THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stock broker, or other licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in **National Arts Entertainment and Culture Group Limited**, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, stock broker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities in National Arts Entertainment and Culture Group Limited.

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)

(1) CREDITORS' SCHEME; (2) PROPOSED ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; (3) CONNECTED TRANSACTIONS IN RELATION TO PROPOSED ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE; (4) DISCLOSEABLE TRANSACTION REGARDING THE ISSUE OF SHARES UNDER SPECIFIC MANDATE IN RELATION TO ADVISORY SERVICE OF FINANCIAL ADVISER; (5) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (6) NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

東英 ORIENTAL PATRON

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

AKRON
Akron Corporate Finance Limited
亚贝隆资本有限公司

Terms used in this cover shall have the same meanings as defined in this circular.

The letter from the Board is set out on pages 8 to 38 of this circular.

A letter of advice from Akron, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-20 of this circular. A notice convening the SGM to be held at 10:30 a.m. on Thursday, 10 October 2019 at 1/F, China Building, 29 Queen's Road Central, Hong Kong is set out on pages SGM-1 to SGM-5 of this circular.

Whether or not you are able to attend and/or vote at the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instruction printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and, in such event, the relevant form of proxy shall be deemed to be revoked.

20 September 2019

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

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

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Admitted Claims"	all Claims held by the Creditors against the Company as at the Restructuring Order Date, which would be provable in a winding up of the Company under section 263 of CWUPO and Section 234 of the Bermuda Companies Act and which have been admitted by the Scheme Administrators in accordance with the Scheme
"Advisory Fee"	the advisory fee to be paid by the Company to the Financial Adviser pursuant to the supplemental mandate letter between them in relation to the advisory service provided by the Financial Adviser, which was agreed to be settled by the issue and allotment of Fee Shares to the Financial Adviser
"Announcements"	the Scheme Announcement and the Fee Shares Announcement
"associate(s)"	has the meaning ascribed thereto under the GEM Listing Rules
"Bermuda"	the Islands of Bermuda
"Bermuda Companies Act"	the Companies Act 1981 of Bermuda (as amended from time to time)
"Bermuda Court"	Supreme Court of Bermuda
"Board"	the board of Directors
"Business Day(s)"	any day (other than a Saturday, Sunday or public holiday and any day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered or discontinued at or before 12:00 noon) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"CB Subscription"	the subscription of the Convertible Bonds by the Creditors pursuant to the terms of the Scheme

"Claim(s)"	any debt, liability or obligation of the Company, whether known or unknown, whether certain or contingent, whether present, future or prospective, whether liquidated or unliquidated, whether arising at common law, in equity or by statute in Hong Kong, Bermuda or in any other jurisdiction or in any manner whatsoever and which includes without limitation a debt or liability to pay money or money's worth, any liability for breach of trust, any liability in contract, tort or bailment and any liability arising out of an obligation to make restitution, any liability arising out of any legal claims, whether certain or contingent together with all interest on such debt, obligation or liability
"Companies Ordinance"	Companies Ordinance, Chapter 622 of the Laws of Hong Kong
"Company"	National Arts Entertainment and Culture Group Limited, a company incorporated in Cayman Islands and continued in Bermuda with limited liability, the Shares are listed on the Stock Exchange (stock code: 8228)
"Completion"	both the Convertible Bonds under the CB Subscription and the New Shares under the Shares Subscription having been duly issued to each Creditor
"Completion Date"	the date on which Completion takes place
"connected person(s)"	has the same meaning ascribed to it under the GEM Listing Rules
"Consent Bonus"	with respect to each Qualifying Consenting Creditor, an extra one (1) per cent on the outstanding principal amount of his/its debt (where applicable, together with interests accrued thereon calculated up to the Restructuring Order Date at the respective annual interest rate of the relevant debts) to be rewarded to the Qualifying Consenting Creditors by adding to the principal of the Convertible Bond to be issued to each Qualifying Consenting Creditor under the Scheme
"Convening Hearing"	the hearing before the Hong Kong Court or the Bermuda Court (as the case specified) of the applications for leave to convene the Scheme Meeting;
"Conversion Price"	the price at which each Conversion Share is to be issued upon exercise of the conversion rights attached to the Convertible Bonds, initially being HK$0.55 per Conversion Share (subject to adjustment)

"Conversion Shares"	the Shares to be issued upon exercise of the conversion rights attaching to the Convertible Bonds
"Convertible Bonds"	1% annual coupon rate convertible bonds due 2024 of the Company to be issued by the Company to the Creditor pursuant to the terms of the Scheme
"Creditor(s)"	any person having a Claim: (a) which is not a preferential claim as defined pursuant to Section 265 of CWUMPO (and where the Claim is only in part a preferential Claim, then the person is a Creditor only to the extent of the non-preferential portion of the Claim); (b) which is not a Claim with security interest (and where the Claim is only in part a Claim with security interest, then the person is a Creditor only to the extent of the unsecured part of the Claim (i.e. after deducting the value of the securities interest); and (c) which is not an Operational Debt (and where the Claim is only in part an Operational Debt, then the person is a Creditor only to the extent of such debts which are not Operational Debts)
"Cut-Off Date"	the date to be determined by the Scheme Administrators, being the latest date for the Creditors to lodge the notice of claim to the Provisional Liquidators for the purpose of claiming to be a Creditors under the Scheme
"CWUMPO"	Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong
"Director(s)"	the director(s) of the Company
"Effective Date"	the date on which all the condition precedents of the Scheme set out under the heading "B. CREDITORS' SCHEME" in the letter from the board
"Fee Shares"	250,000,000 newly issued and fully paid-up Shares to be paid by the Company to the Financial Adviser as the Advisory Fee
"Fee Shares Announcement"	the announcement of the Company dated 26 August 2019 in relation to the discloseable transaction regarding the issue of Shares under specific mandate in relation to advisory service of financial adviser
"Financial Adviser"	Oriental Patron Asia Limited, 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 in relation to the Proposed Restructuring
"GEM"	the GEM of the Stock Exchange

"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
"Group"	the Company and its subsidiaries from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Court"	the High Court of Hong Kong
"Increase in Authorised Share Capital"	the proposed increase in the authorised share capital of the Company from HK$600,000,000 divided into 6,000,000,000 Shares to HK$2,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 14,000,000,000 new Shares, subject to the approval as an ordinary resolution of the Shareholder at the SGM
"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the proposed Scheme
"Independent Financial Adviser" or "Akron"	Akron Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the proposed Scheme and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Mr. Sin, Ms. Law, Mr. Chow, Mr. Tse and Mr. Yiu and any Shareholders with a material interest in the proposed Scheme, who are required under the GEM Listing Rules to abstain from voting on the ordinary resolutions to be proposed at the SGM to approve, *inter alia*, the Scheme
"Issue Price"	the price at which the New Share is to be issued at HK$0.38 per Share
"Latest Practicable Date"	17 September 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Mr. Chow"	Mr. Chow Kai Weng, an executive Director, the associate chairman of the Board and chief executive officer of the Company

"Mr. Sin"	Mr. Sin Kwok Lam, an executive Director, the chairman of the Board, a member of the nomination committee of the Board and a substantial Shareholder
"Mr. Tse"	Mr. Tse Young Lai, an substantial shareholder of the Company
"Mr. Yiu"	Mr. Yiu Kin Kong, a shareholder of the Company as well as a Creditor of the Company
"Ms. Law"	Ms. Law Po Yee, being the spouse of Mr. Sin
"New Shares"	a maximum aggregate of approximately 2,247,368,230 new Shares to be allotted and issued by the Company to the Creditors pursuant to the terms of the Scheme
"Operational Debt(s)"	those debts incurred by the Company including (i) the director's fee to Mr. Sin in the amount of HK$600,000; (ii) the director's fee to Mr. Chow in the amount of HK$120,000; and (iii) the auditors fee to Elite Partners CPA Limited in the amount of HK$547,000
"Potential Strategic Investment Agreement"	the potential strategic investor agreement dated 14 May 2019 entered into between the Company and Proxima Media, LLC
"Proposed Restructuring"	refers to the issuance of the Convertible Bonds under the CB Subscription and the issuance of new Shares under the Share Subscription in accordance with the Scheme to the Creditors as full and final settlement of all the Claims
"Provisional Liquidators"	the joint and several liquidators of the Company appointed pursuant to an order of the Bermuda Court dated 14 June 2019, namely, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun, both of RSM Corporate Advisory (Hong Kong) Limited, 29/F, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong and Mr. Roy Bailey c/o EY Bermuda Ltd, 3 Bermudiana Road, Hamilton, HM08, Bermuda
"Qualifying Consenting Creditor"	a Creditor who is entitled to be rewarded with the Consent Bonus pursuant to the terms of the Scheme
"Restructuring Order Date"	14 June 2019, being the date on which the Order granted by the Bermuda Court for the appointment of the Provisional Liquidators for the Company for restructuring purposes
"Sanction Hearing"	the hearing before the Hong Kong Court or the Bermuda Court (as the case specified) of the application for the sanction of the Scheme

"Sanction Order"	the approvals or sanctions on the Scheme by the Bermuda Court and the Hong Kong Court respectively
"Scheme"	the proposed scheme of arrangement for the Company under Sections 670, 673 and 674 of the Companies Ordinance and Section 99 of the Bermuda Companies Act between the Company and its Creditors, in its present form, or with or subject to any modification of it, any addition to it or any condition approved or imposed by the Hong Kong Court and/or the Bermuda Court
"Scheme Administrators"	the persons appointed under the Scheme as the scheme administrators
"Scheme Announcement"	the announcement of the Company dated 19 August 2019 in relation to, among others (i) the Creditors' Scheme, (ii) the proposed issue of New Shares and Convertible Bonds under Specific Mandate, (iii) connected transactions in relation to the proposed issue of New Shares and Convertible Bonds under Specific Mandate and (iv) the Increase in Authorised Share Capital
"Scheme Meeting"	the meeting(s) of the Creditors to be convened at the direction of the Bermuda Court and the Hong Kong Court respectively for the purpose of considering and, if thought fit, approving the Scheme by the Creditors
"SFC"	the Securities and Futures Commission of Hong Kong set up in 1989
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held at 10:30 a.m. on Thursday 10 October, 2019 at 1/F, China Building, 29 Queen's Road Central, Hong Kong for the purpose of considering and, if thought fit, approving (i) the Scheme and the transactions contemplated thereunder, including the grant of the Specific Mandate; (ii) the granting of specific mandate to allot and issue of Fee Shares; and (iii) the Increase in Authorised Share Capital
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Share Subscription"	the subscription of the New Shares at the Issue Price by the Creditor pursuant to the terms of the Scheme

"Specific Mandate"	the specific mandate to be granted by the Independent Shareholders to the Board at the SGM for the allotment and issue of New Shares and Conversion Shares for the purpose of the proposed Scheme
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers
"HK$"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"US$"	US dollars, the lawful currency of the United States of America
"%"	per cent

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)

Executive Directors:
Mr. Sin Kwok Lam *(Chairman)*
Mr. Chow Kai Weng
(Associate Chairman and Chief Executive Officer)
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

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Room L&M, 21/F
King Wing Plaza, Phase 1
3 On Kwan Street, Shek Mun
Shatin, New Territories
Hong Kong

20 September 2019

To the Shareholders

Dear Sir or Madam,

(1) CREDITORS' SCHEME;
(2) PROPOSED ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
(3) CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
(4) DISCLOSEABLE TRANSACTION REGARDING THE ISSUE OF SHARES UNDER SPECIFIC MANDATE IN RELATION TO ADVISORY SERVICE OF FINANCIAL ADVISER;
(5) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND
(6) NOTICE OF SPECIAL GENERAL MEETING

A. INTRODUCTION

References are made to the Announcements in which the Board announced that (a) the Company proposed to implement, subject to the approval by the Bermuda Court and the Hong Kong Court, the Scheme; and (b) the Company proposed to issue Shares under specific mandate in relation to the advisory service of financial adviser.

The purpose of this circular is to provide Shareholders with (i) details of the Scheme and the transactions contemplated thereunder; (ii) details regarding the issue of Shares under specific mandate in relation to the advisory service of financial adviser; (iii) details regarding the Increase in Authorised Share Capital; (iv) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Scheme; (v) the advice from the Independent Financial Adviser on the Scheme; (vi) other information as required under the GEM Listing Rules; and (vii) a notice convening the SGM.

B. CREDITORS' SCHEME

The Scheme mainly comprises the Share Subscription and the CB Subscription. Under the Scheme, the Company will issue New Shares and Convertible Bonds (details of which are set out in the paragraph headed "Issue of New Shares and Convertible Bonds under Specific Mandate" below) to the Creditors to discharge and release the Claims owing by the Company to the Creditors in full.

Up to 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.

Since the Company is proposing to put forward the Scheme, the Company has been preparing to apply to the Hong Kong Court and the Bermuda Court respectively for the granting of leave to convene the Scheme Meeting. Upon obtaining the directions of the Bermuda Court and the Hong Kong Court in the Convening Hearing, the date of the Scheme Meeting will be fixed and the Scheme Meeting will be convened accordingly for the purpose of considering the approval of the Scheme by the Creditors. It is expected that the Scheme Meeting will be held in the early November 2019.

