Company (the "**Convertible Bonds**") in the principal amount equal to 60% of the outstanding principal amount of debts due and owing by the Company to each of the Creditors (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the relevant debt(s)) and convertible into fully-paid ordinary shares of the Company listed and traded on GEM at the initial conversion price of HK$0.55 per conversion share (the "**Conversion Shares**") (the "**CB Subscription**"); and

(2) new shares of the Company at the issue price of HK$0.38 per share (the "**New Shares**") the total value of which equals to the remaining 40% of the outstanding principal amount of debts due and owing by the Company to each of the Creditors (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the relevant debt(s)) (the "**Share Subscription**") (the CB Subscription and the Share Subscription together referred to as the "**Restructuring Transaction**"), as full and final settlement of all outstanding debts (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the debt(s)) due and owing by the Company to the Creditors, subject to the execution, and the final terms and conditions, of the subscription agreement, the bond instrument, any scheme of arrangement proposed by the Company and/or other agreements the execution of which is desirable for the implementation and consummation of the Restructuring Transaction, as the case maybe.

The offer by the Creditors to participate in the Restructuring Transaction also includes an agreement that the Creditors will participate in, support and vote in favour of a scheme(s) of arrangement proposed by the Company, where such scheme(s) is/are deemed necessary and appropriate by the Company and the JPLs of the Company appointed pursuant to the Order of the Bermuda Court dated 14 June 2019.

As at 12 August 2019, the Company has received substantial support from the Creditors regarding the Restructuring Transaction.

On 10 October 2019, the Restructuring Transaction was approved by the shareholders of the Company (the "**Shareholders**") at the special general meeting of the Company (the "**SGM**").

On 8 November 2019, the creditors' scheme, which the Company will issue the New Shares and the Convertible Bonds to the Creditors to discharge and release the debt owing by the Company to the Creditors in full (the "**Scheme**"), was approved by the requisite statutory majorities of the Creditors.

On 6 March 2020, the Scheme became binding and effective.

On 7 May 2020, the notice of decision on adjudication of claim of the Scheme Administrators pursuant to the Scheme (the "**Decision**") were dispatched to the Creditors.

On 27 May 2020, the application for review of the Decision expired and no application was received.

On 9 June 2020, the Scheme Administrators informed the Company the final result of their adjudication of claims pursuant the Scheme and instructed the Company to issue the New Shares and Convertible Bonds to the Creditors pursuant to the Scheme.

In the opinion of the directors and the Scheme Administrator, the Scheme is expected to be completed and the New Shares and Convertible Bonds will be issued to each Creditor by the end of June 2020.

(b) Extension of the Group's other borrowing

Subsequent to the end of the reporting period, the Group has renegotiated the maturity date of other borrowings of approximately HK$81,780,000 with accrued interest of HK$15,869,000 as at 31 December 2019 to 30 June 2023.

(c) Credit facilities obtained after the end of the reporting period

At the date of these consolidated financial statements, the Group has various credit facilities of HK$175,000,000 in aggregate with the interest rate carrying from 6.5% to 12.0% available for the Group's working capital and its financial obligations. Those credit facilities will mature after next twelve months from the date of this report. The lenders of such loan facilities are licensed money lenders in Hong Kong and Mr. Sin Kwok Lam, a substantial shareholder, the chairman and an executive director of the Company.

(d) Possible fund-raising activities

On 13 March 2020, the Company entered into an agreement (the "**SSF Agreement**") with GEM Global Yield LLC SCS (the "**Investor**"), pursuant to which the Investor has agreed to grant the Company an option to require the Investor to subscribe for the shares of the Company (the "**Shares**") (the "**Share Subscription Facility**") and the Company has agreed to issue 383,000,000 warrants (the "**Warrants**") to the Investor.

Under the Share Subscription Facility, the Company has right to request the Investor to subscribe for the Shares at a price which is 90% of the average closing price of last 10 trading days immediately following the delivery of subscription notice by the Company to the Investor, but not lower than HK$0.23 per Share (the "**Option**"). The Option is exercisable by the Company for 3 years, commencing on 13 March 2020. The aggregate subscription price under the Share Subscription Facility is HK$2,350,000,000.

The Warrants carry a right to the Investor to subscribe for up to a total of 383,000,000 Shares at a price of HK$0.23 per Shares for 3 years, commencing on the date of the satisfaction or the fulfilment of conditions precedent to the SSF Agreement.

The issuance of the Shares under the Share Subscription Facility and the Warrants is subject to the approval from the Stock Exchange and the Shareholders.

(e) Various cost control measures

The management plans to improve the Group's financial performance by taking steps to reduce discretionary expenses and administrative costs.

Nevertheless, should the Group fail to implement the measure as mentioned above, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("**HKAS 17**"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment;

(v) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is by the relevant group entities range from 4.50% to 15.00%.

	HK$'000
Operating lease commitments disclosed as at 31 December 2018	4,155
Less: Recognition exemption – short-term leases	(277)
	3,878
Lease liabilities discounted at relevant incremental borrowing rates	3,204
Add: Obligation under finance lease recognised at 31 December 2018	24,199
Lease liabilities at 1 January 2019	27,403
Analysed as	
Current	10,401
Non-current	17,002
	27,403

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	3,204
Reclassified from prepaid lease payments/land use rights	371,074
	374,278
By class	
Leasehold lands	371,074
Office premises	3,204
	374,278

Notes:

(a) Upfront payments for leasehold lands in the People's Republic of China ("**PRC**" or "**China**") were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the non-current portion of prepaid lease payments amounting to approximately HK$371,074,000 was reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group reclassified the finance leases obligation of approximately HK$9,738,000 and HK$14,461,000 to lease liabilities as current and non-current liabilities respectively as at 1 January 2019.

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$1,614,000 was adjusted to refundable rental deposits paid.

Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties/vessels in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported as at 31 December 2018	**Adjustments**	**Carrying amount under HKFRS 16 as at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Land lease prepayments	371,074	(371,074)	–
Right-of-use assets	–	374,278	374,278
Current liabilities			
Lease liabilities	–	11,294	11,294
Finance lease obligation	9,738	(9,738)	–
Non-current liabilities			
Lease liabilities	–	16,109	16,109
Finance lease obligation	14,461	(14,461)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

New and amendments to HKFRSs in issue but not yet effective

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

The Directors consider that the application of all new and amendments to HKFRSs and HKASs is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties, film studio and financial instruments that are measured at revalued amount or fair values at the end of each reporting period.

4. REVENUE, OTHER INCOME, OTHER LOSSES AND IMPAIRMENT LOSS OF FINANCIAL ASSETS

Revenue and other income and other losses derived from the Group's principal activities recognised during the year is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15, disaggregated by major products or services lines:		
Artiste management fee income	**34**	344
Hotel room income	**13,743**	13,432
Food and beverage income	**24,620**	26,365
Entrance fee income	**11,571**	54,011
Events income	**64,172**	411
Sales of travel related products	**5,255**	1,121
Sales of goods	**2,662**	1,865
Ancillary services	**12,675**	16,248
Consultation income	**1,187**	1,553
	135,919	115,350
Interest revenue that reflects significant financing granted to customers	**4,608**	3,421
Rental income	**41,565**	35,066
	182,092	153,837
Timing of revenue recognition:		
At a point in time	**51,858**	83,362
Over time	**84,061**	31,988
	135,919	115,350

	2019	2018
	HK$'000	*HK$'000*
Other income		
Bank interest income	**29**	16
Other interest income	**6,148**	2,278
Others	**8,481**	2,983
	14,658	5,277
Other losses		
Impairment losses of investment in film production	**986**	–
Impairment loss of financial assets		
Impairment loss (recognised)/reversed on:		
– trade receivables	**(88,806)**	297
– other receivables	**(45,690)**	(7,792)
	(134,496)	(7,495)

5. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on lease liability/finance lease obligation	**2,287**	1,839
Interest on bank overdrafts	**–**	46
Interest on bonds	**144,797**	139,023
Interest on promissory note	**8,720**	10,348
Interest on loans from shareholders	**58,245**	53,309
Interest on unsecured other borrowings	**12,578**	8,493
Interest on secured other borrowings	**16,441**	13,775
Interest on secured bank borrowings	**1,357**	497
	244,425	227,330

Note:

If the Company's financial restructuring is completed, interest on bonds, interests on promissory note, interest on loans from shareholders and interest on unsecured other borrowings shall be calculated up to 14 June 2019.

Therefore, should all conditions precedent of the creditors' scheme in relation to the Company's financial restructuring are satisfied, the interest expenses of approximately HK$95,205,000 included in the interest on bonds, interest on promissory note, interest on loan from shareholders and interest on unsecured other borrowings from 15 June 2019 to 31 December 2019 which have been provided for in accordance to the relevant accounting standard will be reversed.

6. LOSS BEFORE INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Auditors' remuneration	**1,000**	850
Amortisation of film products	**1,032**	1,224
Amortisation of land lease prepayments	**–**	13,757
Costs of inventories recognised as expenses	**545**	443
Depreciation of property, plant and equipment	**63,582**	63,247
Depreciation of right-of-use assets	**15,927**	–
Equity settled share-based-payments granted to consultants (included in provision for restructuring cost)	**21,695**	–
Net exchange losses	**17,791**	42,712
Minimum lease payments under operating leases in respect of rented premises	**–**	11,249
Expenses related to short-term lease	**1,975**	–
Employee benefit expenses (including directors' remuneration)		
– Salaries, allowances and benefits in kind	**47,190**	40,545
– Contributions to retirement benefits schemes	**10,830**	11,084
	58,020	51,629

7. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as there were no assessable profits arising in or derived from Hong Kong for both years.