Pursuant to Sections 673 and 674 of the Companies Ordinance and Section 99 of Section 99 of the Bermuda Companies Act, the Scheme will only be sanctioned if, in the Scheme Meeting, the majority in number representing 75% in value of the Creditors present and voting either in person or by proxy at the Scheme Meeting agree to such Scheme, on the application made by the Company. As such, to obtain approval from the Creditors:

1. Votes cast by the Creditors in terms of the value of Claims need to be at least 75%; and

2. Votes cast by the Creditors in terms of headcount need to be at least 50%.

After obtaining the approval from Creditors in the Scheme Meeting, the Company will apply to the Hong Kong Court and Bermuda Court respectively for the sanctions of the Scheme with the result of the Scheme Meeting presented before the Hong Kong Court and Bermuda Court. After the sanctions of the Hong Kong Court and Bermuda Court have been obtained, the Sanctioning Order will be filed with the Companies Registry in Hong Kong and the equivalence in Bermuda for registration, and the Scheme will, subject to the fulfilment of the conditions precedent as listed below, then become effective.

The Scheme Administrator will then assign the Cut-Off Date of the Scheme for filing all notice of claims from the Creditors to the Company and notify the final amount of the claims of each of the Creditors. Based on the final amounts of claims of each Creditors, the New Shares will be allotted and issued and the Convertible Bonds will be issued to the Creditors on the Completion Date.

In the event that the final amounts of Admitted Claims require the Company to issue more new Shares and convertible bonds than the currently proposed issue of New Shares and Convertible Bonds under Specific Mandate, the Company intends to issue additional New Shares and Convertible Bonds complying with all applicable rules and regulations (including but not limited to convening general meeting to seek approvals from Shareholders whenever necessary and applying for listing on the Stock Exchange). Having said the above, the Company estimates that the chance of this should be minimal as the Company has all along maintain proper books and records and do not expect any valid material claim from unrecorded or off book liabilities. Further, the Company will make timely announcements to notify the Shareholders and potential investors the progress of the Scheme.

Upon the New Shares and Convertible Bonds are issued on the Completion Date, 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.

Up to the Latest Practicable Date, the Company has applied to the Hong Kong Court for dates of Convening Hearing and Sanction Hearing. Such hearings will be held on 25 September 2019 and 20 November 2019 respectively. The Company has also applied to the Bermuda Court for the hearing in relation to the grant of leave to convene the Scheme Meeting. It is preliminarily scheduled to be held on 1 October 2019 (Bermuda time) in Bermuda.

A tentative timetable of the Scheme is illustrated below:

Tentative Timetable of the Scheme

Convening Hearing before Hong Kong Court	25 September 2019
Convening Hearing before Bermuda Court	1 October 2019 (tentative)
Scheme Meeting	Early November 2019
Sanction Hearing before Hong Kong Court	20 November 2019
Sanction Hearing before Bermuda Court	20 November 2019 to early December 2019
Cut-Off Date	Mid December 2019
Completion Date	Early 2020

Note:

1. The above dates are subject to changes and depend on the actual dates of hearing, the length of hearings, scope of the relevant hearings, instruction directed by courts as well as the actual situations. As such, the dates specified above or in other parts of this circular are indicative only and may be varied due to actual circumstances.

2. All times and dates in this circular refer to Hong Kong local times and dates unless otherwise specified.

The Scheme will become binding and effective on the Company and the Creditors under Bermuda law and Hong Kong law if the following conditions precedent are satisfied:

1. Over fifty per cent. (50%) in number of the Creditors, representing at least seventy-five per cent. (75%) in value of the Creditors, present and voting in person or by proxy at the Scheme Meetings, vote in favour of the Scheme;

2. The Bermuda Court sanctions the Scheme and an official copy of the order of Bermuda Court sanctioning the Scheme is delivered to the Registrar of Companies in Bermuda for registration;

3. The Hong Kong Court sanctions the Scheme and an official copy of the order of the Hong Kong Court sanctioning the Scheme is delivered to the Registrar of Companies in Hong Kong for registration;

4. The passing of the necessary resolutions by the Shareholders or independent Shareholders (as the case maybe) at the SGM for the Scheme, the increase of the authorised share capital of the Company and the allotment and issuance of the Convertible Bonds and New Shares to the Creditors (including the connected persons of the Company); and

5. The Company having obtained either conditional approval or approval in-principle from the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares and the New Shares on the Stock Exchange.

All the conditions precedents to the Scheme are not capable of being waived.

C. ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

Subject to the Scheme becoming effective, the Company will implement (i) the Share Subscription, under which it is estimated that the Company will allot and issue, in aggregate, up to approximately 2,247,368,230 New Shares at the issue price of HK$0.38 per New Share for settlement of 40% of 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 maximum aggregate principal amount of approximately HK$1,302 million (subject to any adjustments made regarding the Consent Bonus to be awarded to the Qualifying Consenting Creditors, in accordance with the terms of the Scheme) for the settlement of 60% of Admitted Claims of the Creditors.

Subject to the Scheme becoming effective, Consent Bonus will be rewarded to the Qualifying Consenting Creditors.

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.

Share Subscription

The principal terms of the Share Subscription are summarised as follows:

Issuer:	the Company
Maximum value of the New Shares to be issued to the Creditors:	Up to approximately HK$854 million (subject to the determination of Admitted Claims in accordance with the terms of the Scheme) (Representing the aggregation of 40% of the Claims of the Creditors)
Issue Price:	HK$0.38 per New Share. The Issue Price of HK$0.38 per New Share represents: (i) a premium of approximately 84.47% over the closing price of HK$0.206 per Share as quoted on the Stock Exchange on the date of the Scheme Announcement; and (ii) a premium of approximately 87.75% over the average closing price of HK$0.2024 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately preceding the date of the Scheme Announcement; (iii) a premium of approximately 86.27% over the closing price of HK$0.204 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 2,367.5% over the unaudited net asset value per Share of approximately HK$0.0154 as at 30 June 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 and 4,948,170,452 issued Shares as at the Latest Practicable Date.

The New Shares have an aggregate nominal value of up to HK$224,736,823.00.

Total maximum number of New Shares to be issued: up to 2,247,368,230 New Shares (subject to the determination of Admitted Claims in accordance with the terms of the Scheme)

Assuming that there will be no change in the issued share capital of the Company, the total number of New Shares represent:

(i) approximately 45.42% of the existing issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 31.23% of the issued share capital of the Company as enlarged by the allotment and issue of New Shares.

The Company will not allot and issue any fractions of New Shares.

Lock-up period: The New Shares are subject to a lock-up period of 12 months from the date of completion of the Share Subscription.

Ranking of the New Shares: The New Shares will rank *pari passu* in all respects with the Shares then in issue as at the date of the issue of the New Shares.

Listing: Application will be made for listing of the New Shares on the Stock Exchange

Completion: Completion shall take place on the same date as the completion of the CB Subscription, or such other date as decided by the Company and approved by the Scheme Administrators.

CB Subscription

The principal terms of the CB Subscription are summarised as follows:

Issuer:	the Company
Maximum value of the Convertible Bonds to be issued to the Creditors:	Up to approximately HK$1,302 million (subject to the determination of Admitted Claims in accordance with 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) approximately HK$21.3 million for the maximum amount of Consent Bonus)
Maturity date:	the date falling on the day being the fifth (5th) anniversary of the issue date of the Convertible Bonds
Coupon rate:	Until the Convertible Bonds are fully converted or redeemed and cancelled, the Convertible Bonds shall bear interest at the rate of one per cent. (1%) per annum, payable by the Company annually in arrear in the 12 months after the issue date and in every 12 months thereafter to and including the maturity date.
Conversion Price:	Subject to the terms and conditions of the Convertible Bonds, the conversion price will initially be HK$0.55 per share (subject to adjustments as stated below). The initial Conversion Price represents: (i) a premium of approximately 166.99% over the closing price of HK$0.206 per Share as quoted on the Stock Exchange on the date of the Scheme Announcement; (ii) a premium of approximately 171.74% over the average closing price of HK$0.2024 per Share as quoted on the Stock Exchange for the five consecutive trading days of Shares immediately preceding the date of the Scheme Announcement; (iii) a premium of approximately 169.61% over the closing price of HK$0.204 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 3,471.4% over the unaudited net asset value per Share of approximately HK$0.0154 as at 30 June 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 and 4,948,170,452 issued Shares as at the Latest Practicable Date.

Conversion Price adjustments:

The adjustment mechanism of the Conversion Price for the key events is set out below:

(a) Consolidation or subdivision:

If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective from the close of business in Hong Kong on the day immediately preceding the date on which such consolidation or subdivision becomes effective, provided that, where the conversion date in respect of a particular exercise of any of the conversion rights attaching to the Convertible Bond shall fall on or before the said business day but the Company shall not by the close of business on the said business day have allotted the relative Shares in accordance with its obligations hereunder, such adjustment shall, for the purpose of determining the number of Shares to be allotted to the holder of the Convertible Bond exercising the said Conversion Rights, be deemed to have become effective before such conversion date.

(b) Rights issues of Shares or rights to acquire Shares:

If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class, by way of rights, any options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 80% of the current market price per Share on the last trading day preceding the announcement of the terms of the issue or grant (whether or not such issue or grant is subject to the approval of the holders of Shares or other persons), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such current market price per Share; and

C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective (if appropriate, retroactively) from the day following the record date for the issue or grant. For the avoidance of doubt, no adjustment shall take effect in accordance with this paragraph (b) should such issue or grant fail to become effective.

(c) Issues of convertible securities:

Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (d), if and whenever the Company or any of its subsidiaries shall issue any securities (other than the Convertible Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares or securities which by their terms might be redesignated as Shares to be issued by the Company upon conversion, exchange or subscription or redesignation, at a consideration per Share receivable by the Company or the relevant subsidiary which is less than 80% of the current market price per Share on the last trading day preceding the date of the announcement of the terms of the issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such issue;

B is the number of Shares which the aggregate consideration (if any) receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to such securities or for the Shares to be issued or arise from any such redesignation would purchase at such current market price per Share; and

C is the maximum number of Shares to be issued upon conversion into or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate or the Shares to be issued or to arise from any such redesignation.

Such adjustment shall become effective (if appropriate, retroactively) from the close of business on the business day immediately preceding the date on which the issuer of the relevant securities determines the conversion or exchange rate or subscription price in respect of such securities or, to the extent that the relevant issue is announced (whether or not subject to the approval of holders of Shares or other persons) and the date of such announcement is earlier than the said date, the business day immediately preceding the date of such announcement.

(d) Modification of rights of conversion etc.:

If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in sub-paragraph (d) above so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 80% of the current market price per Share on the last trading day immediately preceding the date of announcement of the proposals for such modification or (if there is no such announcement) the date of such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued upon conversion or exchange, or upon exercise of the right of subscription attached to the securities so modified, would purchase at such current market price per Share or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as the auditors or approved financial advisor, acting as expert, considers appropriate (if at all) for any previous adjustment under this sub-paragraph (d).

Notwithstanding the foregoing provisions, a right of conversion, exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take into account of rights and capitalisation issues and other events normally giving rise to adjustment of the Conversion Price under this provision.

Such adjustment shall become effective (if appropriate retroactively) on the day upon which such modification shall take effect.

(e) Other offers to Shareholders:

If and whenever the Company or any of its subsidiaries or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its subsidiaries) any other person issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under subparagraphs (b) and (c) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the current market price of one Share on the date on which such issue is publicly announced; and

B is the fair market value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

(f) Other events

If the Company or the holder of the Convertible Bonds reasonably determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in the terms and condition of the Convertible Bonds, the Company or the holder of the Convertible Bonds shall notify the other party in writing of the same and, at its own expense, consult the Auditors or Approved Financial Advisor (acting as expert), to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the Auditors or Approved Financial Advisor (acting as expert) such adjustment (if any) shall, in the absence of manifest error and objection from the other party with justifiable basis, be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to the terms and condition of the Convertible Bonds have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation pursuant to the terms and conditions of the Convertible Bonds as may be advised by the Auditors or Approved Financial Advisor (acting as expert) to be in their opinion appropriate to give the intended result. On any adjustment, the relevant Conversion Price, if not an integer multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent.

For the purpose of the adjustment mechanism of the Conversion Price, "Approved Financial Advisor" means an independent financial advisor of repute and having a place of business in Hong Kong selected by the Company; and "Auditors" means the auditors for the time being and from time to time appointed by the Company.

Maximum number of Conversion Shares: Up to approximately 2,367,272,548 Conversion Shares (subject to the determination of Admitted Claims in accordance with the Scheme) may be allotted and issued.

The Conversion Shares, upon full conversion, shall have an aggregate nominal value of up to HK$236,727,254.80.

Assuming (i) there will be no change in the issued share capital of the Company between the Latest Practicable Date and the Completion Date; and (ii) the Convertible Bonds are all converted in full at the initial Conversion Price of HK$0.55 per Conversion Share, an aggregate of up to approximately 2,367,272,548 Conversion Shares will be issued, which represent:

(i) approximately 47.84% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 32.36% of the issued share capital of the Company as enlarged by allotment and issue of the Conversion Shares; and

(iii) approximately 24.75% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares and the New Shares.

Upon conversion of Convertible Bonds, no fraction of any Conversion Share will be issued.

Conversion period: Subject to the terms and conditions of the Convertible Bonds, the period commencing from the date immediately after the expiration of three (3) years from the issue date of the Convertible Bonds up to and including the date immediately prior to the maturity date of the Convertible Bonds.

Conversion rights: The holder of the Convertible Bonds shall have the rights to convert the Convertible Bonds (or any part thereof) into Conversion Shares at any time during the conversion period. Such rights shall not be exercisable if:

(i) doing so would result in the Conversion Shares being issued at a price below their nominal value as at the applicable conversion date; or

(ii) immediately after such conversion, the public float of issued share capital of the Company falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.