The PRC Enterprises Income Tax at 25% has not been provided as the PRC subsidiaries have available tax losses brought forward from previous years to offset the assessable profits generated during the year ended 31 December 2019.

The PRC Enterprises Income Tax at 25% has not been provided as the PRC subsidiaries incurred losses for taxation purposes for the year ended 31 December 2018.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

Income tax recognised in other comprehensive income

	2019	2018
	HK$'000	*HK$'000*
Deferred tax		
Arising on expense recognised in other comprehensive income:		
Revaluation of properties held for own use	**(58,970)**	(7,159)
Total income tax credit recognised in other comprehensive income	**(58,970)**	(7,159)

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the owners of the Company of approximately HK$511,957,000 (2018: approximately HK$415,556,000) and the weighted average of approximately 4,861,926,000 (2018: approximately 4,517,071,000) ordinary shares in issue during the year. Diluted loss per share for loss attributable to the owners of the Company for the years ended 31 December 2019 and 2018 was the same as basic loss per share because the impact of the exercise of the share options and convertible bonds are anti-dilutive.

9. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables		
– travel agents	**113,611**	102,386
– production crews	**51,773**	23,382
– others	**5,588**	9,391
	170,972	135,159
Less: allowance for credit losses	**(95,788)**	(6,982)
	75,184	128,177

Except for a customer arising from entrance fee income, whose credit term for payment was about 12 months after tickets are sold, the following is the ageing analysis of trade receivables, net of allowances for bad and doubtful debts, presented based on the invoice date:

	2019	2018
	HK$'000	*HK$'000*
0 to 60 days	**15,621**	9,330
61 to 90 days	**6,218**	7,430
91 to 180 days	**23,632**	11,533
Over 180 days	**29,713**	99,884
	75,184	128,177

10. TRADE PAYABLES

The Group was granted by its suppliers' credit periods from 30 to 60 days (2018: 30 to 60 days). The following is the ageing analysis of trade payables based on invoice date:

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**1,382**	699
31 to 60 days	**1,365**	429
61 to 90 days	**1,070**	469
91 to 180 days	**14,724**	920
Over 180 days	**17,531**	17,462
	36,072	19,979

11. DIVIDEND

No dividend has been proposed or declared by the Directors for the year ended 31 December 2019 (2018: Nil).

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is the extract of the Independent Auditors' Report from the external auditors of the Company, Elite Partners CPA Limited:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK$511,957,000 for the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets and net liabilities by approximately HK$1,815,887,000 and HK$431,283,000 respectively. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Xiqiao National Arts Studio Project

Located in Foshan City, Guangdong Province, the Group's Xiqiao National Arts Film Studio (the "**Studio**") and National Arts Resort Hotel (the "**Hotel**") (collectively the "**Xiqiao National Arts Film Studio Project**") has the view of Mount Xiqiao which is known as one of the national 5-star tourist attractions and has total developed land area of 444,000 square meters. There are unique film shooting areas throughout the Studio along with theme parks, hotel and performing arts complexes. The Studio incorporates sightseeing and recreational facilities which make it the most international vacation resort in Guangdong Province. During the year under review, the Studio opened a new theme park named "The Snow Queen Theme Park", and successfully organised a number of events, including "潮拜星春匯國藝", "國潮穿越運動會", "The 6th Wing Chun Competition", "International Youth Film and Culture Internship Programme" and "Christmas Carnival". Overall, the total attendances of the Studio in 2019 were approximately 1,200,000. In addition, the Group also established the National Arts Brilliant Emperor Cinematic Action Stunt Training Center (國藝輝煌電影動作特技培訓中心), which combines films, culture and tourism and teaching activities, aiming to nurture the next generation of movie stars. Meanwhile, the Group has participated in several charity groups on education. The Studio cooperated with charitable organisations such as Caritas and Po Leung Kuk to organise study group events for students to participate and to explore different culture and film production in the Studio. The Groups believes that the events held by the Group will effectively improve the brand awareness of the Studio and will push the Xiqiao National Arts Film Studio Project to the peak.

Travel

National Arts Travel Limited ("**NA Travel**") has been established and commenced its business since 2015. It provides one-stop travel services especially for major organizations, associations and tourists with diversification, professionalism, and internationalism as their principles, and formulates flexible and comfortable travel plans and personalized products. To enhance the comprehensive customer support and increase the Group's market competitiveness, NA Travel has updated its inquiry and sales system in 2018. In addition to optimizing traditional group tours, travel insurance, international flight and hotel booking, it also organises customized group tours, providing extraordinary experience for travelers, including private tour business, business trainings and activities, honeymoon and wedding plans, cruise ship holidays, professional and special tours, etc.

In addition, in order to diversify the current product lines, NA Travel established "Skyyer Travel" in 2018 through the Travel Industry Council of Hong Kong. "Skyyer Travel" presents a fresh brand image with the slogan "What Travel means is...you decide to go and take action! (旅遊就是...想閃。就閃)". It specializes in designing "Tailor-made tours for sport, hobby and industry" and invites various celebrities as guests and creates star-class tourism. The subjects includes golf, yoga, bicycle, basketball, darts, martial arts, painting, dragon boat, diving, photography, religion, music, food, wine appreciation, tea ceremony and marathon, etc., providing customers with unique experiences of in-depth tours. In 2019, to make NA Travel's products more international and specialized, NA Travel expanded beyond Asia and entered regions in Europe and the Middle East, including Bordeaux, the famous red wine producing city, Dubai and Abu Dhabi, where guests can visit some of the most prestigious buildings in the world. Meanwhile, NA Travel organized "themed activities and travels", including international dart tournament, wing chun tournament, Hung Kuen tournament, concert and beauty contest. NA Travel also participated in a sports exposition and held "Skyyer Travel Brand and Outstanding Athlete Award Ceremony" for the first time in order to promote its brand.

In order to align with the current teaching blueprint of "broadening horizon and life-long learning", NA Travel established "National Arts Cultural Study Tour Expert (國藝文化遊學專家)" through the Travel Industry Council of Hong Kong, which specializes in assisting elementary and middle schools, social groups, and institutions to plan and organize different cultural exchange and education activities with foreign counterparts. Under the mission that "study tours are provided to broaden horizon, increase knowledge, and have real experience" and the philosophy of "exploring the world, making friends and enriching life", it provides professional itinerary advice and considerate services, coupled with new elements, including trainings for language, interests, history, arts, science, leadership and teamwork. Study tours cover Foshan, Shenzhen, Guangzhou, Shanxi in China, Taiwan, Korea, and Singapore, etc. The goal is to make sure that every participant will have an unforgettable experience.

NA Travel is also committed itself to social responsibilities, including the 1st Hong Kong Youth Festival –Sports Carnival and Record-setting Darts Event (第一屆香港青年節–體育嘉年華暨千人同鏢創紀錄), and Sowers Action – Boundless Teaching Charity Concert (苗圃行動–有教無疆慈善音樂會), etc. In the future, it will continue to take active part in charitable activities and pay back to society.

Film Shooting Base

The film shooting base is the core project of the Xiqiao National Arts Film Studio Project. It covers 374,000 square meters of land, including a lake of 120,000 square meters and numbers of indoor and outdoor studios which are equipped with excellent and comprehensive ancillary facilities in order to provide the Southern China and foreign shooting crews the most realistic and delicate scenes.

By virtue of the extensive choices of scenes, supreme geographical location and multifunctional ancillary services, the film shooting base has been heavily used by the production crews. During the year of 2019, over 100 domestic and overseas production crews filmed in the film shooting base. Since 2017, the Group has taken the role of rental agent by entering into several rental agreements with a number of companies renting film shooting equipment. The partners provide the plentiful props, attires and high-tech shooting equipment including lots of ancient costumes of Ming and Qing dynasties, antique furniture, simulated ordnance and other performing props. It generates substantial revenue to the Group. Besides creating enormous synergistic effect for the Group, it also enhances the Group's capability of provision of ancillary services in respect of film shooting, and also facilitates centralization of the industry as well as strengthen the Group's competitiveness among its peers. On 4 January 2018, Foshan Bureau of Culture, Publication, Radio, Film and Television (the "**Bureau**") approved a few wholly-owned subsidiaries of the Company to assist the Bureau in the operation and expansion (i) that would facilitate film enterprises from various regions moving into Foshan, policy presentation, solicitation of investment and funding as well as shooting, etc.; (ii) of digital studio and film location construction projects; and (iii) in respect of diversification of props and equipment portfolio, leasing and consolidation of props leasing business.

With the rapid increase in the demand of film industry in recent years, the Group is actively developing the second phase development of the Studio (the "**Second Phase Project**"). The Second Phase Project includes the building of indoor studio, which could raise the Group's current position in the film industry and enable the Group to develop into a world-known film shooting base in the foreseeable future.

The Group is the first enterprise designated by the Foshan Government to help building Foshan as the largest hub for props and equipment in Foshan, with focus on film and television industry, which boosted the reputation of the Group in the industry, thereby further consolidating the presence of the Studio in the film and television industry in Southern China.