The Convertible Bonds will not impose restrictions to the holders of the Convertible Bonds on conversions that would lead to an offer being required under Rules 26 of the Takeovers Code.

Upon full conversion of the Convertible Bonds at the initial Conversion Price, a total of 2,367,272,548 Conversion Shares (subject to the determination of the Admitted Claims in accordance with the Scheme as well as the Consent Bonus) would be issued, representing (i) approximately 47.84% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 32.36% of the issued share capital of the Company as enlarged by allotment and issue of the Conversion Shares; and (iii) approximately 24.75% of the issued capital of the Company as enlarged by the allotment and issue of Conversion Shares and the New Shares. And up to the Latest Practicable Date, to the Directors' best knowledge, information and belief, having made all reasonable enquiries, no Creditors and persons acting in concert, upon Completion, will trigger the mandatory offer obligation under Rules 26 of the Takeovers Code.

In the following events, the holder of the Convertible Bonds would be obligated to make a general offer to Shareholders in compliance with Rule 26 of the Takeovers Code unless a waiver is granted by the Executive:

(i) the holding of voting rights of the Company immediately before any conversion of the Convertible Bonds by the holder of the Convertible Bonds together with person(s) acting in concert with he/she represents, in aggregate, less than 30% of the voting rights of the Company then in issue and as a result of the conversion, his/her holding of voting rights of the Company comes to be 30% or more; or

(ii) the holding of voting rights of the Company immediately before any conversion of the Convertible Bonds by the holder of the Convertible represents not less than 30% but not more than 50% of the voting rights of the Company then in issue and, as a result of the conversion, has the effect of increasing his/her holdings of voting rights of the Company by more than 2% in any 12-month period.

Early redemption: The Company may in its absolute discretion redeem any Convertible Bonds at 100% of the outstanding principal amount (together with accrued but unpaid interest) of the Convertible Bond (in whole or in part) at any time and from times to times at the option of the Company prior to the maturity date.

Redemption on maturity: Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem the Convertible Bonds on the maturity date at the redemption amount which is the 100% of the principal amount thereof outstanding, together with interest accrued thereon (and not yet paid) up to the maturity date of redemption.

Voting: The holder of the Convertible Bonds will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the holder of any Convertible Bonds.

Transferability of the Convertible Bond(s): The Convertible Bond(s) is/are freely transferable (in whole or in part, if in part, in the integral multiple of HK$500,000, or such lesser amount as may represent the entire principal amount thereof), provided that, among others, if the holder of the Convertible Bonds intends to transfer to a connected person of the Company, such transfer shall comply with the requirements under the GEM Listing Rules and/or any other requirements imposed by the Stock Exchange and any other regulatory bodies.

Completion: Completion shall take place within 14 business days after the adjudication process (including any appeal therefrom) under the Scheme or such other date as decided by the Company and approved by the Scheme Administrator provided that all conditions precedent of the CB Subscription and Share Subscription (save for condition to thereunder) are satisfied.

Ranking of the Conversion Shares: The Conversion Shares allotted and issued on conversion will be fully paid and will rank *pari passu* in all respects with, and within the same class as, shares of the Company in issue on the date on which the conversion rights are exercised, except that the Conversion Shares so allotted and issued will not be entitled to any dividend or other distribution declared or paid or made by reference to a record date for the payment of a dividend or other distribution with respect to the shares of the Company on or prior to the registration date in respect of the Convertible Bond(s) being converted into such Conversion Shares.

Listing: No application will be made for a listing of the Convertible Bonds on any stock exchange. However, an application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Transferability of the Conversion Shares: The Conversion Shares are freely transferrable upon conversion, subject to any conditions, approvals or requirements under the GEM Listing Rules and/or any other requirements imposed by the Stock Exchange or any other regulatory bodies.

Determination of the Conversion Price and Issue Price

The Conversion Price and the Issue Price were determined after considering, among other things, the share price performance of the Company and the acceptability of the Creditors towards the terms of the Scheme. The Directors (including the independent non-executive Directors after having considered the advice of the Independent Financial Adviser) consider that the terms of the Scheme (including the Conversion Price and the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As to the connected transaction in relation to the issue of New Shares and Convertible Bonds, Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse shall be subject to the same terms, including but not limited to the Conversion Price and Issue Price, under the Scheme as those applicable to other Creditors. Accordingly, the Directors (including the independent non-executive Directors after having considered the advice of the Independent Financial Adviser) consider that, given that the same terms shall apply to Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse for the Share Subscription and CB Subscription under the Scheme, the terms of the Scheme (including the Conversion Price and the Issue Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Specific Mandate

The New Shares and the Conversion Shares will be allotted and issued under the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

Application for listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares to be allotted and issued under the Share Subscription and the Conversion Shares.

C. 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 and 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 Latest Practicable Date, 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 Latest Practicable Date, 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 Latest Practicable Date, 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
Total	**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 Creditors' 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 Scheme 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.

D. REASONS FOR AND BENEFITS OF THE SCHEME

Principal activities of the Group

The Group is principally engaged in film production and distribution, the provision of management services to artistes, event coordination, provision of travel related products and operations of film studio and hotel.

Actions taken to address financial difficulties

Referring to the previous announcements of the Company since February 2019, the Company has been in a distressed financial position as to its repayment obligations towards its bonds and loans and the Company has taken a series of actions in an attempt to refurbish its financial position and reduce its financial risks.

1. Placing under general mandate

On 13 February 2019, the Company has entered into the placing agreements with two placing agents for the purpose of placing shares under general mandate. On 18 March 2019, the placing of Shares under general mandate has been completed and raised gross proceeds of approximately HK$110 million for the repayment of the principal and interest payment of certain bonds fallen due. Please refer to the announcements of the Company dated 13 February 2019 and 18 March 2019 for details.

2. Proposed placing of Shares under specific mandate

On 13 February 2019, the Company has entered into a placing agreement with four placing agents for the purpose of placing shares under specific mandate. As disclosed in the announcement of the Company dated 30 May 2019 as to the change of use of proceeds, substantial portion of the intended use of proceeds to be raised from such placing is allocated to the repayments of the outstanding indebtedness. Please refer to the announcements of the Company dated 13 February 2019, 30 May 2019 and the circular of the Company dated 30 April 2019 for details.

3. Potential strategic investors

On 14 May 2019, the Company entered into the Potential Strategic Investment Agreement with Proxima Media, LLC ("**Proxima Media**"), which is wholly owned by a famous Hollywood film producer, Ryan Kavanaugh, with a view to raise or inject capital into the Company of up to US$100 million within twelve months from the date of the Potential Strategic Investor Agreement. Subject to the certain criteria under the Potential Strategic Investment Agreement, Proxima Media will (i) transform the Film Studio into a world-class film-induced tourism base in collaboration with the Company; (ii) introduce up to 5 overseas films and 3 overseas TV series for the Company to be filmed at the Studio each year, and it will expand to world-wide film market together with the Company; and (iii) assist the Company on building an indoor studio and a major modern shooting water studio to fulfil the requirements of the large-scale films, creating a modernized theme park and improving the rating of the Hotel to a 7-star hotel. Please refer to the announcement of the Company dated 14 May 2019 for details.

In addition, the Company is concurrently negotiating with a leading regional financial institution for strategic investment which is subject to the investors' due diligence works and regulatory approval. Though no legally binding agreement has been entered into, the company is confident that the relevant agreements as to the potential fundraising could be reached within a reasonable time frame. Please refer to the announcement of the Company dated 11 July 2019 for details.

4. Filing winding up petition and application for appointment of provisional liquidators for restructuring purposes

On 14 June 2019, to facilitate the Company's financial restructuring, a winding up petition together with the application for appointment of the Provisional Liquidators as the joint provisional liquidators of the Company on a light touch approach for restructuring purposes was presented and filed with the Bermuda Court by the Company's Bermuda Counsel, Conyers Dill & Pearman at the request of the Company. Please refer to the announcement of the Company dated 17 June 2019 for details.

5. ***Invitation to the creditors to make an offer to the Company to subscribe for New Shares and Convertible Bonds***

On 10 July 2019, the Company invited all known creditors to make an offer to the Company to subscribe for the new shares and convertible bonds of the Company with a view to settle all outstanding indebtedness. On 12 August 2019, the Company announced that it has received substantive support from its creditors regarding the Restructuring Transaction (as defined in the announcement of the Company dated 30 July 2019) and proposed to put forward a scheme of arrangement. Please refer to the announcements of the Company dated 30 July 2019 and 12 August 2019 for further details.

Effects of the Scheme

The effect of the Creditors' Scheme is that on Completion Date, all Claims will be discharged and extinguished and the Creditors will not be allowed to make any claim against the Company in respect of their Claims. Each Creditor with Admitted Claim will be entitled to receive Convertible Bonds in the principal amount equal to 60% of his Admitted Claim and New Shares at the issue price of HK$0.38 per New Share, the total value of which equivalent to 40% of his Admitted Claim in return for the full discharge and extinguishment of any claim he may have against the Company in respect of his Claim.

Considering the effect of the Scheme, the Company proposed to put forwards the Scheme involving the issue of New Shares and Convertible Bonds so as to (i) resolve its financial difficulties in fulfilling its repayment obligations and therefore strengthen the financial positions of the Company; (ii) ease the Company from heavy burden from high financial costs; (iii) increase the capital base through new issue of Shares, rather than overly relying on debt financings. Further, the Board also holds the view that, upon successful restructuring, the Company will be of a better position to negotiate with the relevant potential investors to invest into the Group.

In light of the above and given that the Scheme should give equal treatments to all Creditors in the same class, including Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse, the Directors (including the independent non-executive Directors after having considered the advice of the Independent Financial Adviser) are of the view that the terms of the Scheme are fair and reasonable and the Scheme is in the interests of the Company and the Shareholders as a whole.

Mr. Sin and Mr. Chow, both being the executive Directors, have abstained from voting on the Board resolutions for approving the proposed Scheme and the transactions contemplated thereunder. Save as mentioned above, none of the Directors has any material interest in the transactions contemplated under the Scheme who are required to abstain from voting on the resolutions of the Board in respect of the Scheme.

E. DISCLOSEABLE TRANSACTION REGARDING THE ISSUE OF SHARES UNDER SPECIFIC MANDATE IN RELATION TO ADVISORY SERVICE OF FINANCIAL ADVISER

Reference is made to the Fee Shares Announcement of the Company dated 26 August 2019 as to the issue of Shares under specific mandate in relation to advisory service of financial adviser in relation to the Proposed Restructuring.

The Company has appointed the Financial Adviser to advise on and assist in formulating and overseeing the Proposed Restructuring as to improving the Company's financial position. Regarding the payment of the Advisory Fee, after arm's length negotiations, the Financial Adviser agreed to receive the newly issued Shares to settle the Advisory Fee. On 26 August 2019 (after the trading hours), the supplemental mandate letter (as to supplement the original mandate letter signed in May 2019) has been entered into between the Company and the Financial Adviser, pursuant to which the Advisory Fee is agreed to be paid by the Company to the Financial Adviser in the form of issuing and allotting the Fee Shares, which is 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 the Financial Adviser simultaneously with the New Shares to be issued to the Creditors under the Scheme upon its Completion. The Board is of the view that the appointment of the Financial Adviser as the Company's financial adviser can facilitate the formulation and execution of the overall financial restructuring plan.

The Advisory Fee was determined after arm's length negotiations between the Company and the Financial Adviser on normal commercial terms taking into account the size of the debts of the Company to be dealt with and the equity portion to be issued under the Scheme. Considering that the share price performance of the Company, cash position of the Company, and the issue price of the New Shares, the Directors consider that issue and allotment of the Fee Shares to settle the Advisory Fee are fair and reasonable and in the interests of the Company and Shareholders as a whole.

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

Fee Shares

Subject to the approval of the Shareholders in the SGM and the Stock Exchange granting the listing of, and permission to deal in, the Fee Shares, the Fee Shares will be issued and allotted by the Company to the Financial Adviser simultaneously with the New Shares to be issued to the Creditors under the Scheme upon its completion. With the issue price per Fee Share being HK$0.38, the amount of 250,000,000 Fee Shares will be HK$95,000,000. Assuming there is no other change in the issued share capital of the Company save for up to 2,247,368,230 New Shares to be issued under the Scheme, 250,000,000 Fee Shares will be issued, which represents:

(i) approximately 5.05% of the existing issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 3.35% of the issued share capital of the Company as enlarged by the allotment and issue of Fee Shares and New Shares;

(iii) approximately 2.55% of the issue share capital of the Company as enlarged by the allotment and issue of Fee Shares, New Shares and Conversion Shares; and

(iv) approximately 5.42% of the new Shares to be issued under the Scheme in order to settle the Claims (including the New Shares and the Conversion Shares).

Issue price of the Fee Shares at HK$0.38 per Fee Share represents:

(i) a premium of approximately 86.27% over the closing price of HK$0.204 per Share as quoted on the Stock Exchange on the date of the Fee Shares Announcement;

(ii) a premium of approximately 78.74% over the average closing price of HK$0.2126 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately preceding the date of the Fee Shares Announcement;

(iii) a premium of approximately 86.27% over the closing price of HK$0.204 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 2,367.5% over the unaudited net asset value per share of approximately HK$0.0154 as at 30 June 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 and 4,948,170,452 issued Shares as at the Latest Practicable Date.