Wedding Photography

The Group reached an agreement with a renowned domestic wedding photography chain group in the fourth quarter of 2013 to develop its new wedding photography business. Through which, the Group leased the Studio with an area of approximately 20 mu (13,333.33 square meters) for a term of 12 years and the wedding photography company invested RMB10 million for the construction of scenic spots in different styles such as European, Korean and Japanese styles and guarantee there will be at least 28,800 couples taking wedding photos in the scenic spots per year. The annual income of this arrangement will be no less than approximately RMB1.2 million starting from 2016. During the year of 2019, there were 8,816 couples taking wedding photos in the scenic spots.

In addition, the Group is negotiating with several jeweler, Chinese and western bakery, Chinese style wedding gown and wedding planning company in order to provide one-stop service for wedding couples. The Studio is expected to become a comprehensive wedding hot spot.

Hotel

The 5-star Hotel located next to the Studio provides 350 suites facilitated from deluxe suites to signature rooms. The Hotel offers a wide range of dining choices and high-quality food services, it has 6 specialties restaurants with Chinese and foreign styles, offering high-class food and wine from around the world. The Hotel is also equipped with a variety of recreational facilities such as SPA, gym room and tea house, allowing travelers to enjoy themselves within the Hotel in all respects including dining, drinking and entertainment.

Apart from the recreation, the Hotel also provides catering services and commercial services such as business centre, meeting rooms and lecture halls, thereby satisfy essential needs and wants of the customers. To boost high quality service, the Hotel wishes to build strong communication among its staff by organising group activities such as sport day, in order to educate the staff of the importance of team work and to raise spirit in the corporate environment. Besides, the Hotel was awarded "19th Golden Horse Award of China Hotel – Best Theme Hotel Resort of Greater Bay Area" which recognized the corporate management quality and service quality of the Hotel.

With the development of the Hotel and the Studio becoming mature and its popularity having increased, the number of tourists continuously grows. The Group expects to build boutique hotel in the foreseeable future, offering customers with more new experiences.

Film Production

The Group spared no effort in promoting entertainment culture for many years such as production of and investment in movie, microcinema and online TV programme to promote the culture and the spirit of entertainment.

During 2016, the Group invested in the production of a charity film named "Our Days in 6E" (我們的6E班). The theme of "Our Days in 6E" is in line with the current social status, laden with educational significance as part of its social responsibility. In 2019, the Group has invested in the production of a modern romantic film, named "Romantic Marriage?" (婚姻的童話?). The Group expects to invest more in production of films of various themes, thus, stepping forward to the diversified film market.

In addition, the Group held various courses from time to time to cultivate next generation film producers and actors in order to encourage the development of film production and contribute to the betterment of the film industry. With regard to the prospects of film production of the Group, the Group will step forward in respect of Hong Kong-Mainland film production and maintain a position in the film industry in Southern China.

Cinema

National Arts Films Production Limited ("**NA Films**"), an indirectly wholly-owned subsidiary of the Company, collaborated with its joint venture for the development of cinema business in a large shopping mall in a transportation hub area of Zhuhai, Guangdong, the PRC.

NA Films held 60% equity interest in the joint venture. The cinema boasts eight screens and a total of more than 730 seats, and have commenced its operation since May 2014 which supports further comprehensive development of the Group's entertainment and culture business.

Artiste Management

To enhance the popularity of the Group's artists such as Rose Chan and Brian Yuen, the Group has arranged a variety of performance opportunities including the participation in the charity movie, "Our Days in 6E" (我們的6E班), the romantic movie, "Romantic Marriage?" (婚姻的童話?), the online TV series "OCTB" (反黑), brand representative, dramas such as "Guardian Angel" (守護神之保險調查) and being the show host of the Lunar New Year Celebration, and the guest performers for the "New Year is A Game" (大玩特玩) and "Cooking Beauties' (美女廚房).

Besides, the Group also explores the PRC market for its artists and makes arrangement for them to participate in live reality show and online drama to enhance their popularity.

With the huge market of domestic movies, the Group will continue to recruit artists with potential in the future to cope with the demands in the vast market and expand the artiste management segment, hoping that it will become one of the major income sources of the Group.

FUTURE PROSPECT

As disclosed in the Company's announcement dated 7 February 2020, the operation of the Studio and the Hotel has been temporarily suspended since 24 January 2020 and 29 January 2020 respectively due to the outbreak of the novel coronavirus (2019-nCoV) epidemic. It is expected that the Studio and the Hotel will resume operation after epidemic. The Group will closely monitor the development of the epidemic and the business of the Group.

Benefiting from the opportunities brought by the construction of the "One Belt One Road Initiatives", the development of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as the opening of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge, the China National Tourism Administration is able to bring more convenience to overseas visitors to pass through the Greater Bay Area, strengthen market supervision, promote marketing and cooperation, and support the industry to develop more "one travel with multi-stops" tourism products. Hong Kong may become a "transit station" to the Greater Bay Area, and travel agencies are expected to design more intra-Bay tourism products, such as Foshan Arts/Martial Arts/Film Tourism in response to the development of the Greater Bay Area.

With aging population, more senior people choose to travel abroad after retirement. Travel agencies will design more medium to short itineraries, and expand the cruise market to provide a more diverse travel experience to cater the needs of the senior people. As young people pay more attention to tourism and cultural experience, in-depth travelling is increasingly popular among them. Therefore, the travel agencies will design tours with more characteristics, such as boxing dance tourism, tea art tourism, yoga tourism, cycling tourism, and Michelin cuisine tourism, in order to attract young travelers.

The demand for business travel is increasing, and the opening of the two major infrastructures, namely, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge, has greatly enhanced the advantages of connection between Hong Kong and the Guangdong-Hong Kong-Macao Greater Bay Area. Travel agencies are expected to expand tourism in related fields, cooperate with the Group's resort hotels and studios, and launch corporate training and communication experiences and theme activity tourism to meet the needs of the corporate customers.

FINANCIAL REVIEW

Results

During the year under review, the Group recorded revenue of approximately HK$182.09 million, representing an increase of approximately HK$28.26 million as compared to that in 2018. The revenue was mainly derived from the entrance fee income, and the crew rental income from the film production crews using the Group's film shooting base, while part of the revenue was generated from sales of goods, filming, ancillary services, the Hotel in the PRC, and the artiste management and event coordination business in Hong Kong.

Staff costs for the period under review increased to approximately HK$58.02 million from approximately HK$51.63 million in 2018, representing an increase of approximately HK$6.39 million.

Other operating expenses for the period under review increased to approximately HK$126.01 million from approximately HK$92.21 million in the corresponding period in 2018. An increase of approximately HK$33.8 million in other operating expenses during the period under review was mainly due to the increase in cost of scene setting and advertising in the Studio.

For the year ended 31 December 2019, the Group recorded an operating profit of approximately HK$11.51 million as compared to operating profit of approximately HK$14.05 million for the year ended 31 December 2018. The decrease in operating profit was mainly due to the increase in staff costs and other operating expenses.

Finance costs for the year under review increased to approximately HK$244.43 million from approximately HK$227.33 million in 2018. As facilitated by the Company's financial restructuring, interest on bonds, interest on promissory note, loans from shareholders and interest on unsecured other borrowings have been calculated up to 14 June 2019. Nevertheless, should all conditions precedent of the Creditors' Scheme are satisfied, the interest expenses of approximately HK$95,205,000 included in the interest on bonds, interest on promissory note, interest on loan from shareholders and interest on unsecured other borrowings from 15 June 2019 to 31 December 2019 which have been provided for in accordance to the relevant accounting standard will be reversed.

The Group recorded an impairment loss of financial assets of approximately HK$134.50 million for the year ended 31 December 2019, which is attributable to the impairment loss on trade receivables of approximately HK$88.81 million and the impairment loss on other receivables of approximately HK$46.69 million respectively. Such impairment loss contains both specific provision on doubtful debts such as amounts due from certain ticket selling agents and film production companies as well as impairment loss arising from the Group's expected credit loss assessments.

For the year ended 31 December 2019, the Group recorded a net loss of approximately HK$511.96 million as compared to net loss of approximately HK$415.56 million for the year ended 31 December 2018. The increase in net loss was mainly due to the increase in impairment loss of financial assets and the provision for restructuring cost.

Liquidity and Financial Resources

	2019	2018
	HK$'000	*HK$'000*
Current assets	**130,713**	204,006
Current liabilities	**1,946,600**	919,353
Current ratio	**6.7%**	22.2%

Current ratio as at 31 December 2019 was 6.7% (2018: 22.2%). As at 31 December 2019, the Group's total negative cash and cash equivalents amounted to approximately HK$2.11 million (2018: positive cash and cash equivalents approximately HK$13.47 million).

As at 31 December 2019, the Group had recorded net current liabilities and net liabilities of approximately HK$1,815,887,000 and HK$431,283,000 respectively, and the Group continued to incur a loss for the year of approximately HK$511,957,000. These conditions indicate that there may exist a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group will be able to operate as a going concern for the foreseeable future. In the opinion of the directors, the Group can meet its financial obligations as and when they fall due within the next year from the date of the consolidated financial statements, after taking into consideration of the following measures and arrangements made:

(a) Proposed financial restructuring plans

To facilitate the Company's financial restructuring, on 14 June 2019, a winding up petition together with the application for the appointment of Mr. Osman Mohammed Arab and Mr. Lai Wing Lun, both of RSM Corporate Advisory (Hong Kong) Limited, and Mr. Roy Bailey c/o EY Bermuda Ltd as joint provisional liquidators (together "**JPLs**") of the Company on a light touch approach for restructuring purposes (the

“**JPL Application**”) was presented and filed with the Supreme Court of Bermuda (the “**Bermuda Court**”) by the Company’s Bermuda Counsel, Conyers Dill & Pearman at the request of the Company (the “**JPL Application**”).

Under the JPL Application, the Board shall retain all of its executive powers in relation to the ordinary course of business of the Company, subject to the JPLs’ supervision, for the purpose of developing and proposing a financial restructuring, of the exercise of such powers. This would allow the Company’s current management to work with the JPLs to oversee the implementation of a financial restructuring proposal.

The Bermuda Court made the orders as sought by the Company under the JPL Application, inter alia, the JPLs have been appointed on 14 June 2019.

On 10 July 2019, the Company invited all known creditors of the Company (the “**Creditors**”) to make an offer to the Company for possible restructuring transaction, which has received substantial support from most of the Creditors.

On 26 August 2019, the Company put forward the proposed scheme of arrangement pursuant to Section 99 of the Companies Act 1981 of Bermuda and Section 670 of the Companies Ordinance (Cap. 622) of Hong Kong.

The appointment and the powers of the JPLs were recognised by the High Court of Hong Kong on 15 August 2019.

As part of the Company’s financial restructuring plans, the Company invited the Creditors to make an offer to the Company to subscribe for:

(1) 1% annual coupon rate convertible bonds due 2024 to be issued by the Company (the “**Convertible Bonds**”) in the principal amount equal to 60% of the outstanding principal amount of debts due and owing by the Company to each of the Creditors (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the relevant debt(s)) and convertible into fully-paid ordinary shares of the Company listed and traded on GEM at the initial conversion price of HK$0.55 per conversion share (the “**Conversion Shares**”) (the “**CB Subscription**”); and

(2) new shares of the Company at the issue price of HK$0.38 per share (the “**New Shares**”) the total value of which equals to the remaining 40% of the outstanding principal amount of debts due and owing by the Company to each of the Creditors (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the relevant debt(s)) (the “**Share Subscription**”) (the CB Subscription and the Share Subscription together referred to as the “**Restructuring Transaction**”), as full and final settlement of all outstanding debts (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the debt(s))

due and owing by the Company to the Creditors, subject to the execution, and the final terms and conditions, of the subscription agreement, the bond instrument, any scheme of arrangement proposed by the Company and/or other agreements the execution of which is desirable for the implementation and consummation of the Restructuring Transaction, as the case maybe.

The offer by the Creditors to participate in the Restructuring Transaction also includes an agreement that the Creditors will participate in, support and vote in favour of a scheme(s) of arrangement proposed by the Company, where such scheme(s) is/are deemed necessary and appropriate by the Company and the JPLs of the Company appointed pursuant to the Order of the Bermuda Court dated 14 June 2019.

As at 12 August 2019, the Company has received substantial support from the Creditors regarding the Restructuring Transaction.

On 10 October 2019, the Restructuring Transaction was approved by the shareholders of the Company (the "**Shareholders**") at the special general meeting of the Company (the "**SGM**").

On 8 November 2019, the creditors' scheme, which the Company will issue the New Shares and the Convertible Bonds to the Creditors to discharge and release the debt owing by the Company to the Creditors in full (the "**Scheme**"), was approved by the requisite statutory majorities of the Creditors.

On 6 March 2020, the Scheme became binding and effective.

On 7 May 2020, the notice of decision on adjudication of claim of the Scheme Administrators pursuant to the Scheme (the "**Decision**") were dispatched to the Creditors.

On 27 May 2020, the application for review of the Decision expired and no application was received.

On 9 June 2020, the Scheme Administrators informed the Company the final result of their adjudication of claims pursuant the Scheme and instructed the Company to issue the New Shares and Convertible Bonds to the Creditors pursuant to the Scheme.

In the opinion of the directors and the Scheme Administrator, the Scheme is expected to be completed and the New Shares and Convertible Bonds will be issued to each Creditor by the end of June 2020.

(b) Extension of the Group's other borrowing

Subsequent to the end of the reporting period, the Group has renegotiated the maturity date of other borrowings of approximately HK$81,780,000 with accrued interest of HK$15,869,000 as at 31 December 2019 to 30 June 2023.

(c) Credit facilities obtained after the end of the reporting period

At the date of these consolidated financial statements, the Group has various credit facilities of HK$175,000,000 in aggregate with the interest rate carrying from 6.5% to 12.0% available for the Group's working capital and its financial obligations. Those credit facilities will mature after next twelve months from the date of this report. The lenders of such loan facilities are licensed money lenders in Hong Kong and Mr. Sin Kwok Lam, a substantial shareholder, the chairman and an executive director of the Company.

(d) Possible fund-raising activities

On 13 March 2020, the Company entered into an agreement (the "**SSF Agreement**") with GEM Global Yield LLC SCS (the "**Investor**"), pursuant to which the Investor has agreed to grant the Company an option to require the Investor to subscribe for the shares of the Company (the "**Shares**") (the "**Share Subscription Facility**") and the Company has agreed to issue 383,000,000 warrants (the "**Warrants**") to the Investor.

Under the Share Subscription Facility, the Company has right to request the Investor to subscribe for the Shares at a price which is 90% of the average closing price of last 10 trading days immediately following the delivery of subscription notice by the Company to the Investor, but not lower than HK$0.23 per Share (the "**Option**"). The Option is exercisable by the Company for 3 years, commencing on 13 March 2020. The aggregate subscription price under the Share Subscription Facility is HK$2,350,000,000.

The Warrants carry a right to the Investor to subscribe for up to a total of 383,000,000 Shares at a price of HK$0.23 per Share for 3 years, commencing on the date of the satisfaction or the fulfilment of conditions precedent to the SSF Agreement.

The issuance of the Shares under the Share Subscription Facility and the Warrants is subject to the approval from the Stock Exchange and the Shareholders.

(e) Various cost control measures

The management plans to improve the Group's financial performance by taking steps to reduce discretionary expenses and administrative costs.

Nevertheless, should the Group fail to implement the measure as mentioned above, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in these consolidated financial statements.

On the basis of the foregoing, and after assessing the Group's current and forecasted cash positions, the Directors are satisfied that the Group will be able to meet in full the Group's financial obligations as they fall due for the period of twelve months from 31 December 2019. Accordingly, the consolidated financial statements of the Group have been prepared on the going concern basis.

Dividend

The Directors do not recommend payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

Capital Structure and Gearing Ratio

The shares of the Company were listed on GEM of the Stock Exchange on 17 October 2002. The capital of the Company comprises only ordinary shares. As at 31 December 2019, 4,517,161,222 ordinary shares were issued and fully paid.

	2019		2018	
	Amount	**Relative**	Amount	Relative
	HK$'000	*%*	*HK$'000*	*%*
Bank overdrafts	**5,778**	**0.3%**	–	0%
Loans from shareholders	**589,457**	**34.9%**	601,031	28.7%
Borrowings	**227,040**	**13.4%**	193,059	9.2%
Bonds	**1,153,283**	**68.3%**	1,023,319	48.9%
Promissory note	**115,197**	**6.8%**	106,477	5.1%
Lease liabilities/Finance lease obligation	**29,763**	**1.8%**	24,199	1.2%
Total borrowings	**2,120,518**	**125.5%**	1,948,085	93.1%
Equity	**(431,283)**	**(25.5%)**	145,175	6.9%
Total capital employed	**1,689,235**	**100%**	2,093,260	100%

The Group's gearing ratio (i.e. the total borrowings to the total capital employed) was approximately 125.5% as at 31 December 2019 (2018: 93.1%).

Once restructuring completes in 2020, it is expected that all bonds, promissory notes, some shareholders' borrowing, loans and accrued expenses will, according to the plan, have 60% of its total value converted into five-year convertible bonds worth approximately HK$1,210,918,000, while the remaining 40% converted into new shares of the Group worth approximately HK$807,279,000. Forecasts based on the 2019 consolidated statement of financial position of indicate that, the Group's debt ratio can reach 80.9% in 2020, thereby greatly improving the group's capital structure and debt ratio.

Foreign Exchange Exposure

The Group's reporting currency is expressed in HK$. For the year ended 31 December 2019, most of the transactions, assets and liabilities of the Group were denominated in HK$ and RMB. During the year under review, since the Group had both HK$ and RMB receipts and payments, the net RMB exposure was not significant. The Board considers that the Group's exposure to foreign exchange risk was not significant; therefore, no hedging transaction was made during the year.

Capital Commitments

As at 31 December 2019, the Group had the following capital commitments:

	2019	2018
	HK$'000	*HK$'000*
Contracted but not provided for:		
Construction of properties	**78,389**	63,514
Authorised but not contracted for:		
Construction of properties *(Note)*	**334,411**	341,686

Note: Capital commitment for construction in properties related to capital commitment for construction of film studio and hotel in Foshan, the PRC. The authorised amount was approved by the Directors according to the land lease agreements signed between Lux Unicorn Limited, the wholly-owned subsidiary of the Company and the local authority in Foshan, the PRC, in relation to the leasing of lands for development of tourism and related entertainment business and hotel operations. The completion of constructions and commencement of operations of the projects shall be within three and four years respectively from the signing of the lease agreements.