The Fee Shares will rank *pari passu* in all respects with the Shares then in issue as at the date of the issuance. Unless prior consent is granted by the Company, the Fee Shares are subject to a lock-up period for 12 months from the date of issuance of Fee Shares. An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Fee Shares. The Fee Shares will be allotted and issued under a specific mandate proposed to be sought from the Shareholders of the SGM.

F. EQUITY FUNDRAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The following table summarises the fundraising activities of the Company in the past twelve (12) months immediately preceding the Latest Practicable Date:

Date of initial announcement	Description	Net proceeds	Intended use of proceeds
13 February 2019	Placing of new shares under general mandate of the Company	Approximately HK$104.5 million	Partial repayment of the principal and interests of bonds and borrowings of the Group
13 February 2019	Placing of new shares under specific mandate of the Company (which has not yet completed)	Approximately HK$1.55 billion	As stated in the circular of the Company dated 30 April 2019, the net proceeds will mainly be utilised for partial repayment of the Group's outstanding liabilities. For details of the use of proceeds, please refer to section headed "Change of Use of Proceeds" in the announcement dated 30 May 2019.

G. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the completion of the issue of New Shares, Convertible Bonds for the purpose of the Scheme (assuming no conversion of the Convertible Bonds) and Fee Shares; and (iii) immediately after the completion of the issue New Shares, the Convertible Bonds for the purpose of the Scheme (assuming full conversion of the Convertible Bonds at the initial Conversion Price and all Creditors entitled to the Consent Bonus) and Fee Shares, assuming that there is no other change in the issued share capital of the Company between the Latest Practicable Date and the Completion Date:

	As at the Latest Practicable Date		**Immediately after the completion of the issue of New Shares, Convertible Bonds for the purpose of the Scheme (assuming no conversion of the Convertible Bonds) and Fee Shares**		**Immediately after the completion of the issue New Shares, the Convertible Bonds for the purpose of the Scheme (assuming full conversion of the Convertible Bonds at the initial Conversion Price and all Creditors entitled to the Consent Bonus) and Fee Shares**	
	Number of shares	*%*	*Number of shares*	*%*	*Number of shares*	*%*
Directors						
Mr. Sin and his associate *(Note 1)*	871,932,623	17.62	1,584,147,296	21.28	2,334,562,575	23.79
Mr. Chow	1,000,000	0.02	39,254,139	0.53	79,560,091	0.81
Mr. Chui Chi Yun Robert	3,000,000	0.06	3,000,000	0.04	3,000,000	0.03
Mr. Li It Chee	4,480,000	0.09	4,480,000	0.06	4,480,000	0.05
Sub-total	**880,412,623**	**17.79**	**1,630,881,435**	**21.91**	**2,421,602,666**	**24.68**
Substantial Shareholder						
Mr. Tse	563,547,600	11.39	565,539,793	7.60	567,638,840	5.78
Subtotal	563,547,600	11.39	565,539,793	7.60	567,638,840	5.78
Other shareholders						
Creditors (other than Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse)	—	—	1,494,907,225	20.08	3,069,359,495	31.28
Financial Adviser	—	—	250,000,000	3.35	250,000,000	2.55
Other public shareholders	3,504,210,229	70.82	3,504,210,229	47.06	3,504,210,229	35.71
Subtotal	**3,504,210,229**	**70.82**	**5,249,117,454**	**70.49**	**6,823,569,724**	**69.54**
Total	**4,948,170,452**	**100.00**	**7,445,538,682**	**100.00**	**9,812,811,230**	**100.00**

Notes:

1. As at the Latest Practicable Date, Mr. Sin beneficially owns 848,580,623 Shares. Ms. Law, being the spouse of Mr. Sin, beneficially owns 23,352,000 Shares. Under Part XV of the SFO, each of Mr. Sin and Ms. Law is deemed to be interested in 871,932,623 Shares.

2. As at the Latest Practicable Date, there are outstanding share options to subscribe for an aggregate number of 254,530,591 Shares. Save for the outstanding share options, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

3. To the Directors' best knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, save for Mr. Sin, Ms. Law (whose shareholding is combined with Mr. Sin's shareholding), Mr. Chow and Mr. Tse, there are no other connected persons included under the category of "Other shareholders".

4. Up to the Latest Practicable Date, to the Directors' best knowledge, information and belief, having made all reasonable enquiries, no Creditors and persons acting in concert, upon Completion, will trigger the mandatory offer obligation under Rules 26 of the Takeovers Code.

H. GEM LISTING RULES IMPLICATION

(a) Connected transactions in relation to the Scheme

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 Latest Practicable Date, 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 the chief executive officer of the Company. As at the Latest Practicable Date, Mr. Chow is in the 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 Latest Practicable Date, Mr. Tse is interested in 563,547,600 Shares, representing approximately 11.39% of the total issued share capital of the Company.

Accordingly, Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse (collectively, the "**Connected Person**") are connected persons of the Company under Chapter 20 of the GEM Listing Rules.

Therefore, the issue of the New Scheme and the Convertible Bonds to the Connected Persons under the Schemes will, upon the implementation of the Scheme, constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules, and are subject to the reporting, announcement, circular and independent shareholders' approval requirements.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, save for Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse, the other Creditors are independent of and not connected with the Company and its subsidiaries, its connected person(s) and their respective associate(s).

The Independent Board Committee has been established to advise the Independent Shareholders (taking into account the recommendation of the Independent Financial Adviser) as to whether the terms of the Scheme and the transactions contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and its Shareholders as a whole and how to vote on the Scheme and the transactions contemplated thereunder. Akron has been appointed by the Company with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

(b) Discloseable transaction regarding the issue of Fee Shares under specific mandate to settle the Advisory Fee

As some of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the issue and allotment of the Fee Shares exceed 5% but all the applicable percentage ratios are less than 25%, the issue and allotment of the Fee Shares shall, when completed, constitute a discloseable transaction of the Company and therefore subject to reporting and announcement requirements under Chapter 19 of the GEM Listing Rules.

I. INCREASE IN AUTHORISED SHARE CAPITAL

Reference is made to the circular of the Company dated 2 May 2019, where a placing of new Shares of the Company under specific mandate was proposed before the Shareholders. As at the Latest Practicable Date, the authorised share capital of the Company was HK$600,000,000 divided into 6,000,000,000 Shares, of which 4,948,170,452 Shares had been issued and were fully paid or credited as fully paid up.

Taking into account the aforesaid and in order to accommodate future expansion and growth of the Group, the Board proposed 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, all of which will rank *pari passu* with all existing Shares. The proposed Increase in Authorised Share Capital is conditional upon the passing of the ordinary resolutions by the Shareholders at the SGM.

J. SGM

Set out on pages SGM-1 to SGM-5 is a notice convening the SGM to be held at 10:30 a.m., on Thursday, 10 October 2019 at 1/F, China Building, 29 Queen's Road Central, Hong Kong, at which an ordinary resolution will be proposed to consider and, if thought fit, approve (i) the Scheme and the transactions contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of New Shares and Conversion Shares; (ii) the granting of specific mandate to allot and issue the Fee Shares; and (iii) the proposed Increase in Authorised Share Capital.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM (i.e. not later than 10:30 a.m. on Tuesday, 8 October 2019) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case maybe) should you so wish. Voting on the proposed resolution at the SGM will be taken by poll.

Any Shareholder (or its associate) who has a material interest in the Scheme and the transactions contemplated thereunder shall abstain from voting on the relevant resolution(s) to approve (i) the Scheme and the transactions contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of New Shares and Conversion Shares, (ii) the grant of specific mandate to allot and issue the Fee Shares, and (iii) the proposed Increase in Authorised Share Capital at the SGM. To the best of the Director's knowledge, information and belief after having made all reasonable enquiries, save for Mr. Sin, Ms. Law, Mr. Chow, Mr. Tse and Mr. Yiu, no Shareholder has a material interest in (i) the Scheme and the transactions contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of New Shares and Conversion Shares, (ii) the grant of specific mandate to allot and issue the Fee Shares, and (iii) the proposed Increase in Authorised Share Capital and will be required to abstain from voting on the resolution(s) to approve (i) the Scheme and the transactions contemplated thereunder, including the grant of the Specific Mandate for the allotment and issue of New Shares and Conversion Shares, (ii) the grant of specific mandate to allot and issue the Fee Shares, and (iii) the proposed Increase in Authorised Share Capital at the SGM.

Mr. Yiu is a shareholder of the Company as well as a creditor of the Company. Accordingly, he is considered as having material interests in the Scheme and is also required to abstain from voting in respect of the proposed resolutions approving the Scheme and the transactions contemplated thereunder at the SGM. As at the Latest Practicable Date, Mr. Yiu is interested in 640,000 Shares, representing approximately 0.0129% of the total issued share capital of the Company.

Save for the aforesaid and to the Directors' best knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, save for the Connected Persons and Mr. Yiu, no other Shareholder has any material interest in the proposed Schemes and the transactions contemplated thereunder at the SGM. Up to the Latest Practicable Date, the shares, as such, required to abstain from voting are of 1,437,120,223 Shares in total.

Completion of the proposed Scheme is subject to the fulfilment of the conditions under the Scheme. Accordingly, the proposed Scheme may or may not proceed. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the Shares.

K. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 4 October 2019 to Thursday, 10 October 2019, both days inclusive, during which no transfer of Shares will be effected.

In order to be eligible to attend and vote at the SGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4 p.m. on Thursday, 3 October 2019 for registration.

L. RECOMMENDATION

Having considered the above-mentioned benefits to the Group, the Directors (including the independent non-executive Directors) consider that the terms of the Proposed Restructuring and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend (i) the Independent Shareholders to vote for the resolution to approve the Creditors' Scheme and the transaction contemplated thereunder, and the granting of the Specific Mandates; (ii) the Shareholders to vote for the granting of specific mandate to allot and issue the Fee Shares; and (iii) the Shareholders to vote for the resolution for Increase in Authorised Share Capital.

By Order 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

The following is the text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in respect of the Scheme.

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)

20 September 2019

To the Independent Shareholders

Dear Sir or Madam,

(1) CREDITORS' SCHEME; AND
(2) CONNECTED TRANSACTION IN RELATION TO PROPOSED ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

We refer to the circular of the Company dated 20 September 2019 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the Circular.

The Independent Board Committee has been formed to advise you in respect of the Scheme and the transactions contemplated thereunder. Akron Corporate Finance Limited has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons that have taken into consideration in giving such advice, are set out on pages IFA-1 to IFA-20 of the Circular.

Your attention is also drawn to the "Letter from the Board" as set out on pages 8 to 38 of the Circular and the additional information set out in the appendices thereto.

RECOMMENDATION

Having considered the terms of the Scheme, and taking into account the advice of Akron, in particular the principal factors, reasons and recommendation as set out in their letter, we consider the Scheme, is (i) not in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; (iii) in the interest of the Company and the Independent Shareholders as a whole; and (iv) the terms of the Share Subscription and the CB Subscription are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Scheme and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Chui Chi Yun Robert **Li Kit Chee** **Lam Kwok Hing Wilfred**
Independent non-executive Directors

The following is the text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transactions (as defined below), and is prepared for inclusion in this circular.

Akron Corporate Finance Limited
亚贝隆资本有限公司

20 September 2019

To the Independent Board Committee and the Independent Shareholders
of National Arts Entertainment and Culture Group Limited
(Provisional Liquidators Appointed)

Dear Sirs,

(1) CREDITORS' SCHEME; AND (2) CONNECTED TRANSACTIONS IN RELATION TO PROPOSED ISSUE OF NEW SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the connected transactions in relation to the issue of the New Shares and the Convertible Bonds to the Connected Persons (as defined below) under the Scheme (the "**Connected Transactions**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to its Shareholders dated 20 September 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Group proposed to implement the Proposed Restructuring (comprising the Share Subscription and the CB Subscription) under the Scheme to discharge and release the Claims owing by the Company to the Creditors in full.

Subject to the Scheme becoming effective, the Company will implement (i) the Share Subscription, under which the Company will allot and issue New Shares at the issue price of HK$0.38 per New Share for settlement of 40% of the Admitted Claims of the Creditors; and (ii) the CB Subscription, under which the Company will issue the Convertible Bonds with initial conversion price of HK$0.55 per Conversion Share in the aggregate principal amount of (a) 60% of the Admitted Claims of the Creditors; and (b) subject to any adjustments made regarding the Consent Bonus to be awarded to the Qualifying Consenting Creditors in accordance with the terms of the Scheme.

The Scheme will have equal treatments to all the Creditors in the same class, including Mr. Sin, Ms. Law, Mr. Chow and Mr. Tse (collectively, the "**Connected Persons**"). Up to the Restructuring Order Date (being 14 June 2019), the Group was indebted to the Connected Persons for an aggregate of HK$714,837,958 (including accrued interests up to the Restructuring Order Date) (the "**Connected Debts**").

Mr. Sin is an executive Director, the chairman of the Board and a member of the nomination committee of the Board and a substantial Shareholder. Ms. Law, being the spouse of Mr. Sin, is an associate of Mr. Sin. As at the Latest Practicable Date, Mr. Sin, together with his associate Ms. Law, are interested in 871,932,623 Shares, representing approximately 17.62% of the total issued Shares.

Mr. Chow is an executive Director, the associate chairman of the Board and chief executive officer of the Company. As at the Latest Practicable Date, Mr. Chow is interested in 1,000,000 Shares, representing approximately 0.02% of the total issued Shares.

Mr. Tse is the substantial Shareholder. As at the Latest Practicable Date, Mr. Tse is interested in 563,547,600 Shares, representing approximately 11.39% of the total issued Shares.