Future Plans for Substantial Investments or Capital Assets

With reference to the announcement of the Company dated 13 December 2017, Foshan Guohao Theme Park Management Company Limited (佛山市國昊景區管理有限公司) ("**Guohao Theme Park**"), a wholly-owned subsidiary of the Company, has entered into a subscription agreement with Guangdong Hongtu Guangdian Investment Co., Ltd. (廣東弘圖廣電投資有限公司) ("**GD Hongtu**"), pursuant to which GD Hongtu will make a capital injection of RMB20 million into the Guohao Theme Park, in respect of joint cooperation of the development of the Second Phase Project. The Second Phase Project is planned to have indoor studio and boutique hotel to be constructed next to the first phase of the Studio and the Hotel.

Save as disclosed above, the Group did not have any plan for substantial investments or capital assets.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 13 February 2019, the Company entered into two separate placing agreements (the "**GM Placing Agreements**") with Quasar Securities Co., Limited and Oriental Patron Asia Limited (collectively the "**GM Placing Agents**") pursuant to which the Company has conditionally agreed to place up to 846,153,844 placing shares (the "**GM Placing Shares**") and each of the GM Placing Agents has conditionally agreed to procure on a best effort basis, as placing agent, currently expected to be not less than six placees who and whose ultimate beneficial owners shall be independent third parties of the Company to subscribe for up to 423,076,922 GM Placing Shares at a price of HK$0.26 per GM Placing Shares (the "**GM Placing**").

The placing price (the "**GM Placing Price**") of HK$0.26 per GM Placing Share represents (i) no discount or premium to the closing price of HK$0.26 per Share as quoted on the Stock Exchange on 12 February 2019, being the last day on which the Shares were traded on the Stock Exchange prior to the date of the GM Placing Agreement (the "**GM Lasting Trading Day**"); and (ii) a premium of approximately 0.8% to the average closing price of approximately HK$0.258 per Share as quoted on the Stock Exchange for the last five consecutive trading days (including the GM Last Trading Day) immediately prior to the date of the GM Placing Agreements.

The aggregate nominal value of the maximum number of the GM Placing Shares under the GM Placing will be HK$84,615,384.4.

Completion of the GM Placing under the GM Placing Agreements is conditional upon: (a) the Listing Committee of the Stock Exchange granting or agreeing to grant the approval for listing of, and permission to deal in, the GM Placing Shares; and (b) all necessary consents and approvals required to be obtained on the part of the Company in respect of the GM Placing and the transactions contemplated thereunder having been obtained.

Reasons for and the benefits of the GM Placing

As at 31 December 2018, the unaudited cash and bank balances of the Group were approximately HK$15.7 million.

As disclosed in the interim report of the Group for the six months ended 30 June 2018, the total liabilities of the Group were approximately HK$2.1 billion as at 30 June 2018, among which, the Group recorded (i) loans from shareholders of an aggregate amount of approximately HK$609.0 million; (ii) borrowings of an aggregate amount of approximately HK$197.5 million; (iii) trade payables and other payables and accruals of an aggregate amount of approximately HK$80.3 million; (iv) bonds of an aggregate amount of approximately HK$871.5 million; and (v) promissory notes of an aggregate amount of approximately HK$104.6 million as at 30 June 2018.

Assuming the maximum number of the GM Placing Shares is placed under the GM Placing Agreements, the gross proceeds from the GM Placing will be approximately HK$220.0 million, and the net proceeds will be approximately HK$201.5 million (after deduction of commission and other expenses incurred in the Placing), representing a net issue price of approximately HK$0.24 per GM Placing Share. With reference to the financial position of the Group as mentioned above, it was expected that the net proceeds from the GM Placing, being approximately HK$201.5 million, will be utilised for the partial repayment of the principal and interests of bonds and borrowings of the Group.

As the majority of interest rates of the existing bonds, borrowings and loans from shareholders and directors range from approximately 6.0% to 15.0%, the financial cost derived from such debts represents a significant part of the total expense of the Group. As such, the Board was of the view that the abovementioned repayment would reduce the interest burden of the Group, improve the gearing ratio of Group and strengthen the financial position and profitability of the Group.

The Board has considered other alternative fundraising methods such as debt financing, rights issue or open offer. The Board considered that debt financing may further incur interest burden on the Group. On the other hand, rights issue or open offer may involve relatively substantial time and cost to complete as compared to the equity financing through the GM Placing. In addition, the GM Placing would strengthen the capital base of the Company.

As set out in the Company's announcement dated 15 March 2019, (1) all the conditions of the GM Placing have been fulfilled and the completion of the GM Placing took place on 15 March 2019; and (2) an aggregate of 428,769,230 GM Placing Shares have been successfully placed at the GM Placing Price of HK$0.260 per GM Placing Share pursuant to the terms and conditions of the GM Placing Agreements. The aggregate nominal value of the GM Placing Shares under the GM Placing is HK$42,876,923.

The 428,769,230 GM Placing Shares represent (i) approximately 9.5% of the issued share capital of the Company immediately before the completion of the GM Placing; and (ii) approximately 8.7% of the issued share capital of the Company as enlarged by the allotment and issue of the 428,769,230 GM Placing Shares.

The gross proceeds from the GM Placing is approximately HK$111.5 million, and the net proceeds from the GM Placing, after deducting the placing commission and other expenses in connection with the GM Placing from the gross proceeds, is approximately HK$104.5 million which is intended to be used for the partial repayment of the principal and interests of the bonds and borrowings of the Group.

The GM Placing Shares were allotted and issued pursuant to the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 28 June 2018 to allot and issue up to 903,432,244 new Shares, and therefore the allotment and issue of the GM Placing Shares was not subject to any additional Shareholders' approval.

Further details of the GM Placing Agreements and the GM Placing are disclosed in the Company's announcements dated 13 February 2019 and 15 March 2019.

PLACING OF NEW SHARES UNDER SPECIFIC MANDATE

On 13 February 2019, the Company entered into a placing agreement (the "**SM Placing Agreement**") with Emperor Securities Limited, Kingston Securities Limited and Oriental Patron Asia Limited (collectively the "**SM Placing Agents**"), pursuant to which the Company has conditionally agreed to place through the SM Placing Agents, on a best effort basis, of up to 6,153,846,153 placing shares (the "**SM Placing Shares**") to currently expected to be not less than six placees who and whose ultimate beneficial owners shall be independent third parties of the Company at a price of HK$0.26 per SM Placing Share (the "**SM Placing**"). The SM Placing Shares will be allotted and issued pursuant to the specific mandate to be sought at the special general meeting of the Company to be convened and held. Further details of the SM Placing Agreements and the SM Placing are disclosed in the Company's announcement dated 13 February 2019, 4 April 2019, 17 May 2019 and 30 May 2019, and the Company's circular dated 2 May 2019.

The SM Placing Agreements lapsed on 31 December 2019.

POTENTIAL STRATEGIC INVESTOR AGREEMENT

On 14 May 2019, the Company entered into the Potential Strategic Investor Agreement with Proxima Media, LLC.

Pursuant to the Potential Strategic Investor Agreement, the Proxima Media intends to assist the Company in, among others, building a vertically-integrated, internationally competitive film and television business and establish the Studio as one of the world's premiere destinations for media production and entertainment tourism (the "**Business**"). Details of the co-operation and the consideration will be determined by the Company and Proxima Media after further negotiations and entering into one or more long-form agreements that incorporate the terms of the Potential Strategic Investor Agreement and other customary terms (the "**Long-Form Agreements**"). Subject to the aforesaid further negotiations and signing of the Long-Form Agreements, the Company is desirous to collaborate with Proxima Media to engage in the Business.

Subject to the relevant rules and regulations and the terms set out in the Long-Form Agreements, Proxima Media will use its best efforts to raise or inject the Capital Contribution into the Company of up to US Dollars 100 million (equivalent to approximately HK$780 million) within 12 months from the date of the Potential Strategic Investor Agreement as a placee under the SM Placing subject to the conditions of the SM Placing. The Capital Contribution is intended to level up the Company to become a world-class film production studio, details of the Capital Contribution and the use of proceeds of such will be included in the Long-Form Agreements.

Further details of the Potential Strategic Investor Agreement are disclosed in the Company's announcement dated 14 May 2019.

POTENTIAL STRATEGIC INVESTORS

As disclosed in the Company's announcement dated 11 July 2019, the Company has been actively seeking for potential strategic investors to invest into the Company. In addition to Proxima Media, the film production company controlled and wholly owned by the famous Hollywood film producer, Ryan Kavanaugh, which was disclosed in the announcement of the Company dated 14 May 2019, the Company is concurrently negotiating with a leading regional financial institution for strategic investment which is subject to investor's due diligence works and regulatory approval.

PETITION FOR THE WINDING UP OF THE COMPANY AND APPLICATION FOR THE APPOINTMENT OF JOINT PROVISIONAL LIQUIDATORS

To facilitate the Company's financial restructuring, on 14 June 2019, the JPL Application was presented and filed with the Bermuda Court by the Company's Bermuda Counsel, Conyers Dill & Pearman at the request of the Company.