Accordingly, each of the Connected Persons is a connected person of the Company under Chapter 20 of the GEM Listing Rules. Therefore, the Connected Transactions constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules, and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements.

Mr. Yiu is a Shareholder as well as a creditor of the Company. As at the Latest Practicable Date, Mr. Yiu is interested in 640,000 Shares, representing approximately 0.0129% of the total issued Shares. Given that each of the Connected Persons and Mr. Yiu has material interest in the Scheme and the transactions contemplated thereunder, each of them and their respective associates are therefore required to abstain from voting on the relevant resolution(s) to be proposed at the SGM, among others, to approve the Scheme and the transactions contemplated thereunder (including the grant of the Specific Mandate for the allotment and issue of New Shares and Conversion Shares).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chui Chi Yun Robert, Mr. Li Kit Chee and Mr. Lam Kwok Hing Wilfred has been established to advise the Independent Shareholders in relation to the Connected Transactions. We, Akron Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and Akron Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to the GEM Listing Rules.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinion and representations contained or referred to in the Circular and the statements, information, opinion and representations provided to us by the management of the Company (the "**Management**") and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Management and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so as at the date of the SGM, and the Shareholders will be informed of any material change of information in the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors as set out in the Circular were reasonably made after due and careful inquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular as a whole misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Akron Corporate Finance Limited to ensure that such information has been correctly extracted from relevant sources.

PRINCIPAL FACTORS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Connected Transactions, we have taken into consideration the following factors and reasons:

1. Background and financial information of the Group

The Group is principally engaged in film production and distribution, the provision of management services to artistes, event coordination, provision of travel related products and operations of film studio and hotel.

Set out below are the key financial results of the Group (i) for the two years ended 31 December 2017 ("**FY2017**") and 31 December 2018 ("**FY2018**") as extracted from the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"); and (ii) for the six months ended 30 June 2018 ("**Interim 2018**") and 30 June 2019 ("**Interim 2019**") as extracted from the interim report of the Company for Interim 2019 (the "**2019 Interim Report**").

	For the six months ended 30 June		**For the year ended 31 December**	
	2019	**2018**	**2018**	**2017**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	89,307	96,685	153,837	221,372
Loss before taxation	(175,632)	(132,745)	(415,558)	(193,533)
Loss for the year	(175,632)	(132,745)	(415,558)	(193,533)

	As at 30 June 2019	As at 31 December 2018	2017
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)
Current assets	257,291	204,006	270,592
Total Assets	2,384,014	2,358,431	2,617,586
Current liabilities	1,753,081	919,353	1,310,455
Total Liabilities	2,307,759	2,213,256	1,977,155
Net current liabilities	1,495,790	715,347	1,039,863
Net assets	76,255	145,175	640,431
Bank balances and cash	1,635	13,474	19,944

For FY2018

The revenue of the Group decreased from approximately HK$221.4 million for FY2017 to approximately HK$153.8 million for FY2018, representing a decrease of approximately 30.5%. As revealed in the 2018 Annual Report, 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. Due to the revision of the tax computation methods by the State Administration of Taxation, the crew rental income has decreased from approximately HK$77.0 million in FY2017 to approximately HK$35.1 million in FY2018, representing a decrease of approximately 54.4%.

The net loss of the Group for FY2018 was approximately HK$415.6 million, representing a substantial increase of loss of approximately 114.8% as compared to net loss of approximately HK$193.5 million for FY2017. The increase in net loss was mainly due to the (i) decrease in revenue; (ii) increase in impairment loss of land lease prepayment; and (iii) increase in finance cost from approximately HK$165.6 million in FY2017 to approximately HK$227.3 million in FY2018, representing an increase of approximately 37.3% due to the increase in interests on bonds and loans from shareholders, though partly offset by the decrease in interest on unsecured other borrowings.

As at 31 December 2018, the Group recorded bank balances and cash amounted to approximately HK$13.5 million, meanwhile, the Group incurred a net cash inflow from operating activities of approximately HK$3.9 million.

The Group recorded decrease in net current liabilities from approximately HK$1,039.9 million as at 31 December 2017 to approximately HK$715.3 million as at 31 December 2018, representing a decrease of approximately 31.2%. Despite the decrease in net current liabilities, the total liabilities increased by approximately 11.9% from approximately HK$1,977.2 million as at 31 December 2017 to approximately

HK$2,213.3 million for as at 31 December 2018. The net assets dropped from approximately HK$640.4 million as at 31 December 2017 to approximately HK$145.2 million as at 31 December 2018, representing a drop of approximately 77.3%. The Group's gearing ratio was calculated as total borrowings to the total capital employed (being sum of total borrowings and total equity). The gearing ratio of the Group increased from approximately 72.2% as at 31 December 2017 to approximately 93.1% as at 31 December 2018.

For Interim 2019

For Interim 2019, the Group recorded revenue of approximately HK$89.3 million, representing a decrease of approximately 7.6% as compared to the revenue of approximately HK$96.7 million for Interim 2018. With reference to the 2019 Interim Report, the decrease in revenue was due to the decrease of rental income from the film production crews using film shooting base.

The net loss of the Group for Interim 2019 was approximately HK$175.6 million, representing an increase of loss of approximately 32.3% as compared to net loss of approximately HK$132.7 million for Interim 2018. The increase in net loss is due to the increase of debt interest. The finance cost of the Group increased by approximately 37.1% from approximately HK$105.2 million for Interim 2018 to approximately HK$144.2 million for Interim 2019.

As at 30 June 2019, the Group recorded bank balances and cash amounted to approximately HK$1.6 million, meanwhile, the Group incurred a net cash outflow from operating activities of approximately HK$43.9 million.

The net current liabilities of the Group surged by approximately 109.1% from approximately HK$715.3 million as at 31 December 2018 to approximately HK$1,495.8 million as at 30 June 2019. Such increase was mainly attributable to the increase in loans from shareholders, current portion of bonds and promissory notes. The total liabilities increased by approximately 4.3% from approximately HK$2,213.3 million as at 31 December 2018 to approximately HK$2,307.8 million as at 30 June 2019. The net assets dropped from approximately HK$145.2 million as at 31 December 2018 to approximately HK$76.3 million as at 30 June 2019, representing a drop of approximately 47.5%. The Group's gearing ratio was calculated as total borrowings to the total capital employed (being sum of total borrowings and total equity). The gearing ratio of the Group increased from approximately 93.1% as at 31 December 2018 to approximately 96.4% as at 30 June 2019.

2. Reasons for and benefits of the Connected Transactions

With reference to the Letter from the Board, up to 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, among which the Group was indebted to the Connected Persons with the Connected Debts for an aggregate of HK$714,837,958 (including accrued interests up to the Restructuring Order Date).

The Connected Debts are either overdue or will become mature within one year by no later than 30 June 2020. However, according to the 2019 Interim Report, the Group has a limited cash balance of approximately HK$1.6 million as at 30 June 2019. The existing cash level will not be sufficient to repay the Connected Debts.

As discussed in the paragraph headed "Background and financial information of the Group" above, the Group recorded increase in total liabilities and gearing ratio as at 30 June 2019. Moreover, for Interim 2019, the finance cost of approximately HK$144.2 million represented a significant part of the total expense of the Group and increased by approximately 37.1% as compared with that for Interim 2018.

In view of the above, we concur with the Management's view that the Group is in need for exploring different possibilities to satisfy the repayment obligation of the Connected Debts, in order to lower the gearing level and hence strengthening the financial position of the Group.

As stated in the Letter from the Board, all of the Connected Persons 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.

Pursuant to the Proposed Restructuring under the Scheme, 40% and 60% of the Admitted Claims (including the Connected Debts) would be set off by the issue of New Shares (at the Issue Price of HK$0.38 per New Share) and the Convertible Bonds respectively.

Estimated based on the respective interest rate of Connected Debts, the annual interest expenses of the Group in relation to the Connected Debts will be approximately HK$65.1 million. Given that the interest rate of the Convertible Bonds is 1% per annum, based on the aggregate principal amount (including Consent Bonus for the Connected Debts) of HK$436,051,154 of the Convertible Bonds to the Connected Persons (the "**Connected CBs**"), the annual interest expenses of the Connected CBs will be approximately HK$4.4 million from the date of its issue. Accordingly, the Connected Transactions would save interest expenses of the Group by approximately HK$60.7 million per annum upon Completion.

Regarding the financial position of the Group, we are of the view that upon settlement of the Connected Debts under the Scheme, total liabilities of the Group and the gearing position will be reduced as a result of partial settlement of the Connected Debts by the issuance of the New Shares (with total value equivalent to 40% of the Connected Debts). In addition, by converting 60% of the Connected Debts (some of the Connected Debts were overdue and the remaining will become mature within one year by no later than June 2020) to the Connected CBs (with total value equivalent to sum of 60% of the Connected Debts and the Consent Bonus for the Connected Debts) with a term to maturity of 5 years, it will defer the repayment obligation of the Connected Debts to 5 years. Hence, it will ease the repayment pressure of the Connected Debts on the Group and improve liquidity of the Group accordingly. It should be noted that each of the New Shares and Conversion Shares to be issued to the Connected Persons as a result of the Scheme will be recognized as equity of the Group. In this connection, capital base of the Group will be enlarged upon Completion with the issue of the New Shares to the Connected Persons. The capital base of the Group will be further strengthened upon issue of the Conversion Shares to the Connected Persons. Thus, the Connected Transactions will improve the financial position and liquidity level of the Group by strengthening its capital base and reducing the Group's total liabilities, net liabilities and gearing ratio. As advised by the Management, with an improved financial position and liquidity level after the Completion, it enable the Group to have better position to negotiate with relevant potential investors to invest into the Group, thus benefitting the Group in the long run.

Apart from strengthening of financial position, we consider that the Connected Transactions, to a certain extent, signifies the support of the Connected Persons (comprising of executive Directors and/or his associate and the substantial Shareholders) to the Group.

Financing alternatives of the Group

Upon enquiry, we are advised by the Management that they had considered alternative means of repaying the Connected Debts such as bank borrowings, share placement, rights issue or open offer to meet the financial obligations of the Group.

In respect of bank borrowing, as discussed in the sub-section headed "Reasons for and benefit of the Connected Transactions" in this paragraph, we are advised that the intention of the Connected Transactions, among others, is to improve the financial position of the Group and to reduce the gearing level of the Group. It should be noted that bank borrowings (i) will incur additional interest burden on the Group and worsen the gearing ratio of the Group; (ii) are subject to lengthy due diligence and negotiations with the banks which involve providing documents for credit evaluation procedure by the banks before entering into any debt financing agreements; and (iii) will depend on operating condition and financial position of the Group. We are also made known that given the loss-making position of the Group for FY2017, FY2018 and Interim 2019, it may not be practicable for the Group to obtain debt financing at favourable terms and additional finance charges may be incurred. We have reviewed a historical revolving loan facility of the Group and noted that the annual interest rate of the aforesaid facility was 2.75% per annum over Hong Kong Inter-bank Offered Rate which was higher than the coupon rate of the Convertible Bonds of 1% per annum. Besides, we are made known that the Company has attempted to obtain loan financing from its principal banker for settlement of the Connected Debts. However, owing to the unsatisfactory financial performance of the Group, the principal banker refused the Company's request.

We noted that the Company has completed placing of new shares under general mandate on 15 March 2019 and has proposed the placing of the new shares under specific mandate on 13 February 2019 (collectively, the "**Placings**"). The Company has conducted two placing exercises within the 12-month period immediately preceding the date of the Scheme Announcement. Furthermore, as discussed under the paragraph headed "Background and financial information of the Group" above, the Group recorded a drop in the net assets and increase in gearing ratio as at 30 June 2019, it may increase uncertainty to the investment interest for potential investors or existing Shareholders and thus the ability to raise the funds. In addition, there is no guarantee the Company can raise the required funding amount without a large discount to the prevailing market prices of the Shares as compared with the Connected Transactions (with each of the Issue Price and the Conversion Price representing premium over recent closing prices of the Shares (as discussed below)). In addition, an extended time frame and extra administrative work and costs (including financial, legal, printing and other professional advisory fees) would be required by the Company for preparation of the requisite documents for rights issue and open offer exercises, including but not limited to prospectus and application forms for acceptance and unaudited pro forma financial information to be included in the prospectus.

In contrast to each of the alternatives and given the loss-making position of the Group and the general downward trend for the closing prices of the Shares during the Review Period (as discussed below), having considered that (i) the Connected Transactions do not incur costly underwriting/placing commission; (ii) it is difficult for the Group to obtain additional bank borrowings at favorable terms; (iii) the Connected Transactions provide certainty to the Company to settle the Connected Debts without immediate cash outlay and will enlarge the capital base of the Company; and (iv) the Connected Transactions demonstrate the confidence of the Connected Persons (comprising of executive Directors and/or his associate and the substantial Shareholders) to the Group, we consider that the Connected Transactions are more desirable means for the Group to settle the Connected Debts.

Based on the foregoing, after considering the above reasons and benefits of the Connected Transactions and upon comparison with financing alternatives, we are of the view and concur with the Directors that the Connected Transactions are preferred ways for settlement of the Connected Debts based on the circumstances of the Company.

3. Principle terms of the Connected Transactions

Under the Scheme, all the Creditors should have equal treatments. Each Creditor with Admitted Claim will be entitled to receive Convertible Bonds in the principal amount equal to 60% of his Admitted Claim and New Shares at the issue price of HK$0.38 per New Share, the total value of which equivalent to 40% of his Admitted Claim in return for the full discharge and extinguishment of any claim he may have against the Company in respect of his Claim.