Under the JPL Application, the Company has requested that, should JPLs be appointed and until further order of the Bermuda Court, the Board shall retain all of its executive powers in relation to the ordinary course of business of the Company, subject to the JPLs' supervision, for the purpose of developing and proposing a financial restructuring, of the exercise of such powers. This would allow the Company's current management to work with the JPLs to oversee the implementation of a financial restructuring proposal that seeks to better preserve value and business operations of the Company that would not otherwise be possible without the appointment of the JPLs. Accordingly, the Board believes it is in the interests of the Company, its shareholders and creditors that JPLs are appointed in respect of the Company pursuant to the JPL Application.

The JPL Application was heard before the Bermuda Court on the same date at 2:30 p.m. Bermuda time. The Bermuda Court made the orders as sought by the Company under the JPL Application, inter alia, the JPLs have been appointed with immediate effect.

Pursuant to the order made by the Bermuda Court (the "**Bermuda Order**"), the JPLs are granted a wide range of powers, including but not limited to the powers to review the financial position of the Company, to monitor, consult with, oversee and otherwise liaise with the existing Board and the creditors and shareholders of the Company in determining the most appropriate manner of effecting a reorganisation and/or refinancing of the Company, to seek assistance of or recognition in any other courts as may be considered appropriate, and to do all things necessary and incidental to the exercise of the foregoing powers, etc.

By an order of the Honourable Mr. Justice Wilson Chan dated 15 August 2019, the appointment of the JPLs pursuant to the order of the Bermuda Court dated 14 June 2019 was recognized by the High Court of Hong Kong with the powers conferred therein.

RESTRUCTURING TRANSACTION

As disclosed in the Company's announcement dated 30 July 2019, on 10 July 2019, as part of the Company's financial restructuring plans, the Company invited all known the Creditors to make an offer to the Company to subscribe for:

(1) 1% annual coupon rate Convertible Bonds due 2024 to be issued by the Company in the principal amount equal to 60% of the outstanding principal amount of debts due and owing by the Company to each of the Creditors (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the relevant debt(s)) and convertible into fully-paid ordinary shares of the Company listed and traded on GEM at the initial conversion price of HK$0.55 per Conversion Share; and

(2) the New Shares at the issue price of HK$0.38 per share, the total value of which equals to the remaining 40% of the outstanding principal amount of debts due and owing by the Company to each of the Creditors (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the relevant debt(s)).

As full and final settlement of all outstanding debts (where applicable, together with interests accrued thereon and calculated up to 14 June 2019 at the respective annual interest rate of the debt(s)) due and owing by the Company to the Creditors, subject to the execution, and the final terms and conditions, of the subscription agreement, the bond instrument, any scheme of arrangement proposed by the Company and/or other agreements the execution of which is desirable for the implementation and consummation of the Restructuring Transaction, as the case maybe.

The offer by the Creditors to participate in the Restructuring Transaction also includes an agreement that the Creditors will participate in, support and vote in favour of a scheme(s) of arrangement proposed by the Company, where such scheme(s) is/are deemed necessary and appropriate by the Company and the JPLs of the Company appointed pursuant to the Order of the Bermuda Court dated 14 June 2019.

As disclosed in the Company's announcement dated 12 August 2019, the Company has received substantial support from its creditors regarding the Restructuring Transaction. In this respect, the Company put forward a scheme of arrangement pursuant to Section 99 of the Companies Act 1981 of Bermuda and Section 670 of the Companies Ordinance (Cap. 622) of Hong Kong with substantially similar terms under the Restructuring Transaction as disclosed in the announcement of the Company dated 30 July 2019, further details of which are set out in the paragraph headed "Scheme of Arrangement" below.

SCHEME OF ARRANGEMENT

As announced on 19 August 2019, the Company proposed to implement, subject to the approval by the Bermuda Court and the Hong Kong Court, the Scheme. Under the Scheme, the Company will issue the New Shares and the Convertible Bonds to the Creditors to discharge and release the Claims in full.

Up to 14 June 2019 (the "**Restructuring Order Date**"), based on the available books and records of the Company, the estimated total amount of Claims against the Company is approximately HK$2.13 billion. This figure is indicative only and will be subject to final determination by the scheme administrators and (if applicable) adjudication under the Scheme.

On 4 October 2019, the Company obtained the directions of the Bermuda Court and the Hong Kong Court in the hearing before the Hong Kong Court and the Bermuda Court of the applications for leave to convene the meeting of the Creditors for the purpose of considering and approving, if thought fit, the Scheme by the Creditors (the "**Scheme Meeting**") at 3:00 p.m. on Friday, 8 November 2019. At such Scheme Meeting, the Scheme was approved by the requisite statutory majorities of the Creditors.

On 10 October 2019, the Company convened the SGM to consider and approve, if thought fit, the resolutions in relation to the Scheme, all of which were duly passed by way of poll including the specific mandate granted to the Directors to allot and issue the New Issues and Convertible Bonds. On 27 November 2019, the Company obtained the conditional approval from the Stock Exchange for the listing of, and permission to deal in, the New Shares and Conversion Shares.

With the applications to the Bermuda Court and Hong Kong Court to sanction the Scheme subsequently, the Scheme was sanctioned by the Bermuda Court and Hong Kong Court on 13 December 2019 and 6 January 2020 respectively. The orders sanctioning the Scheme by the Bermuda Court and the Hong Kong Court were respectively registered with the Registrar of Companies in Bermuda on 26 February 2020 and Companies Registry in Hong Kong on 6 March 2020. As all conditions precedent to the Scheme have been fulfilled on 6 March 2020, the Scheme became effective on 6 March 2020.

As announced in the Company's announcement dated 20 March 2020, the Creditors are required to submit their respective notices of Claims together with other documents or other evidence necessary for substantiating their Claims to the scheme administrators on or before 4:00 p.m. on Tuesday, 14 April 2020 (the "**Cut-Off Date**"). The notice to Creditors of the Cut-Off Date was given to all Creditors by letter and by advertisement published in "The Standard" (in English) and "Sing Tao Daily" (in Chinese) circulated in Hong Kong, in "Ta Kung Pao" (in Chinese) circulated in the PRC, and in "The Royal Gazette" (in English) circulated in Bermuda on 20 March 2020.

The scheme administrators will notify the final amount of the Claims of each of the Creditors. Based on the final amounts of Claims of each Creditor, the New Shares will be allotted and issued and the Convertible Bonds will be issued to the Creditors. Upon the issue of the New Shares and the Convertible Bonds, all the Claims of the Creditors will be discharged and extinguished and the Creditors will not be allowed to make any claim against the Company in respect of their Claims.

On 9 June 2020, the scheme administrators informed the Company the final result of their adjudication of claims pursuant the Scheme and instructed the Company to issue the New Shares and the Convertible Bonds to the Creditors pursuant to the Scheme.

In the opinion of the Directors and the scheme administrators, the Scheme is expected to be completed, and the New Shares and the Convertible Bonds will be issued to each Creditor, by the end of June 2020.

Issue of New Shares and Convertible Bonds under Specific Mandate

Subject to the implementation of the Scheme which became effective on 6 March 2020, the Company will conduct (i) the Share Subscription, under which it is estimated that the Company will allot and issue, in aggregate, up to 2,247,015,390 New Shares at the issue price of HK$0.38 per New Share for settlement of 40% of the Claims held by the Creditors against the Company as at the Restructuring Order Date which have been admitted by the scheme administrators (the "**Admitted Claims**") of the Creditors; and (ii) the CB Subscription, under which it is estimated that the Company will issue the Convertible Bonds in the aggregate principal amount of HK$1,302,145,529 subject to any adjustments made regarding the consent bonus (the "**Consent Bonus**") of an extra one (1) per cent of the outstanding principal amount of his/its debt (where applicable, together with interests accrued thereon and calculated up to the Restructuring Order Date at the respective annual interest rate of the relevant debt(s)) to be awarded to eligible Creditors if there's any in accordance with the terms of the Scheme.

As part of the Scheme, a Deed of Restructuring Support (the "**RSD**") was duly executed by the Company and the Provisional Liquidators on 24 August 2019 to support and facilitate the implementation of the restructuring, pursuant to which, any Creditor may become a party to the RSD. Any Creditor who agrees to be bound by the RSD by delivering to the Company a duly completed and executed accession deed in respect of its Claim (or Claims) under the Scheme on or before Wednesday, 11 September 2019 would be eligible to the Consent Bonus.

Details of the Share Subscription

The maximum value of the New Shares to be issued to the Creditors will be up to approximately HK$854 million (subject to the determination of Admitted Claims in accordance with the terms of the Scheme). The New Shares have an aggregate nominal value of up to HK$224,701,539.00. The issue price of HK$0.38 per New Share represents a premium of approximately 84.47% over the closing price of HK$0.206 per Share as quoted on the Stock Exchange on 19 August 2019. The New Shares are subject to a lock-up period of 12 months from the date of completion of the Share Subscription.

Details of the CB Subscription

The maximum value of the Convertible Bonds to be issued to the Creditors will be up to approximately HK$1,302 million (subject to the determination of the Admitted Claims in accordance with the terms of the Scheme and entitlement of Consent Bonus), (being the sum of (i) up to approximately HK$1,280.7 million for the aggregation of 60% of the Claims of the Creditors and (ii) HK$21.3 million for the maximum amount of Consent Bonus). The Conversion Shares, upon full conversion, shall have an aggregate nominal value of up to HK$236,753,714.40. The maturity date of the Convertible Bonds falls on the day being the fifth (5th) anniversary of the issue date of the Convertible Bonds. Subject to the terms and conditions of the Convertible Bonds, the conversion price will initially be HK$0.55 per share, but subject to customary adjustments including but not limited to (i) consolidation or subdivision; (ii) rights issue of shares or rights to acquire shares; (iii) issues of convertible securities; (iv) modification of rights of conversion; (v) other offers to shareholders; and (vi) other events. The initial conversion price of HK$0.55 per Conversion Shares represents a premium of approximately 166.99% over the closing price of HK$0.206 per Share as quoted on the Stock Exchange on 19 August 2019.

The New Shares and the Conversion Shares will be allotted and issued under the specific mandate sought from the Shareholders (other than Mr. Sin, Ms. Law Po Yee ("**Ms. Law**"), Mr. Chow Kai Weng ("**Mr. Chow**"), Mr. Tse Young Lai ("**Mr. Tse**") and Mr. Yiu Kin Kong and any Shareholder with a material interest in the Scheme) at the SGM held on 10 October 2019.

The Company obtained the conditional approval from the Stock Exchange for the listing of, and permission to deal in, the New Shares and the Conversion Shares.

Connected Transactions in relation to the Issue of New Shares and Convertible Bonds

Among all Creditors, Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse have loaned to the Company.

Mr. Sin is an executive Director, the chairman of the Board, a member of the nomination committee of the Board and a substantial shareholder of the Company. Ms. Law, being the spouse of Mr. Sin, is an associate of Mr. Sin. As at the date of this report, Mr. Sin, together with his associate, Ms. Law, are interested in 871,932,623 Shares, representing approximately 17.62% of the total issued share capital of the Company.

Mr. Chow is an executive Director, the associate chairman of the Board and chief executive officer of the Company. As at the date of this announcement, Mr. Chow is interested in 1,000,000 Shares, representing approximately 0.02% of the total issued share capital of the Company.

Mr. Tse is a substantial shareholder of the Company. As at the date of this announcement, Mr. Tse is interested in 563,547,600 Shares, representing approximately 11.39% of the total issued share capital of the Company.

Up to the Restructuring Order Date, the total amounts respectively due to Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse (including the interests accrued thereon and calculated up to the Restructuring Order Date at the respective interest rate of the relevant Claim(s)) are illustrated as follows:

	HK$
Mr. Sin	647,333,195
Ms. Law	29,270,746
Mr. Chow	36,341,433
Mr. Tse	1,892,584
	714,837,958

Under the Scheme, Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse shall have the same entitlement as the other Creditors. Pursuant to the terms of the Scheme and based on the available books and records of the Company, it is expected that the entitlement of Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse under the Scheme respectively are as follows:

	Mr. Sin	**Ms. Law**	**Mr. Chow**	**Mr. Tse**
Share Subscription				
Value of New Shares to be issued	HK$258,933,278	HK$11,708,299	HK$14,536,573	HK$757,033
Issue price	HK$0.38	HK$0.38	HK$0.38	HK$0.38
Number of New Shares to be issued	681,403,362 New Shares	30,811,311 New Shares	38,254,139 New Shares	1,992,193 New Shares
CB Subscription				
Principal amount (including Consent Bonus)	HK$394,873,249	HK$17,855,155	HK$22,168,274	HK$1,154,476
Maximum Conversion Shares upon full conversion	717,951,361	32,463,918	40,305,952	2,099,047

All of Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse have confirmed that they will compromise their Claims against the Company pursuant to the Scheme and the treatment to be received by them under the Scheme shall be the same as those to other Creditors.

Issue of Shares under Specific Mandate in relation to Advisory Service of Financial Adviser

As disclosed in the Company's announcement dated 26 August 2019 and the circular of the Company dated 20 September 2019, the Company has appointed Oriental Patron Asia Limited ("**OPAL**"), a licensed corporation to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, as the financial adviser to the Company to advise on and assist in formulating and overseeing a potential financial restructuring as to improving the Company's financial position. Regarding the payment of advisory fee (the "**Advisory Fee**"), after arm's length negotiations, OPAL agreed to receive the newly issued shares of the Company to settle the Advisory Fee. On 26 August 2019, the supplemental mandate letter (as to supplement the original mandate letter signed in May 2019) has been entered into between the Company and OPAL, pursuant to which the Advisory Fee is agreed to be paid by the Company to OPAL in the form of issuing and allotting 250,000,000 newly issued and fully paid-up Shares (the "**Fee Shares**") which is subject to subject to a lock-up period of 12 months from the date of the issuance and such Fee Shares shall be issued and allotted to OPAL simultaneously with the New Shares to be issued to the Creditors under the Scheme upon its completion.

The Company obtained the conditional approval from the Stock Exchange for the listing of, and permission to deal in, the Fee Shares. The Directors obtained the specific mandate granted to allot and issue the Fee Shares at the SGM held on 10 October 2019.

Increase in Authorised Share Capital

Taking into account the aforesaid and in order to accommodate future expansion and growth of the Group, the Board proposes to increase the authorised share capital of the Company from HK$600,000,000 divided into 6,000,000,000 Shares to HK$2,000,000,000 divided into 20,000,000,000 Shares by the creation of additional 14,000,000,000 new Shares (the "**Increase in Authorised Share Capital**"), all of which will rank pari passu with all existing Shares. The ordinary resolution as to the proposed Increase in Authorised Share Capital was passed by the Shareholders at the SGM held on 10 October 2019.

The SGM held on 10 October 2019

At the SGM held on 10 October 2019, (i) the Scheme and the transactions contemplated thereunder, including the grant of the specific mandate for the allotment and issue of the New Shares and the Conversion Shares; (ii) the granting of the specific mandate to allot and issue the Fee Shares; and (iii) the Increase in Authorised Share Capital were approved by the Shareholders.

Further details of the Scheme are set out in the Company's announcements dated 19 August 2019, 8 October 2019, 14 October 2019, 8 November 2019, 19 November 2019, 27 November 2019, 15 December 2019, 7 January 2020, 25 February 2020, 6 March 2020, 20 March 2020 and the circular of the Company dated 20 September 2019.

PROPOSED GRANT OF SHARE SUBSCRIPTION FACILITY TO THE COMPANY AND PROPOSED ISSUE OF NEW SHARES AND WARRANTS UNDER SPECIFIC MANDATE

On 13 March 2020, the Company entered into the SSF Agreement among others, with the Investor, pursuant to which

(1) the Investor has agreed to grant the Company the Option to require the Investor to subscribe for the Option Shares of up to HK$2,350,000,000 in value at the floor price of HK$0.23 per Option Share (whereas the issue price of the Option Shares shall not be lower than the minimum threshold price of HK$0.23 per Option Share) during the period commencing on the date of the SSF Agreement and expiring on the earlier of: (a) the Commitment Period; and (b) the date on which the Investor has subscribed for shares in the Company with an aggregate subscription price of HK$2,350,000,000 (excluding shares to be issued upon exercise of the Warrants (as defined below) pursuant to the SSF Agreement; and

(2) the Company has agreed to issue to the Investor the Warrants to subscribe for the Warrant Shares by the SSF Agreement which entitle the Investor to purchase up to 383,000,000 Shares at Warrant Exercise Price (as defined below) during the Warrant Exercise Period (as defined below).

Warrant Exercise Period shall mean the period commencing from the date on which the conditions precedent to the SSF Agreement are fulfilled (the "**Warrant Delivery Date**") to the third (3rd) anniversary of the Warrant Delivery Date or, if such day is not a business Day, the immediately following business day.

Warrant Exercise Price shall mean the subscription price of each Warrant Share, initially being HK$0.23 per Warrant Share (subject to adjustment) or if on the first anniversary of the Warrant Delivery Date, the market price of a Share is less than a sum equal to 90 per cent. of the Warrant Exercise Price on such date, the relevant Warrant Exercise Price shall be a sum equal to 105 per cent. of such market price.

Option Shares and Warrant Shares

Assuming that the Option Shares will be issued at the closing price of the share as at the date of the SSF Agreement of HK$0.185 per Option Share and based on the total commitment of HK$2,350 million, a total of 10,217,391,304 Option Shares will be allotted and issued upon the full exercise of the Option, representing approximately 206.49% of the existing issued Shares of 4,948,170,452 as at the date of the SSF Agreement or 67.37% of the issued share capital of the Company as enlarged by the allotment and issue of such 10,217,391,304 Option Shares.

The 383,000,000 Warrant Shares represent approximately 7.74% of the existing issued Shares as at the date of the SSF Agreement or approximately 7.18% of the issued share capital of the Company as enlarged by the allotment and issue of such 383,000,000 Warrant Shares.

The Option Shares and the Warrant Shares would be issue under specific mandate to be sought at special general meeting of the Company to be convened for the Shareholders to consider and approve the SSF Agreement and the transactions contemplated thereunder and the issue of the Option Shares and the Warrant Shares.

Reason for entering into the SSF Agreement

The Board is of the view that issue of the Option Shares and the Warrant Shares offers a good opportunity to raise additional capital for the Company and to strengthen the financial position of the Company. Given that the Company shall have the right but not an obligation to deliver notice to the Investor to subscribe for the Option Shares during the Commitment Period and exercise the Option at its discretion, the Directors consider that the Group will have flexibility in raising funds by exercising the Option during the Commitment Period. The arrangement under the SSF Agreement effectively gives the Group access to a readily available source of financing and the right to raise funds by the delivery of at any time during the Commitment Period when the Board considers such delivery is favourable to the Company. By comparison, the Board considers that with current sluggish market sentiment and recent interest rate hike, the Company would be difficult to secure any debt financing of comparable size from banks or financial institutions. The Board is further of the view that the high gearing ratio of the Group would result in the Group having less favourable financing terms offered by banks and other financial institutions.