As to the Connected Transactions in relation to the issue of New Shares and the Convertible Bonds to the Connected Persons regarding the Connected Debts under the Scheme, they shall be subject to the same terms, including but not limited to the Issue Price and the Conversion Price, as those applicable to other Creditors.

The Issue Price of HK$0.38 per New Share represents:

(i) a premium of approximately 84.5% over the closing price of HK$0.206 per Share as quoted on the Stock Exchange on the date of the Scheme Announcement;

(ii) a premium of approximately 87.7% over the average closing price of approximately HK$0.2024 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately preceding the date of the Scheme Announcement;

(iii) a premium of approximately 86.3% over the closing price of HK$0.204 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 2,367.5% over the unaudited net asset value per Share of approximately HK$0.0154 as at 30 June 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 and 4,948,170,452 issued Shares as at the Latest Practicable Date.

The initial Conversion Price of HK$0.55 per Conversion Share represents:

(i) a premium of approximately 167.0% over the closing price of HK$0.206 per Share as quoted on the Stock Exchange on the date of the Scheme Announcement;

(ii) a premium of approximately 171.7% over the average closing price of HK$0.2024 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares immediately preceding the date of the Scheme Announcement;

(iii) a premium of approximately 169.6% over the closing price of HK$0.204 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(iv) a premium of approximately 3,471.4% over the unaudited net asset value per Share of approximately HK$0.0154 as at 30 June 2019 as extracted from the interim report of the Group for the six months ended 30 June 2019 and 4,948,170,452 issued Shares as at the Latest Practicable Date.

As stated in the Letter from the Board, each of the Issue Price and Conversion Price was determined after considering, among other things, the share price performance of the Company and the acceptability of the Creditors towards the terms of the Scheme.

Assuming that there will be no change in the issued Shares, the total number of the New Shares represent:

(i) approximately 45.4% of the existing issued Shares as at the Latest Practicable Date; and

(ii) approximately 31.2% of the issued Shares as enlarged by the allotment and issue of the aggregate number of the New Shares.

Assuming (i) there will be no change in the issued Shares between the Latest Practicable Date and the Completion Date; and (ii) all the Convertible Bonds are converted in full at the initial Conversion Price of HK$0.55 per Conversion Share, an aggregate of up to 2,367,272,548 Conversion Shares will be issued, which represent:

(i) approximately 47.8% of the existing issued Shares as at the Latest Practicable Date;

(ii) approximately 32.4% of the issued Shares as enlarged by the allotment and issue of the Conversion Shares; and

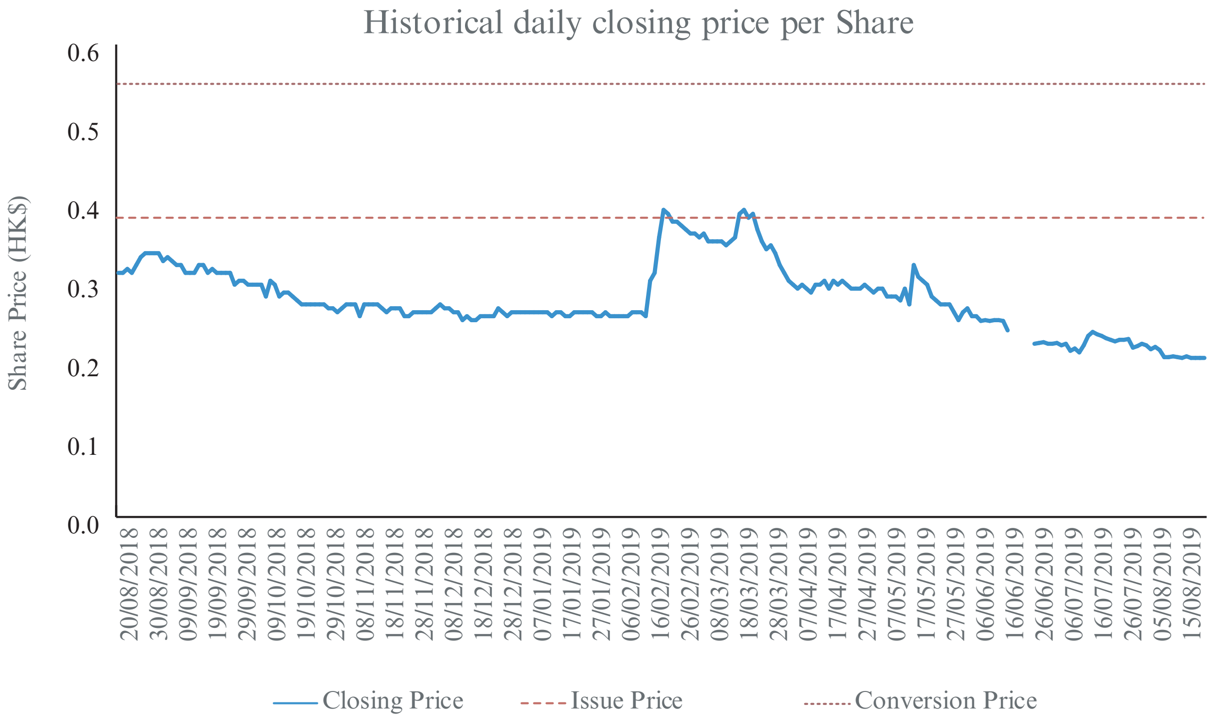
(iii) approximately 24.8% of the issued Shares as enlarged by the allotment and issue of the Conversion Shares and the New Shares.

For further details, please refer to the section headed "Issue of New Shares and Convertible Bonds under Specific Mandate" in the Letter from the Board.

4. Evaluation of the terms of the New Shares and the Convertible Bonds

In order to further assess the fairness and reasonableness of terms of the New Shares and the Convertible Bonds, we have reviewed (i) the daily closing price of the Shares as quoted on the Stock Exchange from 20 August 2018 up to and including the date of the Scheme Announcement (the "**Review Period**"), being a period of 12-month prior to the date of the Scheme Announcement; and (ii) the comparison on the recent subscription/placing/issue of shares/unlisted convertible bonds/convertible notes under specific mandates by companies listed on the Stock Exchange.

(a) Historical Share price performance



Source: Website of the Stock Exchange (www.hkex.com.hk)

As shown in the chart above, during the Review Period, the closing prices of the Shares ranged from HK$0.202 per Share recorded on 9 August 2019 and 13 August 2019 to 16 August 2019 (the "**Lowest Closing Price**") to HK$0.390 per Share recorded on 19 February 2019 and 15 March 2019 (the "**Highest Closing Price**") with an average closing price per Share of approximately HK$0.278 (the "**Average Closing Price**"). On 14 February 2019 before the trading hours, the Company issued two announcements in relation to the Placings (the "**Placings Announcements**"). Thereafter, the closing price demonstrated significant increase (the "**Significant Increase**") from HK$0.255 per Share on 13 February 2019 and reached HK$0.390 on 19 February 2019. As shown in the chart above, save for the Significant Increase, a general downward trend was observed for the closing price of the Shares throughout the Review Period. We have enquired into the Directors regarding the possible reasons for the Significant Increase. As confirmed by the Directors, save for the Placings Announcements, the Directors were not aware of any matters that might have affected the price of the Shares.

The Issue Price of HK$0.38 represents (i) premium of approximately 88.1% over the Lowest Closing Price of HK$0.202 per Share; (ii) a discount of approximately 2.6% to the Highest Closing Price of HK$0.390 per Share; and (iii) a premium of approximately 36.7% over the Average Closing Price. Moreover, the Issue Price is above the closing prices of the Shares for 234 trading days out of 240 trading days of the Shares (representing approximately 97.5% of the total number of trading days of the Shares) during the Review Period.

The Shares were traded below the Conversion Price throughout the Review Period. The Conversion Price of HK$0.55 represents (i) premium of approximately 172.3% over the Lowest Closing Price of HK$0.202 per Share; (ii) a premium of approximately 41.0% over the Highest Closing Price of HK$0.390 per Share; and (iii) a premium of approximately 97.8% over the Average Closing Price.

(b) Comparison with recent placing/subscription/issue of shares by other listed issuers

In order to assess the fairness and reasonableness of the terms of the New Shares, we have, on a best effort basis, conducted a search of all transactions announced by the companies which involved the placing/subscription/issue of share(s) under specific mandate for cash for the period from 20 February 2019 up to and including the date of the Scheme Announcement (the "**Relevant Period**") (being approximately six months period prior to the date of the Scheme Announcement, which is commonly used for analysis purpose) by desktop search through published information on the Stock Exchange's website. We have excluded the share issues (a) announced by H-share companies whose share capital structure is different from that of the Company; (b) involving whitewash waiver applications and/or a change in control of the ultimate beneficial owner(s) of the listed companies; (c) were used as consideration for acquisition of assets/businesses; and (d) which have subsequently lapsed or been terminated. To the best of our knowledge, we have found 10 transactions which met the said criteria (the "**Shares Comparables**").

To the best of our knowledge, effort and endeavour and based on our search conducted according to the aforesaid criteria, the list of Shares Comparables is an exhaustive list of share issues meeting the aforesaid criteria. Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the Shares Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the Shares Comparables. Nevertheless, given that this analysis is aiming at taking a general reference to the recent market practice in relation to similar type of transactions, we consider that our comparable analysis on the terms of the New Shares without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

Item	Date of announcement	Stock code	Company	Premium/(discount) of placing/ subscription/issue price over/(to) closing price per share on the last trading day prior to/on the date of the announcement	average closing price per share for the last five consecutive trading days prior to/on the date of the announcement
				%	%
1	19 July 2019	1778	Colour Life Services Group Co., Limited	(3.5)	(7.0)
2	16 July 2019	620	DTXS Silk Road Investment Holdings Company Limited	(17.9)	(15.0)
3	10 July 2019	1282	Glory Sun Financial Group Limited	(19.4)	(21.9)
4	30 June 2019	729	FDG Electric Vehicles Limited	(10.0)	(10.6)
5	12 June 2019	1498	Purapharm Corporation Limited	—	3.4
6	5 June 2019	1198	Royale Furniture Holdings Limited	6.3	5.2
7	28 May 2019	286	Common Splendor International Health Industry Group Limited ("**Common Splendor**") *(Note)*	(20.0)	(20.3)
8	23 May 2019	241	Alibaba Health Information Technology Limited	(2.3)	(4.2)
9	2 May 2019	185	ZH International Holdings Limited	11.8	7.3
10	15 April 2019	1609	Chong Kin Group Holdings Limited	(8.0)	(10.0)
			Maximum	11.8	7.3
			Minimum	(20.0)	(21.9)
			Average	(6.3)	(7.3)
	19 August 2019	**8228**	**The Company**	**84.5**	**87.4**

Source: Website of the Stock Exchange (www.hkex.com.hk)

Note:

Common Splendor entered into a placing agreement and a subscription agreement on the same date at the same subscription price and placing price. As such, we treated the aforesaid subscription and placing as one Shares Comparable.

Analysis on the Issue Price

As illustrated in the table above, the placing/subscription/issue prices of the Shares Comparables ranged from (i) a discount of approximately 20.0% to a premium of approximately 11.8% (the "**Shares LTD Maximum**") to/over the respective closing prices of the shares on the last trading day prior to/on the date of the relevant announcements, with an average discount of approximately 6.3%; and (ii) a discount of approximately 21.9% to a premium of approximately 7.3% (the "**Shares 5-Days Maximum**") to/over the respective average closing prices of the shares on the last five consecutive trading days immediately prior to/on the date of the relevant announcements (the "**Shares 5-Days Range**"), with an average discount of approximately 7.3%. We note that (i) the premium of the Issue Price of approximately 84.5% over the closing price per Share on the date of the Scheme Announcement is above the Shares LTD Maximum; and (ii) the premium of the Issue Price of approximately 87.4% over the average closing price for last five consecutive trading days immediately preceding the date of the Scheme Announcement is above the Shares 5-Days Maximum.

Conclusion

Having considered the premium associated with the Issue Price is more favourable than the current market practice, we are of the view that the terms of the New Shares are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Group and the Shareholders as a whole.

(c) Comparison with recent subscription/placing/issue of unlisted convertible bonds/ notes by other listed issuers

In order to assess the fairness and reasonableness of the terms of the Convertible Bonds, we have, on a best effort basis, conducted a search of all transactions announced by the companies which involved the subscription/placing/issue of unlisted convertible bonds/notes under specific mandate for the Relevant Period by desktop search through published information on the Stock Exchange's website. We have excluded the subscription/placing/issue of unlisted convertible bonds/notes (a) announced by H-share companies whose share capital structure is different from that of the Company; (b) involving a change in control of the ultimate beneficial owner(s) of the listed companies assuming full conversion of the underlying convertible bonds/notes; (c) were used to as consideration for acquisition of assets/businesses; and (d) which have subsequently lapsed or been terminated. To the best of our knowledge, we have found 9 transactions which met the said criteria (the "**CB Comparables**").