The Company has been exploring opportunities to diversify into new businesses to mitigate the risks of being in the lines of business in film and hotel industries and to deliver long-term and stable cash flow and creating favourable investment returns for the Shareholders.

Accordingly, the Directors consider that the SSF Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole, and the terms of the SSF Agreement, among others, the mechanism to fix the Minimum Threshold Price and the Warrant Exercise Price, are fair and reasonable.

Proposed use of net proceeds of the Option Shares and the Warrant Shares

Assuming the Total Commitment is received in full from issuance of the Option Shares, the gross proceeds (before expenses) and the estimated net proceeds will be HK$2,350 million and HK$2,297 million respectively.

The Company intends to apply the net proceeds from the issuance of Option Shares as follows:

(i) up to approximately HK$250 million for repayment of the debt of the Group;

(ii) up to approximately HK$100 million for general working capital of the Group;

(iii) up to approximately HK$1,200 million for expansion and upgrading of the existing projects of the Group, namely the Studio and the Hotel; and

(iv) the balance for investment in potential projects.

Assuming full issuance of the Warrant Shares, the estimated net proceeds will be approximately HK$88 million, which is intended to be applied for expansion and upgrading of the existing projects of the Group as described in (iii) above.

Details of the SSF Agreement, the issue of the Option Shares and the Warrants are set out in the Company's announcement dated 13 March 2020.

WINDING UP PETITION AND LEGAL PROCEEDINGS INVOLVING THE COMPANY

As disclosed in the announcement of the Company dated 8 October 2019:

(1) on 30 September 2019, the Company received from the solicitors for Lin Sailian (the "**Petitioner**") a purported winding up petition against the Company filed on 26 September 2019 in the Court of First Instance of the Hong Kong Court (the "**Petition**") for, among others, the alleged outstanding balance of principal in the sum of HK$7,880,000 of a bond allegedly issued by the Company;

(2) on 3 October 2019, the Company received from the solicitors for Huang Sishuang a purported action against the Company in the Court of First Instance of the Hong Kong Court for, among others, the alleged outstanding balance of principal in the sum of HK$7,000,000 of a bond allegedly issued by the Company.

As disclosed in the announcement of the Company dated 17 December 2019, the Court of First Instance of the Hong Kong Court has ordered, among other things, leave be granted for the Petitioner to withdraw the Petition with no order as to costs.

PROPOSED CHANGE OF COMPANY NAME

The Board proposes to change the name of the Company from "National Arts Entertainment and Culture Group Limited" to "National Arts Group Holdings Limited" and adopt the Chinese name "國藝集團控股有限公司" as its official Chinese name ("**Change of Company Name**"). The Board will propose special resolution at the forthcoming SGM for considering, and if thought fit, approving the Change of Company Name.

The reason for changing the Company's name is precisely to reflect the direction of the diversification of business in order to reduce the risk of single business segments. The Board believes that the proposed new English and Chinese names of the Company will provide the Company with better identification of the principal business of the Group. As such, the Board is of the view that the proposed Change of Company Name is in the interests of the Company and the Shareholders as a whole.

The proposed Change of Company Name is subject to the following conditions: (i) the passing of the special resolution by the Shareholders at the SGM approving the Change of Company Name; and (ii) the Registrar of Companies in Bermuda approving the Change of Company Name and entering the proposed new English and Chinese name of the Company into the register of companies.

A circular containing details of the proposed Change of Company Name and a notice of SGM among other information as required under the GEM Listing Rules will be despatched to the Shareholders as soon as practicable in accordance with the requirements of the GEM Listing Rules.

Further details of the proposed Change of Company Name are set out in the Company's announcement dated 23 March 2020.

POSSIBLE SHARE EXCHANGE TRANSACTION

As disclosed in the Company's announcement dated 26 March 2020, the Board is discussing with certain shareholders (the "**Vendors**") of Convoy Global Holdings Limited (stock code: 1019) ("**Convoy**") in relation to a possible acquisition of the issued shares of Convoy by the Company in the consideration of the Company's new shares (the "**Possible Share Exchange Transaction**"). Further terms of the Possible Share Exchange Transaction including the number of shares involved are in negotiation, meanwhile, the Company is seeking for the opinion of financial advisor.

Should the Possible Share Exchange Transaction materialise and subject to the definitive terms of the legally binding agreement, the Possible Share Exchange Transaction may involve significant number of shares of the Company. Even though the number of shares of the Possible Shares Exchange Transaction is not yet concluded, in the event that the Company has acquired more than 10% shareholding in Convoy, the Company intends to invite at least one senior executive of Convoy to join the Board in order to help build shareholders' value and mutual benefits of the Company and Convoy through such board-based strategic partnership. The Directors are pleased and are of the view that the Possible Share Exchange Transaction reflects the market is positive to the prospects of the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors and their ultimate beneficial owners, if applicable, are third parties independent of and not connected with the Company and its connected persons.

As at the date of this announcement, the terms and conditions of the Possible Share Exchange Transaction are still under negotiation and no definitive agreement or other legally binding agreement has been entered into. The Possible Share Exchange Transaction, if materialises, may constitute a notifiable transaction for the Company under the GEM Listing Rules. Further announcement(s) in relation to the Possible Share Exchange Transaction will be made by the Company as and when appropriate in compliance with the GEM Listing Rules.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the Group had a total of 505 (2018: 578) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performances, experiences and the prevailing industry practices. In addition to basic salaries and mandatory provident fund, staff benefits including medical coverage scheme and share options are offered.

The Group's remuneration policy was reviewed periodically by the remuneration committee and the Board's remuneration is determined by reference to market terms, company performance, and individual qualifications and performance. The Group aimed to recruit, retain and develop competent individuals who were committed to the Group's long-term success and growth. Remunerations and other benefits of employees were reviewed annually in response to both market conditions and trends, and were based on qualifications, experience, responsibilities and performance.

The current remuneration of directors and key management is determined by the individuals performance and market trends.

During the year under review, the Group has not experienced any significant problems with its employees or disruption to its operation due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

COMPETING INTERESTS

None of the Directors or controlling Shareholders (as defined in the GEM Listing Rules) or their respective close associates had any interest, whether directly or indirectly, in a business which competes or may compete with the business of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with sound and reasonable corporate governance practices and procedures with an aim of maximizing the shareholders' interests as well as to enhancing the stakeholders' transparency and accountability. In this respect, to the best knowledge of the Board, the Company has complied with all of the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules ("**Corporate Governance Code**") then in force during the year ended 31 December 2019 except the followings:

As Mr. Chow Kai Weng has served as both the chairman ("**Chairman**") and the chief executive officer ("**Chief Executive Officer**") of the Company from 13 June 2018 to 13 May 2019, such practice deviates from the code provision A.2.1 of the Corporate Governance Code. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and enhance effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstances. Following the appointment of Mr. Sin Kwok Lam as an executive Director and the chairman of the Company and the re-designation of Mr. Chow Kai Weng from the chairman of the Company to the associate chairman of the Company with effect from 14 May 2019, the Company has complied with the code provision A.2.1 of the Corporate Governance Code.

REQUIRED STANDARD OF DEALINGS FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 December 2019.

AUDIT COMMITTEE

The Company has established the audit committee ("**Audit Committee**") in 2002 and as at the date of this announcement, the Audit Committee comprises three Independent Non- executive Directors, namely Mr. Chui Chi Yun Robert (Chairman), Mr. Li Kit Chee and Mr. Lam Kwok Hing Wilfred.

During the year under review, the Audit Committee reviewed the Company's annual reports and financial statements, interim reports and quarterly reports and discussed with the management over issues relating to auditing, internal control and financial reporting. The Audit Committee also reviewed the annual financial results of the Group for the year ended 31 December 2019.

REVIEW OF THIS ANNOUNCEMENT BY AUDITORS OF THE COMPANY

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditors, Elite Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by Elite Partners CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Elite Partners CPA Limited on this announcement.

PUBLICATION OF ANNUAL REPORT

The Company expects to publish and despatch its annual report for the year ended 31 December 2019 to the shareholders of the Company on or before 30 June 2020.

On behalf of the Board
National Arts Entertainment and Culture Group Limited
(Provisional Liquidators Appointed)
(For Restructuring Purposes)
Chow Kai Weng
Associate Chairman, Executive Director and
Chief Executive Officer

Hong Kong, 26 June 2020

As at the date of this announcement, the Directors are as follows:

Chairman and Executive Director:
Mr. Sin Kwok Lam

Associate Chairman, Executive Director and Chief Executive Officer:
Mr. Chow Kai Weng

Executive Directors:
Mr. Cheng Wang Chun
Mr. Ho Leung Ting

Non-executive Director:
Dr. Lam Lee G.

Independent Non-executive Directors:
Mr. Chui Chi Yun Robert
Mr. Li Kit Chee
Mr. Lam Kwok Hing Wilfred

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting. This announcement will also be published and remains on the Company's website at www.nationalarts.hk on the "Investor Relations" page.