To the best of our knowledge, effort and endeavour and based on our search conducted according to the aforesaid criteria, the list of CB Comparables is an exhaustive list of issues of convertible bond(s) meeting the aforesaid criteria. Shareholders should note that the size, business nature, scale of operations and prospects of the Company are not exactly the same as the CB Comparables and we have not conducted any in-depth investigation into the size, business nature, scale of operations and prospects of the CB Comparables. Nevertheless, given that this analysis is aiming at taking a general reference to the recent market practice for similar type of transactions, we consider that our comparable analysis on the terms of the Convertible Bonds without limiting to companies that are with similar size, business nature and scale of operations as that of the Group is fair and reasonable and useful for the Independent Shareholders' reference. We set out our findings in the table below:

Item	Date of announcement	Stock code	Company	Maturity	Interest rate per annum	Premium/(discount) of conversion price over/(to) closing price per share on the last trading day prior to/ on the date of the announcement	average closing price per share for the last five consecutive trading days prior to/ on the date of the announcement
				Years	%	%	%
1	16 August 2019	377	Huajun International Group Limited	5	1.5	327.0	327.0
2	31 July 2019	756	Summi (Group) Holdings Limited	3	2.28	16.9	18.4
3	19 July 2019	651	China Ocean Industry Group Limited("**China Ocean**") *(Note 1)*	3	10.0	—	3.9
4	10 July 2019	827	Ko Yo Chemical (Group) Limited	5	5.0	(19.9)	(19.7)
5	25 June 2019	351	Asia Energy Logistics Group Limited	3	2.5	5.3	3.5
6	4 June 2019	8109	Kirin Group Holdings Limited	3	2.0	319.6	378.5
7	29 May 2019	2882	Hong Kong Resources Holdings Company Limited	3	4.0	2.7	0.3
8	20 May 2019	171	Silver Grant International Industries Limited ("**Silver Grant**") *(Note 2)*	3	7.0	39.0	40.0
9	22 April 2019	1495	Jiyi Household International Holdings Limited	1.5	6.0	1.0	1.8
			Maximum	5.0	10.0	327.0	378.5
			Minimum	1.5	1.5	(19.9)	(19.7)
			Average	3.3	4.5	76.8	83.7
	19 August 2019	**8228**	**The Company**	**5.0**	**1.0**	**167.0**	**171.2**

Source: Website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. China Ocean entered into 2 subscription agreements on the same date in relation to issue 2 convertible bonds with the same maturity, interest rate and conversion price, as such, we treated the issuance of the aforesaid 2 convertible bonds as one CB Comparable.

2. Silver Grant entered into a placing agreement and 5 subscription agreements on the same date in relation to issue of 6 convertible bonds with the same maturity, interest rate and conversion price, as such, we treated the issuance of the aforesaid 6 convertible bonds as one CB Comparable.

Analysis on the Conversion Price

As illustrated in the table above, the conversion prices of the CB Comparables ranged from (i) a discount of approximately 19.9% to a premium of approximately 327.0% (the "**CB LTD Maximum**") to/over the respective closing prices of the shares on the last trading day prior to/on the date of the relevant announcements (the "**CB LTD Range**"), with an average premium of approximately 76.8% (the "**CB LTD Average**"); and (ii) a discount of approximately 20% to a premium of approximately 378.5% (the "**CB 5-Days Maximum**") to/over the respective average closing prices of the shares on the last five consecutive trading days immediately prior to/on the date of the relevant announcements (the "**CB 5-Days Range**"), with an average premium of approximately 83.7% (the "**CB 5-Days Average**"). We note that (i) the premium of the Conversion Price of approximately 167.0% over the closing price per Share on the date of the Scheme Announcement falls within the CB LTD Range and above the CB LTD Average; and (ii) the premium of the Conversion Price of approximately 171.2% over the average closing price for last five consecutive trading days immediately preceding the date of the Scheme Announcement falls within the CB 5-Days Range and higher than the CB 5-Days Average.

Analysis on the interest rate of the Convertible Bonds

As illustrated in the table above, the annual interest rate of the CB Comparables ranged from 1.5% to 10.0% per annum (the "**Interest Rate Range**") with an average of approximately 4.5%. The 1% interest rate of the Convertible Bonds lies below the Interest Rate Range and is more favorable as compared to the CB Comparables.

Analysis on the maturity of the Convertible Bonds

As illustrated in the table above, the CB Comparables had the maturity ranged from 1.5 years to 5 years (the "**Maturity Range**"), with an average maturity of around 3.3 years. The 5 years tenor of the Convertible Bonds lies in the upper end of the Maturity Range.

Conclusion

Having considered (i) the premium associated with the CB Conversion Price is more favourable than the current market practice; (ii) the interest rate of the Convertible Bonds lies below the Interest Rate Range; and (iii) the maturity of the Convertible Bonds lies in the upper end of the Maturity Range, we are of the view that the terms of the Convertible Bonds are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Group and the Shareholders as a whole.

5. Financial effects of the Connected Transactions

(a) Effects on net assets

As disclosed in the 2019 Interim Report, the Group had unaudited consolidated net assets of approximately HK$76.3 million as at 30 June 2019. Upon Completion, part of the Connected Debts of approximately HK$285.9 million will be set off by the issuance of the New Shares, hence the liabilities of the Group will be reduced and the financial position of the Group will be enhanced. In addition, the aforesaid New Shares will be recognized as equity of the Company.

Upon Completion, remaining part of the Connected Debts of approximately HK$428.9 million will be set off by the issuance of the Connected CBs. The Connected CBs, when being booked into the financial statements of the Group, will consist of an equity portion and a liability portion. The equity portion and the liability portion of the Connected CBs to be recognised will be subject to assessment and valuation by a professional valuer and review of the independent auditors of the Company in the Group's subsequent financial statements in accordance with the Hong Kong Financial Reporting Standards.

Moreover, it is expected that in the event of conversion of the Connected CBs into the Conversion Shares, it is estimated to result in an increase of the equity of the Group by the value of the Conversion Shares being converted at the Conversion Price and simultaneously as decrease in the Group's liability. Therefore, the net asset value of the Group will be further increased under the conversion.

As such, we consider that the Connected Transactions will have a positive impact on the net asset value of the Group.

(b) Effects on gearing ratio

As set out in the 2019 Interim Report, the gearing ratio of the Group as at 30 June 2019 (calculated as total borrowings to the total capital employed) was approximately 96.4%. We consider that upon Completion, the liabilities of the Group will be reduced as part of the Connected Debts will be set off by the issue of the New Shares and part of the Connected CBs will be recognized as equity portion. In addition, with the issue of the New Shares and/or upon exercise of the conversion rights of the Connected CBs, the Group's capital base will be enhanced. In view of the reduction of liabilities and broadening of capital base, the gearing level will be improved.

(c) Effects on earnings

As 40% of the Connected Debts in the amount of approximately HK$285.9 million will be set off by the issuance of New Shares, it will avoid the Group's future interest expenses associated with such part of the Connected Debts. Estimated based on the respective interest rate of Connected Debts, the annual interest expenses of the Group in relation to the Connected Debts will be approximately HK$65.1 million. Given that the interest rate of the Connected CBs is 1% per annum, based on the aggregate principal amount (including Consent Bonus for the Connected Debts) of approximately HK$436.1 million of the Connected CBs, the annual interest expenses of the Connected CBs will be approximately HK$4.4 million from the date of its issue. Accordingly, the Connected Transactions would save result in reduction in interest expenses of the Group per annum upon Completion, assuming no conversion of the Connected CBs during its tenure.

(d) Effects on liquidity and working capital

Pursuant to the Connected Transactions, the total amount of the Connected Debts of approximately HK$714.8 million shall be set off in full by the issue of a combination of the New Shares and the Connected CBs upon Completion. As such, it is expected that upon Completion, with the Connected Debts (i) being partially set off by issue of the New Shares; and (ii) being partially converted into the non-current Connected CBs (with a term to maturity of 5 years), the Connected Transactions will avoid substantial future cash outlay of the Group in satisfying the repayment obligation of the Connected Debts which were either overdue or will become mature within one year and is therefore expected to maintain the immediate liquidity of the Group by retaining financial resources for its operation and development.

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

6. Possible dilution effect on the shareholding interests of the public Shareholders

The table which illustrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the issue of New Shares, Convertible Bonds for the purpose of the Scheme (assuming no conversion of the Convertible Bonds) and Fee Shares; and (iii) immediately after completion of the issue of New Shares, Convertible Bonds for the purpose of the Scheme (assuming full conversion of the Convertible Bonds at the initial Conversion Price and all Creditors entitled to the Consent Bonus) and Fee Shares are contained under the section headed "Effects on the Shareholding Structure of the Company" in the Letter from the Board.

Assuming that there is no other change in the issued Shares between the Latest Practicable Date and the Completion Date, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 70.8% as at the Latest Practicable Date to approximately 35.7% immediately upon Completion, completion of the issue of Fee Shares and full conversion of the Convertible Bonds and assuming all Creditors are entitled to the Consent Bonus, representing a dilution of approximately 49.6%.

All the Creditors shall have equal treatments for their respective Admitted Claims for the Proposed Restructuring under the Scheme.

Notwithstanding that the Connected Transactions will incur dilution effect on the shareholding of the existing public Shareholders, after taking into account (i) all the Connected Debts will be fully settled without immediate cash outlay; (ii) substantial saving of annual interest expenses of over HK$60 million associated with the Connected Debts for each of the five years immediately after the Completion which will have positive effect on the working capital position of the Group; (iii) the Group's gearing level and financial position will be improved; (iv) the consecutive loss positions of the Group pose difficulties in obtaining bank borrowing in favourable terms as discussed in the section headed "Other financing alternatives" above; and (v) the Connected Transactions reflect the support of the Connected Persons to the Group, we are of the view that the dilution effect on the shareholding of existing public Shareholders as a result of the Connected Transactions is acceptable.

RECOMMENDATION

Having considered the factors and reasons as stated above, we are of the opinion that (i) the nature of the Connected Transactions is not in the ordinary and usual course of business of the Company but is in the interest of the Company and the Shareholders as a whole; and (ii) the Connected Transactions are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders and we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Connected Transactions.

Yours faithfully,
For and on behalf of
Akron Corporate Finance Limited
Ross Cheung
Managing Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

1. Long Positions in the ordinary shares of HK$0.1 each of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Mr. Sin	Beneficial owner	848,580,623	17.15%
	Interest of spouse *(Note 2)*	23,352,000	0.47%
Mr. Chow	Beneficial Owner	1,000,000	0.02%
Mr. Chui Chi Yun Robert	Beneficial Owner	3,000,000	0.06%
Mr. Li Kit Chee	Beneficial Owner	4,480,000	0.09%

Notes:

1. This is based on the total issued Shares as at the Latest Practicable Date (i.e. 4,948,170,452 shares).

2. Ms. Law Po Yee was beneficially interested in 23,352,000 Shares. By virtue of SFO, Mr. Sin, the spouse of Ms. Law Po Yee, was deemed to be interested in all the Shares in which Ms. Law Po Yee was interested.

2. *Long positions in the underlying Shares*

Name of Director	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Mr. Chow	Beneficial Owner	45,063,695 *(Note 2)*	0.91%
Mr. Chui Chi Yun Robert	Beneficial Owner	1,546,896 *(Note 3)*	0.03%
Mr. Cheng Wang Chun	Beneficial Owner	44,980,000 *(Note 4)*	0.91%

Notes:

1. This is based on the total issued Shares as at the Latest Practicable Date (i.e. 4,948,170,452 Shares).

2. These underlying Shares represent (i) 24,888 Shares to be issued upon exercise of the physically settled share options granted to Mr. Chow on 29 September 2010 pursuant to the share option scheme adopted on 22 July 2002 and terminated on 29 September 2010 ("**Post-IPO Share Option Scheme**") under which Mr. Chow may exercise the said options from 29 September 2010 to 2 September 2020 at an exercise price of HK$2.89 per Share; (ii) 58,807 Shares to be issued upon exercise of the physically settled share options granted to Mr. Chow on 28 March 2011 pursuant to the share option scheme adopted on 29 September 2010 ("**New Share Option Scheme**") under which Mr. Chow may exercise the said options from 28 March 2012 to 27 March 2021 at an exercise price of HK$7.62 per Share; and (iii) 44,980,000 Shares to be issued upon exercise of the physically settled share options granted to Mr. Chow on 16 May 2017 pursuant to the New Share Option Scheme under which Mr. Chow may exercise the said options from 16 May 2017 to 15 May 2020 at an exercise price of HK$0.2456 per Share.

3. These underlying Shares represent (i) 33,292 Shares to be issued upon exercise of the physically settled share options granted to Mr. Chui on 13 May 2010 pursuant to the Post-IPO Share Option Scheme under which Mr. Chui may exercise the said options from 13 May 2010 to 12 May 2020 at an exercise price of HK$3.66 per Share; (ii) 33,604 Shares to be issued upon exercise of the physically settled share options granted to Mr. Chui on 28 March 2011 pursuant to the New Share Option Scheme under which Mr. Chui may exercise the said options from 28 March 2012 to 27 March 2021 at an exercise price of HK$7.62 per Share; and (iii) 1,480,000 Shares to be issued upon exercise of the physically settled share options granted to Mr. Chui on 16 May 2017 pursuant to the New Share Option Scheme under which Mr. Chui may exercise the said options from 16 May 2017 to 15 May 2020 at an exercise price of HK$0.2456 per Share.

4. These underlying Shares represent 44,980,000 Shares to be issued upon exercise of the physically settled share options granted to Mr. Cheng on 16 May 2017 pursuant to the New Share Option Scheme under which Mr. Cheng may exercise the said options from 16 May 2017 to 15 May 2020 at an exercise price of HK$0.2456 per Share.

Save as disclosed above, none of the Directors, chief executive of the Company or their associates had, as at the Latest Practicable Date, any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

As at the Latest Practicable Date, the persons or corporations, other than a director or chief executive of the Company, who had interests or short positions in the Shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO or had otherwise been notified to the Company were as follows:

Substantial shareholders' long position in the Shares

Name of shareholder	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company *(Note 1)*
Tse Young Lai	Beneficial Owner	563,547,600	11.39%

Note:

1. This is based on the total issued Shares as at the Latest Practicable Date (i.e. 4,948,170,452 Shares).

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified of any persons, other than a director or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO.

3. DIRECTORS' INTEREST IN SERVICE CONTRACTS

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

4. DIRECTORS' INTEREST IN COMPETING BUSINESS

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors nor their respective associates was interested in any business apart from the Group's business which completes or is likely to compete, either directly or indirectly, with the Group's businesses pursuant to the GEM Listing Rules.

5A. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired disposed of by, or leased to, any member of the Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

5B. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS OF SIGNIFICANCE

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into with any member of the Group subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole.

6. MATERIAL CONTRACTS

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

(i) the placing agreement dated on 13 February 2019 entered into between the Company and Oriental Patron Asia Limited, pursuant to which the Company has conditionally agreed to place up to 846,153,844 placing shares, details of which are set out in the announcement of the Company dated 13 February 2019;

(ii) the placing agreement dated on 13 February 2019 entered into between the Company and Quasar Securities Co., Limited, pursuant to which the Company has conditionally agreed to place up to 846,153,844 placing shares, details of which are set out in the announcement of the Company dated 13 February 2019;

(iii) the placing agreement dated on 13 February 2019 entered into between the Company and placing agents (including Kingston Securities Limited; Emperor Securities Limited; Oriental Patron Asia Limited; Quasar Securities Co., Limited) ("**the Placing Agents**"), pursuant to which the Company has conditionally agreed to place through the Placing Agents up to 6,153,846,153 placing shares, details of which are set out in the announcement of the Company dated 13 February 2019;

(iv) the Potential Strategic Investor Agreement details of which are set out in the announcement of the Company dated 14 May 2019 subject to further negotiations and signing of a long-form agreement related to other customary terms; and

(v) the loan capitalisation agreement dated 30 May 2019 entered into between the Company and Mr. Sin (an executive Director, the chairman of the Company and nomination committee of the Board and the substantial shareholder of the Company), to allot and issue for Mr. Sin's subscription for (i) 869,000,000 loan capitalisation shares at the subscription price of HK$0.38 per loan capitalisation shares; (ii) the convertible bond in the aggregate principal amount of HK$318,768,776, details of which are set out in the announcement of the Company dated 30 May 2019. On 19 August 2019, the Company and Mr. Sin mutually agreed to terminate such loan capitalisation agreement, details of which are set out in the announcement of the Company dated 19 August 2019 as to the termination of the loan capitalisation agreement.

7. MATERIAL ADVERSE CHANGE

On 14 June 2019, to facilitate the Company's financial restructuring, a winding up petition together with the application for appointment of the Provisional Liquidators of the Company on a light touch approach for restructuring purposes was presented and filed with the Supreme Court of Bermuda by the Company's Bermuda Counsel, Conyers Dill & Pearman at the request of the Company.

For the interim results of the Group for the six months ended 30 June 2019 ("**2019 Interim Period**") as disclosed in the interim report of the Group for the 2019 Interim Period, the Group recorded (i) a net loss of approximately HK$175.6 million compared to a net loss of approximately 132.7 million for the six months ended 30 June 2018, representing an increase of approximately 32.3%; and (ii) a net operating cash outflow of approximately HK$43.9 million compared to a net operating cash outflow of approximately HK$40.8 million for the six months ended 30 June 2018, representing an increase of approximately 7.6%. As at 30 June 2019, the Group had (i) net assets of approximately HK$76.3 million; and (ii) net current liabilities of approximately HK$1,495.8 million.

Save for the winding up petition and the 2019 interim results mentioned above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up.

8. LITIGATION

As at the Latest Practicable Date, (i) there is no winding up petition presented against the Company, (ii) no member of the Group is engaged in any litigation or arbitration of material importance, and (iii) there is no litigation of material importance known to the Directors to be pending against any member of the Group.

Since early 2019 and up to the Latest Practicable Date, the Company has received a total of 16 demands from certain Creditors claiming for, in aggregate, a sum of approximately HK$70 million. Among these 16 demands, 10 of which were served on the Company allegedly as statutory demands, and the remaining 6 were letters issued by the respective solicitors for the Creditors.

9. EXPERT AND CONSENT

The following are the name and the qualification of the professional adviser who has given opinion or advice contained or referred to in this document:

Name	Qualification
Akron Corporate Finance Limited	A corporation licensed to carry on Type 6 (advising on corporate finance) regulated activities under the SFO.

As at the Latest Practicable Date, Akron had no beneficial interest in the share capital of any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group or have any interest, either directly or indirectly, in any assets which have been, since 31 December 2018, being the date to which the latest published audited consolidated accounts of the Group were made up.

Akron has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and/or its letters dated 20 September 2019 and/or references to its name and/or its advice in the form and context in which they respectively appear.

10. GENERAL

(i) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(ii) The head office and principal place of business of the Company in Hong Kong is at Room L&M, 21/F, King Wing Plaza, Phase 1, 3 On Kwan Street, Shek Mun, Shatin, New Territories, Hong Kong.

(iii) The company secretary is Ms. Sun Shui. Ms. Sun Shui is a member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Sun Shui obtained an Honours Bachelor of Business Administration degree from University of Lincoln, a Master of Corporate Governance degree from The Hong Kong Polytechnic University and a Juris Doctor degree from City University of Hong Kong.

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

(v) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 12:30 p.m. and from 2:00 p.m. to 5:30 p.m. (other than Saturdays, Sundays and public holidays in Hong Kong) at the principal place of business of the Company in Hong Kong at Room L&M, 21/F, King Wing Plaza, Phase 1, 3 On Kwan Street, Shek Mun, Shatin, New Territories, Hong Kong from the date of this circular up to and including the date of the SGM:

(i) the memorandum of association and articles of association of the Company;

(ii) the letter from the Board, the text of which is set out on pages 8 to 38 of this circular;

(iii) the annual reports of the Company for each of the two financial years ended 31 December 2017 and 2018;

(iv) the interim report of the Company for the six months ended 30 June 2019;

(v) the letter from the Independent Board Committee, the text of which is set out on page 39 to 40 of this circular;

(vi) the letter from the Independent Financial Adviser, the text of which is set out on pages IFA-1 to IFA-20 of this circular;

(vii) the written consents referred to the paragraph headed "9. Expert and Consent" in this appendix; and

(viii) this circular.

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)

NOTICE IS HEREBY GIVEN THAT a special general meeting ("**SGM**") of National Arts Entertainment and Culture Group Limited (the "**Company**") will be held at 10:30 a.m. on Thursday, 10 October 2019 at 1/F, China Building, 29 Queen's Road Central, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT:**

(a) conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of, and permission to deal in, the New Shares (as defined in Ordinary Resolution no. 3 below) and the Conversion Shares (as defined in Ordinary Resolution no. 3 below); (ii) the obtaining of an order from the Supreme Court of Bermuda ("**Bermuda Court**") sanctioning the Scheme (as defined in Ordinary Resolution no. 2 below), subject to the requirement of the Companies Act 1981 of Bermuda (the "**Companies Act**"), and (iii) the obtaining of an order from the High Court of Hong Kong ("**Hong Kong Court**") sanctioning the Scheme (as defined in Resolution no. 2 below), subject to the requirement of the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), with immediate effect after the conditions mentioned above are fulfilled:

(i) the authorised share capital of the Company be increased 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 of HK$0.10 each by the creation of such number of additional new Shares as shall be sufficient to increase the authorized share capital of the Company to HK$2,000,000,000 divided into 20,000,000,000 Shares of HK$0.10 each (the "**Authorised Capital Increase**");

(b) any one or more directors of the Company (the "**Directors**") be and are hereby authorised generally to sign, execute and deliver such documents (including the affixation of the common seal of the Company where required) and do all such acts and things and to take all such steps as he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Authorised Capital Increase.

2. "**THAT**, subject to the applicable laws of Bermuda and Hong Kong and the directions and sanctions of the Bermuda Court and the Hong Kong Court, the approval of the relevant creditors and to all the other resolutions set out in this notice being passed:

   (a) the scheme of arrangement (the "**Scheme**") material particular whereof are disclosed in the scheme of arrangement document of the Company to be despatched to the creditors of the Company (details of the majority terms of the Scheme of arrangement are set out in the section headed "Letter from the Board — Creditors' Scheme" in the circular of the Company dated 20 September 2019), which are to be proposed and effected as a scheme under Section 99 of the Companies Act and Section 670, 673 and 674 of the Companies Ordinance, be and are hereby approved, subject to any modification thereof or addition thereof approved or imposed by the Bermuda Court or the Hong Kong Court (if any); and

   (b) any one or more Directors (except Mr. Sin Kwok Lam and Mr. Chow Kai Weng) be and are hereby authorised generally to take all necessary steps and to do all such acts and things and execute all documents (including the affixation of the common seal of the Company where execution under seal is required) which he/they may consider necessary, desirable or expedient for the purpose of or in connection with, the implementation of and giving effect to any of the foregoing.

3. "**THAT**, subject to the applicable laws of Bermuda and Hong Kong and the directions and sanctions of the Bermuda Court and the Hong Kong Court, the approval of the relevant creditors and to all the other resolutions set out in this notice being passed:

   (a) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares (as defined below) and the Conversion Shares (as defined below); (ii) the obtaining of an order from the Bermuda Court sanctioning the Scheme, subject to the requirement of the Companies Act; (iii) the obtaining of an order from the Hong Kong Court sanctioning the Scheme, with immediate effect after the conditions mentioned above are fulfilled:

      (i) the transactions contemplated under the Scheme in connection with the issue of the New Shares and the Convertible Bonds ("**Restructuring Transactions**") be and are hereby approved;

      (ii) the allotment and issue by the Company, pursuant to the Scheme, of 1% 5-year convertible bonds in the maximum aggregate principal amount of HK$1,302 million at an initial conversion price of HK$0.55 per conversion share (subject to adjustment pursuant to the terms and conditions) (the "**Convertible Bonds**"), together with the issuance of the bond instrument and the bond certificate, to the relevant creditors of the Company, be and are hereby approved;

(iii) the Directors be and are hereby granted a specific mandate (the "**Restructuring Specific Mandate**") to:

(a) allot and issue, pursuant to the Scheme, of up to 2,247,368,230 new ordinary shares of HK$0.1 each in the share capital of the Company (the "**New Shares**") at the issue price of HK$0.38 per New Share to the relevant creditors of the Company;

(b) allot and issue ordinary shares (subject to adjustment arising from the adjustment of the conversion price pursuant to the terms of the Convertible Bonds) of HK$0.1 each in the share capital of the Company to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds at an initial conversion price of HK$0.55 per share (subject to adjustment pursuant to the terms of the Convertible Bonds), on and subject to the terms and conditions of the Convertible Bonds (the "**Conversion Shares**"),

provided that the Restructuring Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing generate mandate (the "**General Mandate**") granted to the Directors by the shareholders of the Company in the annual general meeting of the Company on 28 June 2019 or such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution;

(iv) any one or more Directors (except Mr. Sin Kwok Lam and Mr. Chow Kai Weng) be and are hereby authorised generally to take all necessary steps and to do all such acts and things and sign and execute all such documents (including the affixation of the common seal of the Company where execution under seal is required) which he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Restructuring Transactions, including but not limited to the issue of the Convertible Bonds, the issue and allotment of the New Shares and the Conversion Shares."

4. "**THAT**, subject to all the other resolutions set out in this notice being passed and conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Fee Shares (as defined below):

(a) the Directors be and are hereby granted a specific mandate (the "**Fee Specific Mandate**") to allot and issue of 250,000,000 new ordinary shares of HK$0.1 each in the share capital of the Company (the "**Fee Shares**") credited as fully paid at the issue price of HK$0.38 per Fee Shares to Oriental Patron Asia Limited (the "**Financial Adviser**") pursuant to the supplemental mandate letter between entered into between the Company and the Financial Adviser on 26 August 2019 provided that the Fee Specific Mandate shall be in addition to and shall not prejudice nor revoke the existing General Mandate; and

(b) any one or more Directors be and are hereby authorised generally to take all necessary steps and to do all such acts and things and sign and execute all such documents (including the affixation of the common seal of the Company where execution under seal is required) which he/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the allotment and issue of the Fee Share under specific mandate."

By order 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

Hong Kong, 20 September 2019

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
Room L&M, 21/F
King Wing Plaza, Phase 1
3 On Kwan Street, Shek Mun
Shatin, New Territories
Hong Kong

Notes:

1. A form of proxy to be used for the SGM is enclosed with the circular dated 20 September 2019 issued by the Company.

2. Any shareholder of the Company ("**Shareholder(s)**") entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member of the Company. A proxy so appointed shall be entitled to exercise the same powers on behalf of such Shareholder.

3. Where there are joint holders of any Share, any one of such joint holder may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the SGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

4. To be valid, the form of proxy must be duly completed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, at the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the SGM (i.e. not later than 10:30 a.m. on Tuesday, 8 October 2019).

5. Completion and delivery of the form of proxy will not preclude a Shareholder from attending and voting in person at the SGM or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed revoked.

6. In compliance with the Rules ("**GEM Listing Rules**") Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited ("**GEM**"), all resolutions to be proposed at the SGM convened by this notice will be voted on by way of poll.

7. References to time and dates in this notice are to Hong Kong time and dates.

As at the date hereof, 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 notice, 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 notice 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 notice misleading.

This notice will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of seven days from the date of its publication and on the "Investor Relations"page of the Company's website at www.nationalarts.hk.